2012 ANNUAL REPORT

KISSIMMEE UTILITY AUTHORITY

Purvis Gray & Company

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kissimmee Utility Authority
Kissimmee, Florida

We have audited the accompanying financial statements of the business-type activity, the major fund and the aggregate remaining fund information of the Kissimmee Utility Authority (the Authority), as of and for the years ended September 30, 2012 and 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the major fund and the aggregate remaining fund information of the Authority, as of September 30, 2012 and 2011, and the respective changes in financial position and cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated, December 18, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Kissimmee Utility Authority
Kissimmee, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and certain pension trust information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Purvis, Gray and Company, LLP

December 18, 2012
Ocala, Florida

Management's Discussion and Analysis

This section of Kissimmee Utility Authority's (KUA) annual financial report presents the analyses of the KUA's financial performance during the fiscal years that ended on September 30, 2012 and 2011. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights – 2012

- The assets of the KUA exceeded its liabilities at September 30, 2012 by $182.2 million (net assets). Of this amount, $33.7 million (unrestricted net assets) may be used to meet ongoing obligations to customers and creditors.
- The KUA's net assets increased by $7.3 million or 4.2 percent.
- The KUA's net utility plant decreased by $1.3 million or .8 percent.
- During the year, the KUA's operating revenues decreased to $171.1 million or 1.8 percent while operating expenses decreased to $156.9 million or 2.7 percent.
- The KUA's total long-term debt outstanding decreased to approximately $165.3 million. The decrease primarily related to principal of approximately $17.1 million becoming current during the fiscal year.
- Liabilities Payable from Restricted Assets increased by $3.6 million or 4.9% primarily due to an increase in the Current Portion of Revenue Bonds of $5.1 million, offset by a decrease in Advances for Construction of $2.3 million.

Financial Highlights – 2011

- The assets of the KUA exceeded its liabilities at September 30, 2011 by $174.9 million (net assets). Of this amount, $29.8 million (unrestricted net assets) may be used to meet ongoing obligations to customers and creditors.
- The KUA's net assets increased by $3.4 million or 2 percent.
- The KUA's net utility plant increased by $3 million or 1.8 percent.
- During the year, the KUA's operating revenues decreased to $174.3 million or 11.3 percent while operating expenses decreased to $161.2 million or 9 percent.
- The KUA's total long-term debt outstanding decreased to approximately $182.1 million. The decrease related to principal of approximately $17.3 million becoming current during the fiscal year combined with a $9.2 million decrease in Revenue Bonds Payable due to the refunding of the 2001A&B bond issues. These decreases were offset by a decline in the Unamortized Loss on Reacquired Debt of $2.8 million.
- Liabilities Payable from Restricted Assets increased by $2.4 million or 3.3% primarily due to increases in Rate Stabilization Deferred Credits of $6.2 million and Customer Deposits of $2 million offset by a decrease in the Current Portion of Revenue Bonds of $4.6 million.

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

The following analysis focuses on the KUA's Net Assets (*Table 1*) and Statement of Revenues, Expenses, and Changes in Net Assets (*Table 2*) during the three fiscal years.

Table 1 – Net Assets

	9/30/2012	9/30/2011	9/30/2010
Capital Assets	$ 165,406,158	$ 166,749,071	$ 163,776,531
Current and Other Assets	298,451,396	300,356,741	327,117,165
Total Assets	463,857,554	467,105,812	490,893,696
Long-term Debt Outstanding	165,338,087	182,142,511	206,137,413
Current and Other Liabilities	116,283,360	110,077,230	113,269,672
Total Liabilities	281,621,447	292,219,741	319,407,085
Net Assets:			
Invested in Capital Assets, Net of Related Debt	106,762,764	108,426,949	99,631,748
Restricted	41,774,588	36,612,950	41,138,527
Unrestricted	33,698,755	29,846,172	30,716,336
Total Net Assets	$ 182,236,107	$ 174,886,071	$ 171,486,611

Analysis of 2012 Net Assets

Capital assets decreased primarily as a result of a decrease in Construction in Progress offset by an increase in Property, Plant & Equipment less the depreciation of Utility Plant. Current and other assets decreased primarily due to a decrease in Net Investment in Capital Lease of $8.3 million and Costs to be Recovered from Future Revenue of $2 million, offset by increases in Cash and Cash Equivalents of $4.7 million, Investments of $2.5 million and Accounts Receivable of $1.2 million.

Total liabilities decreased by approximately $10.6 million, primarily due to decreases in Long-term Revenue Bonds Payable of $17.1 million, Advances for Construction of $2.3 million and Unamortized Bond Premium of

$1.5 million, offset by increases in the Deferred Cost of Power Adjustment of $3.5 million, the Current Portion of Revenue Bonds of $5.1 million and the Unamortized Loss on Refunded Debt of $1.7 million.

The first portion of net assets reflects the KUA's investment in capital assets (e.g. plant, property and equipment net of accumulated depreciation); less any related debt used to acquire those assets that are still outstanding. The KUA uses these capital assets to provide electricity and other services to rate payers. It should be noted that the resources needed to repay the related debt must be provided primarily from future operating revenues, since the capital assets themselves cannot be used to liquidate these liabilities. This amount decreased primarily as a result of the decrease in Construction in Progress of $15.9 million, Net Investment in Capital Lease of $8.3 million, 2003 Bond Proceeds of $1.5 million, Costs to be Recovered from Future Revenue of $2 million and the increase in the Current Portion of Revenue Bonds of $5.1 million, offset by the decrease in Long-term Debt of $17.1 million combined with increases in Property, Plant & Equipment net of Accumulated Depreciation of $14.3 million.

An additional portion of the KUA's net assets ($41.8 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 ($33.7 million) may be used to meet the utility's ongoing obligations to rate payers and creditors.

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

Analysis of 2011 Net Assets

Capital assets increased primarily as a result of an increase in Property, Plant and Equipment offset by a decrease in Construction in Progress (CWIP) less the depreciation of Utility Plant. Current and other assets decreased primarily due to decreases in Cash and Cash Equivalents of $1.2 million, Investments of $12.9 million, Accounts Receivable of $4.4 million and Net Investment in Capital Lease of $8.3 million.

Total liabilities decreased by approximately $27.2 million, primarily due to decreases in the Current Portion of Revenue Bonds of $4.6 million, Long-term Revenue Bonds Payable of $26.4 million and the Deferred Cost of Power Adjustment of $5 million offset by increases in Customer Deposits of $2 million, Rate Stabilization Deferred Credits of $6.2 million and the decrease in Unamortized Loss on Reacquired Debt of $2.8 million.

The first portion of net assets reflects the KUA's investment in capital assets (e.g. plant, property and equipment net of accumulated depreciation); less any related debt used to acquire those assets that are still outstanding. The KUA uses these capital assets to provide electricity and other services to rate payers. It should be noted that the resources needed to repay the related debt must be provided primarily from future operating revenues, since the capital assets themselves cannot be used to liquidate these liabilities. This amount increased primarily as a result of the decrease in the Current Portion of Revenue Bonds of $4.6 million and Long-term Debt of $26.4 million offset by the decrease in Net Investment in Capital Lease of $8.3 million, Debt Service Reserve of $7.4 million and 2003 Bond Proceeds of $5.1 million.

An additional portion of the KUA's net assets ($36.6 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 ($29.8 million) may be used to meet the utility's ongoing obligations to rate payers and creditors.

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

	2012	2011	2010
Metered Sales	$ 148,655,337	$ 154,975,230	$ 174,255,347
Lease Revenue	12,374,316	12,374,316	12,374,317
Other	8,051,967	8,619,860	9,177,743
Rate Stabilization Transfer	4,000,000	-	2,100,000
Change in costs to be Recovered	(1,952,928)	(1,690,151)	(1,525,301)
Total Operating Revenues	171,128,692	174,279,255	196,382,106
Generation & Purchased Power	112,567,178	119,131,096	137,713,754
Transmission & Distribution	10,315,142	9,816,804	8,483,886
Administrative & General	16,651,250	15,555,558	15,408,620
Intergovernmental Transfers	9,167,287	8,520,247	8,527,973
Depreciation & Amortization	8,221,369	8,171,237	7,057,666
Total Operating Expense	156,922,226	161,194,942	177,191,899
Operating Income	14,206,466	13,084,313	19,190,207
Non Operating Expenses	(6,856,430)	(9,684,853)	(10,088,294)
Change in Net Assets	7,350,036	3,399,460	9,101,913
Net Assets - Beginning of the Year	174,886,071	171,486,611	162,384,698
Net Assets - End of Year	$ 182,236,107	$ 174,886,071	$ 171,486,611

Analysis of 2012 Activity

Year-to-date MWh sales in FY 2012 were 1,327,592 compared to FY 2011 sales of 1,359,315, or a 2.3% decrease. Sales to metered customers decreased from $155 million to $148.7 million or 4.1%. The decrease in metered sales revenue resulted from decreases in KWh revenues of $3.8 million or 1.9% and COPA revenues of $2.5 million or 6.4%.

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. In FY 2012, unbudgeted transfers of $11 million were drawn from this fund to offset customer fuel charges. A transfer of $7 million out of the fund was made at year end. The effect of these actions was to increase FY 2012 operating revenues by $4 million.

Total operating expenses were lower than the previous year by $4.3 million, primarily due to lower Fuel and Purchased Power expense.

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 FY 2012, our "unrealized loss" (difference between carrying value versus current market value) was $71,000 compared to a loss of $257,000 for FY 2011. Non-operating expenses decreased primarily due to decreases of $1.7 million in Interest Expense and $1 million in Other Debt Service expenses.

Analysis of 2011 Activity

Year-to-date MWh sales in FY 2011 were approximately 1,359,315 compared to FY 2010 sales of 1,371,308, or a .9% decrease. Sales to metered customers decreased from $174.3 million to $155 million or 11.1%. The decrease in metered sales revenue resulted from decreases in KWh revenues of $3 million or 1.6% and COPA revenues of $16.3 million or 80.1%.

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. In FY 2011, unbudgeted transfers of $10.5 million were drawn from this fund to offset customer fuel charges. A transfer of $10.5 million out of the fund was made at year end. These offsetting transfers had no effect on operating revenues in FY 2011.

Total operating expenses were lower than the previous year by $16 million, primarily due to lower Fuel and Purchased Power expense.

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 FY 2011, our "unrealized loss" (difference between carrying value versus current market value) was $257,000 compared to a loss of $265,000 for FY 2010. Non-operating expenses decreased primarily due to a decrease of $.5 million in Interest Expense.

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 actual, estimated current month and following month estimated 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 Fuel Adjustment.

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

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

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

Capital Assets and Debt Management

Capital Assets At the end of FY 2012, the KUA had $273.3 million invested in a broad range of capital assets primarily electric transmission and distribution systems. This amount represents an increase of $5.4 million, or 2% over last year. Those interested in more detailed information may refer to Footnote 5 in the Notes to the Financial Statements.

At the end of FY 2011, the KUA had $267.9 million invested in a broad range of capital assets primarily electric transmission and distribution systems. This amount represents an increase of $8.8 million, or 3.4% over last year. Those interested in more detailed information may refer to Footnote 5 in the Notes to the Financial Statements.

Debt Management At the end of the current fiscal year, the KUA had total debt outstanding of $180,485,000. Of this amount, $137,285,000 million is improvements and refunding revenue bonds and $43,200,000 million is commercial paper.

	2012	2011	2010
Revenue Bonds	$ 137,285,000	$ 149,220,000	$ 180,325,000
Commercial Paper	43,200,000	43,200,000	43,200,000
Total	$ 180,485,000	$ 192,420,000	$ 223,525,000

The KUA's total debt decreased by $11.9 million (6.2 percent) during the current fiscal year due to the scheduled principal payments. See Footnote 9 in the Notes to the Financial Statements for further detail. The KUA maintains an AA- and A1 underlying rating from Fitch and Moody's respectively for outstanding bond issues.

The KUA's total debt decreased by $31.1 million (13.9 percent) from 2010 to 2011 due to the scheduled principal payments and refunding of the 2001A&B bond issues. The KUA maintained an AA- and A1 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 will fund transmission projects;
2. Current earnings (cash provided from operations) shall 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. 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. The Board of Directors froze fund growth for FY 2009, but growth resumed in FY 2010. (current minimum level is approximately $7,600,000);
4. Maintain a minimum level of one and one half months of fixed operating & maintenance expenses (excluding Depreciation, Costs to be Recovered from Future Revenue, Fuel Costs, and debt service related costs) in unrestricted operating cash and cash equivalents and longer-term invested working capital funds;
5. Maintain a minimum level of 1.25 debt service coverage on outstanding bonds and 1.10 on commercial paper;
6. Maintain a self-insurance fund of $15,000,000 to fund reconstruction expenditures for our transmission and distribution system in the event of weather related or other disasters that would affect the KUA system; and
7. Maintain a minimum of $5,000,000 in a Rate Stabilization fund.

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 $37,260,000 and $32,254,000 and $34,089,000 for FY 2010, FY 2011, and FY 2012 respectively. The debt service requirements for FY 2010, FY 2011, and FY 2012 were $25,386,000, and $25,674,000 and $23,601,000 respectively. Debt service coverage was 1.5x, 1.3x and 1.4X for FY 2010, FY 2011, and FY 2012 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

In July 2012, the KUA growth in customers and energy sales for FY 2013 was projected to be approximately 2.3% and 2.9% respectively within the service territory. The change in net assets was projected to be approximately $14.3 million. There is no rate increase planned for the upcoming year.

Contacting the KUA's Financial Management

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

KISSIMMEE UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30,

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$35,943,909	$29,204,456
Investments	10,029,675	11,884,120
Interest receivable	19,003	23,270
Customer accounts receivable	11,722,069	10,599,866
Less: allowance for doubtful accounts	(652,657)	(670,871)
Unbilled customer receivables	4,878,039	4,767,086
Inventory	6,108,765	6,695,068
Other current assets	2,725,986	1,669,362
Current portion of net investment in capital lease	7,693,085	8,301,719
Current portion of note receivable - other agency	355,852	355,852
TOTAL CURRENT ASSETS	78,823,726	72,829,928
RESTRICTED ASSETS		
Cash and cash equivalents	91,153,648	93,171,758
Investments	23,507,097	19,168,781
Interest receivable	83,311	26,439
TOTAL RESTRICTED ASSETS	114,744,056	112,366,978
OTHER ASSETS		
Unamortized bond costs	1,449,837	1,696,550
Costs to be recovered from future revenue	5,892,154	7,845,082
Stanton Energy Center power entitlement	386,990	414,633
Net investment in capital lease (net of current portion)	96,561,544	104,254,630
Note receivable - other agency (net of current portion)	593,089	948,940
TOTAL OTHER ASSETS	104,883,614	115,159,835
CAPITAL ASSETS - UTILITY PLANT		
Property, plant and equipment	269,671,130	248,636,103
Less: accumulated depreciation	(107,892,577)	(101,187,111)
	161,778,553	147,448,992
Construction in progress	1,815,231	17,727,570
Nuclear fuel inventory	1,812,374	1,572,509
TOTAL CAPITAL ASSETS - UTILITY PLANT	165,406,158	166,749,071
TOTAL ASSETS	**463,857,554**	**467,105,812**

The accompanying notes are an integral part of these financial statements

KISSIMMEE UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30,

	2012	2011
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	9,201,009	10,529,388
Due to other governments	2,038,277	1,860,858
Deferred cost of power adjustment	5,568,073	2,096,628
Other accrued liabilities	2,330,415	2,121,064
Current portion of other long-term liabilities	2,024,848	2,126,846
TOTAL CURRENT LIABILITIES	21,162,622	18,734,784
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Current portion of revenue bonds	17,065,000	11,935,000
Accrued interest payable-revenue bonds	3,257,715	3,262,055
Advances for construction	140,151	2,415,888
Customer deposits	11,919,128	11,353,493
Rate stabilization deferred credits	39,823,544	39,756,581
CR3 decommissioning liability	5,818,112	5,691,076
TOTAL LIABILITIES PAYABLE FROM RESTRICTED ASSETS	78,023,650	74,414,093
LONG-TERM DEBT		
Revenue bonds payable (net of current portion)	120,220,000	137,285,000
Commercial paper notes	43,200,000	43,200,000
Unamortized bond premium	8,574,316	10,057,118
Less: unamortized loss on refunded debt	(6,656,229)	(8,399,607)
TOTAL LONG-TERM DEBT	165,338,087	182,142,511
OTHER LONG-TERM LIABILITIES		
Self-insurance fund (net of current portion)	14,916,994	15,300,929
Compensated absences (net of current portion)	1,756,547	1,312,409
Other post employment benefits (net of current portion)	423,547	315,015
TOTAL OTHER LONG-TERM LIABILITIES	17,097,088	16,928,353
TOTAL LIABILITIES	**281,621,447**	**292,219,741**
NET ASSETS		
Investment in capital assets, net of related debt	106,762,764	108,426,949
Restricted	41,774,588	36,612,950
Unrestricted	33,698,755	29,846,172
TOTAL NET ASSETS	**182,236,107**	**174,886,071**

The accompanying notes are an integral part of these financial statements

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

	2012	2011
OPERATING REVENUES		
Metered sales	$148,655,337	$154,975,230
Lease revenue	12,374,316	12,374,316
Other	8,051,967	8,619,860
Rate stabilization transfer	4,000,000	-
Change in costs to be recovered from future revenue	(1,952,928)	(1,690,151)
TOTAL OPERATING REVENUES	171,128,692	174,279,255
OPERATING EXPENSES		
Fuel and purchased power	111,234,314	118,130,454
Power supply - other	1,332,864	1,000,642
Transmission and distribution	10,315,142	9,816,804
Administrative and general	16,651,250	15,555,558
Intergovernmental transfers	9,167,287	8,520,247
Depreciation and amortization	8,221,369	8,171,237
TOTAL OPERATING EXPENSES	156,922,226	161,194,942
OPERATING INCOME	**14,206,466**	**13,084,313**
NONOPERATING REVENUES (EXPENSES)		
Investment income	641,054	693,849
Interest expense	(6,641,984)	(8,386,998)
Other debt service expense	(855,500)	(1,903,217)
Gain on disposal of property	-	(88,485)
TOTAL NONOPERATING REVENUES (EXPENSES)	(6,856,430)	(9,684,851)
CHANGE IN NET ASSETS	**7,350,036**	**3,399,462**
NET ASSETS - BEGINNING OF YEAR	**174,886,071**	**171,486,609**
NET ASSETS - END OF YEAR	**182,236,107**	**174,886,071**

The accompanying notes are an integral part of these financial statements

KISSIMMEE UTILITY AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and other sources	$181,898,249	$182,155,568
Payments to suppliers for goods and services	(119,409,611)	(120,445,781)
Payments for employees for services	(20,081,398)	(19,387,125)
Payments for benefits on behalf of employees	(7,840,633)	(6,315,405)
NET CASH PROVIDED BY OPERATING ACTIVITIES	34,566,607	36,007,257
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(4,992,399)	1,248,853
Advances for construction & advances from co-owners	(5,255,395)	(12,244,812)
Proceeds from debt issue	0	32,020,600
Payment to defease debt	0	(39,160,000)
Debt issuance costs	0	(269,500)
Principal paid on long-term debt	(11,935,000)	(21,950,000)
Interest paid on long-term debt	(5,418,835)	(9,642,890)
Other debt costs	(344,321)	(898,053)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(27,945,950)	(50,895,802)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(58,066,963)	(41,016,377)
Proceeds from maturities of investment securities	55,800,000	54,002,000
Interest on investments	367,649	707,590
NET CASH PROVIDED BY INVESTING ACTIVITIES	(1,899,314)	13,693,213
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,721,343	(1,195,332)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	122,376,214	123,571,546
CASH AND CASH EQUIVALENTS AT END OF YEAR	$127,097,557	$122,376,214
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET:		
Current Assets		
Cash and cash equivalents	$35,943,909	$29,204,456
Restricted Assets		
Cash and cash equivalents	91,153,648	93,171,758
CASH AND CASH EQUIVALENTS AT END OF YEAR	$127,097,557	$122,376,214

KISSIMMEE UTILITY AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

Continued

CASH PROVIDED BY OPERATING ACTIVITIES	**2012**	**2011**
Operating Income	$14,206,466	$13,084,313
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,193,726	8,143,595
Loss on capital asset disposal	0	(88,485)
Costs to be recovered from future revenue	1,952,928	1,690,151
Net amortization	27,643	27,642
Change in assets - decrease (increase):		
Accounts receivable, net	(3,060,871)	2,955,055
Other assets	1,108,728	(1,694,654)
Inventory	586,303	1,021,182
Deferred cost of power adjustment	3,471,445	(5,013,792)
Energy conservation cost recovery	104,335	31,664
Net investment in capital lease	8,301,720	8,301,720
Change in liabilities - increase (decrease):		
Accounts payable	(1,328,477)	(649,012)
Due to other governments	177,419	99,790
Customer deposits	459,392	1,979,623
Other current liabilities	3,116	251,543
Other accrued liabilities	193,999	6,164,527
Other long-term liabilities	168,735	(297,605)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$34,566,607	$36,007,257

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

(Increase)/Decrease in fair value of investments	$71,063	$257,467

KISSIMMEE UTILITY AUTHORITY
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUND
UTILITY BILLING/COLLECTING FUND
SEPTEMBER 30,

	2012	2011
ASSETS		
Cash	$359,641	$220,113
TOTAL ASSETS	$359,641	$220,113
LIABILITIES		
Due to City of Kissimmee	78,893	58,922
Due to TOHO Water Authority	280,748	161,191
TOTAL LIABILITIES	$359,641	$220,113

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

KISSIMMEE UTILITY AUTHORITY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
UTILITY BILLING/COLLECTING FUND

	9/30/2011 Balance	Additions	Reductions	9/30/2012 Balance
ASSETS				
Cash	$220,113	$70,948,973	($70,809,445)	$359,641
TOTAL ASSETS	$220,113	$70,948,973	($70,809,445)	$359,641
LIABILITIES				
Due to City of Kissimmee	58,922	13,259,899	(13,239,928)	78,893
Due to TOHO Water Authority	161,191	57,689,074	(57,569,517)	280,748
TOTAL LIABILITIES	$220,113	$70,948,973	($70,809,445)	$359,641

	9/30/2010 Balance	Additions	Reductions	9/30/2011 Balance
ASSETS				
Cash	$122,966	$64,182,296	($64,085,148)	$220,113
TOTAL ASSETS	$122,966	$64,182,296	($64,085,148)	$220,113
LIABILITIES				
Due to City of Kissimmee	38,802	11,948,561	(11,928,441)	58,922
Due to TOHO Water Authority	84,164	52,233,735	(52,156,707)	161,191
TOTAL LIABILITIES	$122,966	$64,182,296	($64,085,148)	$220,113

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

KISSIMMEE UTILITY AUTHORITY
STATEMENT OF NET ASSETS
PENSION TRUST FUND
SEPTEMBER 30,

	2012	2011
ASSETS		
RECEIVABLES		
Interest	$ 155,066	$ 143,457
Dividends	24,830	28,929
TOTAL RECEIVABLES	179,896	172,386
Prepaid Insurance	1,499	1,501
INVESTMENTS AT FAIR VALUE		
Pooled Fixed Income Fund	12,823,206	14,645,759
Domestic Stocks	25,343,860	18,380,625
Pooled Equity Fund	1,710,715	3,385,822
Foreign Equity Fund	7,416,155	6,011,941
Temporary Investment Fund	1,590,397	1,029,911
Real Estate Mutual Fund	5,241,512	-
TOTAL INVESTMENTS AT FAIR VALUE	54,125,845	43,454,060
TOTAL ASSETS	54,307,240	43,627,947
LIABILITIES		
Accounts Payable	61,305	25,273
TOTAL LIABILITIES	61,305	25,273
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 54,245,935	$ 43,602,674

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

KISSIMMEE UTILITY AUTHORITY
STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
FOR THE YEARS ENDED SEPTEMBER 30,

	2012	2011
ADDITIONS		
CONTRIBUTIONS		
Employer	$ 3,550,087	$ 2,797,124
Employee	254,100	271,566
Other - Lawsuit/Class Action Proceeds	609,843	-
TOTAL CONTRIBUTIONS	4,414,030	3,068,690
INVESTMENT INCOME (LOSS)		
Net Appreciation (depreciation) in fair value of investments	7,943,253	(1,464,005)
Interest	768,456	373,203
Dividends	971,193	757,926
Other	2,293	58,132
TOTAL INVESTMENT INCOME (LOSS)	9,685,195	(274,744)
Less: Investment Expenses	293,855	245,925
NET INVESTMENT INCOME (LOSS)	9,391,340	(520,669)
TOTAL ADDITIONS (REDUCTIONS)	13,805,370	2,548,021
REDUCTIONS		
BENEFITS		
Age, Service & Disability	2,700,504	2,480,961
DROP	387,182	873,228
Refund of Contributions	26,087	5,188
Professional & Administrative Expenses	48,336	50,176
TOTAL REDUCTIONS	3,162,109	3,409,553
NET INCREASE (DECREASE)	10,643,261	(861,532)
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS BEGINNING OF YEAR	43,602,674	44,464,202
END OF YEAR	$ 54,245,935	$ 43,602,674

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

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 (COK) 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 COK 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 COK's financial statements.

As of August 1st, 2012, KUA.net ceased its legacy service operations which included dial-up internet access, e-mail, 7-hour help desk, commercial co-location, web design and web hosting. KUA continues to act as a marketing agent in the sales of residential local and long distance telephone service, high-speed DSL service, and satellite TV through a partnership with CenturyLink/Dish Network.

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. 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.

Description of Funds Reported:

- An **Enterprise Fund** operated by the KUA accounts for the electric utility and the Internet Service Provider (ISP) segments.

- **Agency Funds** account for the COK and Toho Water Authority (TWA) utility billings performed by the KUA. The KUA collects revenues on behalf of the COK and TWA for utility services including storm water, refuse, water, sewer, and utility taxes. All agency funds are presented in the accompanying agency statements and excluded from the enterprise fund financial statements because they are fiduciary in nature and do not represent resources available to KUA for operations.
- A **Pension Trust Fund** accounts for the activities of the employees' retirement system which accumulates resources for pension benefit payments to qualified retiring employees. They are excluded from the enterprise fund financial statements because they are fiduciary in nature and do not represent resources available to KUA for operations.

Basis of Accounting: 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 to the accounting rules prescribed by the GASB. Based on the accounting and reporting standards set forth in GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the KUA has elected to apply only the accounting and reporting pronouncements issued by the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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

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. Staff discusses and presents a preliminary budget to the Board of Directors at a special meeting which is open to the public.
3. A public hearing is subsequently advertised and conducted to obtain ratepayer comments. Once approved by the Board of Directors, the budget 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 quarterly. Budget amendments which increase the adopted budget are approved by the Board of Directors. 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 does not lapse until conclusion of the project.

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

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 (SBA) Pool and the carrying amount of the KUA's deposits with financial institutions.

Investments: Investments are recorded at fair market value. Fair market value is determined based on quoted market prices. The Fund A of the Local Government Investment Pool operated by the Florida State Board of Administration (SBA) is a 2a-7-like pool; therefore, it is presented at its actual pooled share price, which approximates market value. KUA holds an immaterial amount of Fund B (approximately $3,000). KUA reports the entire balance of investments in the SBA (Fund A and Fund B) of approximately $55,200,000 at its pooled share price, which approximates market value. The net change to the investments carrying value is included in interest revenue.

Customer Accounts Receivable: Customer accounts receivable consist of uncollateralized amounts billed to commercial and residential customers for electric service provided throughout the KUA service territory consisting primarily of Osceola County. KUA bills customers monthly on a cycle basis based upon metered usage, recognizing revenue in the period in which it was earned net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated based upon KUA's historical experience with collections and current energy market conditions. Bad debt expense for estimated uncollectible accounts was recorded as a reduction of Operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets.

KUA acts as billing agent, on behalf of the State and other local governments which are included in Customer Accounts Receivable but not reflected in the Statements of Revenues, Expenses and Changes in Net Assets. All receivables are anticipated to be collected within an operating cycle and are reported as current assets

Unbilled Customer Receivables: Unbilled customer receivables represent base electric service provided to customers but not billed until after the end of the fiscal year based upon the billing cycles established by the Authority.

Inventory: Inventory is stated at weighted average cost.

Other Current Assets: Other current assets consist primarily of prepaid expenses and other accounts receivable. Included in other current assets is a receivable of approximately $1,500,000 and $470,000 for the years ended September 30, 2012 and 2011, respectively, of unreimbursed costs associated with the Clay St. transformer incident, which is more fully described in Note 10 to the financial statements. The receivable is expected to be fully collected from the Authority's insurance carrier or from at fault vendors associated with the incident.

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.

Capital Assets: 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	25 to 33 years
Transmission	32 to 50 years
Distribution	25 to 37 years
General	4 to 39 years

The cost of maintenance and repairs, including renewal of minor items of property less than $5,000, is charged to operating expense as incurred. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Capital Contributions: The KUA receives funds from developers for electric line extensions. These funds are recorded as reductions to gross plant. 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.

Unamortized Gains or Losses of Refunded 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 refunding have been netted for financial statement purposes.

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 Statement of Net Assets.

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.
- Restricted – Consists of net assets with constraints placed on their use by revenue bond resolution or other external agreement.
- Unrestricted – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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 non-operating revenues and expenses. The KUA accrues base revenue for services rendered but unbilled to provide a closer matching of revenues and expenses.

Rate Stabilization Accounts: A retail Rate Stabilization account was created by the KUA bond resolution which allows current income to be deferred to a future time in order to stabilize rates. This gives the KUA the ability to defer revenues in years when excess revenues (over minimum bond requirements) exist to build up the Rate Stabilization account. The deferred revenues would be recognized in future years. This fund was created by a revenue bond resolution and as such is classified as restricted (See Note 4).

A bulk system Rate Stabilization account was created which allows current Cost of Power Revenue to be utilized at a future time in order to stabilize rates related to fuel and purchase power pursuant to an agreement with the wholesale power provider. This fund is classified as restricted (See Note 4).

Costs to be Recovered from Future Revenue: The KUA's electric rates are established by the Board of Directors and are based upon debt service and cash operating requirements. Depreciation and other non-cash items are not considered in the cost of service calculation but ensure rates are set to recover all cash requirements. This results in timing differences between when costs are included in the ratemaking process versus when costs are incurred and recognized under generally accepted accounting principles. 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 market 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 in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation".

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 $1.00 per MWh for residual future disposal costs in addition to estimated labor and waste burial costs.

Payments to and from the City of Kissimmee and Toho Water Authority: By charter the KUA is required to pay to the COK a minimum of 6.91 and 6.24 mills for the years ended September 30, 2012 and 2011, respectively. This payment is treated as an operating and maintenance expense in the Statements of Revenues, Expenses and Changes in Net Assets. The total amount transferred to the COK was approximately $9,167,000 and $8,520,000 for the years ended September 30, 2012 and 2011, respectively. The amount owed to the COK was approximately $1,590,000 and $1,480,000 for the years ended September 30, 2012 and 2011, respectively.

The KUA performs certain customer related services for the COK and TWA for which the COK and TWA combined paid the KUA approximately $2,352,000 and $2,222,000 for the years ended September 30, 2012 and 2011, respectively. The amount owed by the COK and TWA combined to the KUA was approximately $190,000 and $186,000 at September 30, 2012 and 2011, respectively.

During a County audit, it was discovered that KUA erroneously remitted General Service Demand County taxes to the COK. KUA reimbursed the County and the COK agreed to repay KUA over a period of 44 months beginning October 1, 2011 plus interest calculated using the SBA average monthly interest rate. The COK agreed to pay all sums owed to KUA no later than May 1, 2015. The amount owed by the COK to the KUA was approximately $949,000 and $1,305,000 at September 30, 2012 and 2011, respectively.

Note 2 – Cash, Cash Equivalents, Investments and Interest Receivable

Enterprise Fund

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 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 Trust, ARP Working Capital deposit, and Rate Stabilization – Bulk System which are not in the name of KUA. The funds not held in the name of KUA are held at Florida Municipal Power Agency (FMPA) and are contractually obligated to be paid on behalf 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, and investments at their respective carrying amounts at September 30, 2012 and 2011 are as follows:

		2012	2011
Current	Cash & Cash Equivalents	$ 35,943,909	$ 29,204,456
	Investments	10,029,675	11,884,120
	Total Current	45,973,584	41,088,576
Restricted	Cash & Cash Equivalents	91,153,648	93,171,758
	Investments	23,507,097	19,168,781
	Total Restricted	114,660,745	112,340,539
Total	Cash & Cash Equivalents	127,097,557	122,376,214
	Investments	33,536,772	31,052,901
	Total	$ 160,634,329	$ 153,429,115

The KUA's total cash, cash equivalents, and investments as of September 30, 2012 and 2011 are summarized as follows:

	2012	2011
Investments	$ 108,781,188	$ 109,240,884
Investments held at FMPA	25,242,300	20,892,144
Cash with Paying Agent	-	15,185,645
Bank Carrying Value	26,600,817	8,100,769
Petty Cash	10,024	9,673
	$ 160,634,329	$ 153,429,115

Investments are recorded at market value. The effect of adjusting the investments to market value at September 30, 2012 and 2011 was a change to the investments carrying value of ($71,063) and ($257,467), respectively.

The balance in the SBA was $55,214,918 and $40,058,799 at September 30, 2012 and 2011, respectively. 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.

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 $0 and $740,821 at September 30, 2012 and 2011, respectively. Repurchase agreements are held in the name of the KUA's depository bank. The maximum repurchase agreement was $740,833 and $742,943 during the year ending September 30, 2012 and 2011, respectively.

At September 30, 2012 and 2011, the carrying value of the KUA's deposits with financial institutions was $26,600,817 and $8,100,769 for each year respectively, and the bank balance was $25,774,032 and $7,559,583, respectively. All bank balances are fully insured in accordance with Florida Statute 280, which established the multiple financial institution collateral pool.

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

Investment Class	Duration	Portfolio %
U.S. Government Securities	8.25 years	100%
U.S. Federal Agencies	8.25 years	25%
U.S. Federal Instrumentalities	4.75 years	90%
Corporate Bonds	4.75 years	15%
State & Local Government Taxable and Tax-Exempt Debt	3.00 years	15%
Mortgage-Backed Securities (MBS)	2.50 years	15%
Certificate of Deposit	365 days	15%
Commercial Paper	270 days	15%
Bankers' Acceptance	180 days	15%
Repurchase Agreements	60 day maturity	20%
Reverse Repurchase Agreements	60 day maturity	10%
Fixed Income Treasury Mutual Funds	Daily liquidity	100%
Fixed Income Mutual Funds	Daily liquidity	10%
Florida Local Government Surplus Trust Fund (SBA)	Daily liquidity	60%

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the market value of an investment in debt securities. Generally, the longer the time to maturity or duration, the greater the exposure to interest rate risk. KUA's investment policy restricts investments by duration in an effort to limit its exposure to market value losses arising from rising interest rates. These investment restrictions have been detailed above. As of September 30, 2012, the portfolio had duration of .43 and a weighted average life of .50.

Duration is a measure of fixed income's cash flows using present values, weighted for cash flows as a percentage of the investments full price. Analytical software commonly includes duration functions. Macaulay Duration (named after its developer) is the basic calculation developed for portfolio of bonds assembled to fund a fixed liability. Modified Duration, based on Macaulay Duration, estimates the sensitivity of a bond's price to interest rate changes. Effective Duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investment as callable bonds, prepayments, and variable-rate debt. Since KUA assumes that callable bonds will be called due to the falling interest rate environment, Effective Duration will be used.

As of September 30, 2012 and 2011, KUA had the following investments in its portfolio:

	2012		2011	
Investment	Market Value	Effective Duration	Market Value	Effective Duration
Fixed Income Mutual Funds	$ 41,536,736	0.000	$ 44,796,160	0.000
Florida Local Government Trust Fund (SBA)	55,214,917	0.000	40,058,799	0.000
Bank Deposits Invested	-	N/A	9,749,284	0.000
Bank Repurchase Agreement	-	N/A	740,821	0.000
State & Local Government Debt	-	N/A	4,000,000	0.013
Federal Instrumentalities Coupon	8,067,660	2.575	6,891,380	2.402
Corporate Bonds	-	N/A	-	N/A
U.S. Government Securities	3,961,875	6.601	3,004,440	2.559
	$ 108,781,188		$ 109,240,884	

Credit Risk: Credit risk is the risk that a debt issuer will not fulfill its obligations. KUA's policy is to limit its investments in commercial paper and corporate bonds by rating to mitigate this risk. At purchase, commercial paper must have a minimum rating of A1 by Standard & Poor's, F1 by Fitch and P1 by Moody's. A minimum of two of the rating agencies must rate the commercial paper. As a practical matter, KUA only invests in commercial paper rated as A1+/P1. Corporate bonds are limited at purchase to ratings of AA by Standard & Poor's, AA by Fitch and Aa by Moody's. Additionally, the investment policy limits Fixed Income Mutual Funds ratings as AAA by Standard & Poor's, AAA by Fitch and Aaa by Moody's.

As of September 30, 2012, fixed income mutual funds and federal instrumentalities held by KUA were rated AAA.

Investments represented by the Crystal River 3 (CR3) Decommissioning Trust were composed of AAA rated federal instrumentalities, AAA rated corporate bonds, AAA rated mutual funds and commercial paper rated A-1+/P1.

Investments represented by the Rate Stabilization Fund – Bulk System were composed of AAA rated mutual funds.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, KUA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2012, KUA did not have any material investments held by our counterparty which were in a name other than KUA.

Cash & Investments held by FMPA

Investments represented by the CR3 Decommissioning Trust were composed of AAA rated mutual funds and commercial paper rated A-1+/P1. The ARP Working Capital and the Rate Stabilization – Bulk System investments were held as cash deposits. As of September 30, 2012 and 2011, FMPA held the following investments in its portfolio:

	2012		2011	
Investment/Cash Deposits	Market Value	Effective Duration	Market Value	Effective Duration
ARP Working Capital	$ 3,735,063	0.000	$ 3,735,063	0.000
Rate Stabilization - Bulk System	15,923,544	0.000	11,856,581	0.000
Crystal River 3 Decommissioning Trust	5,583,693	0.000	5,300,500	0.499
	$ 25,242,300		$ 20,892,144	

Pension Trust Fund

Valuation of Investments: Investments in common stocks and bonds traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the mean between the last reported bid and asked prices; investments in securities not having an established market value are valued at market value as determined by the Board of Trustees. The market value of an investment is the amount that the Kissimmee Utility Authority Employees' Retirement Plan (Plan) could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale. Purchases and sales of investments are recorded on a trade date basis.

Investment income is recognized on the accrual basis as earned. Unrealized appreciation in fair value of investments includes the difference between cost and fair value of investments held. The net realized and unrealized investment appreciation or depreciation for the year is reflected in the Statement of Changes in Plan Net Assets.

Investments: Investments that are not evidenced by securities that exist in physical or book-entry form include investments in open-ended mutual or pooled investment funds.

The Plan's investments are uninsured and unregistered and are held in a custodial account in the Plan's name. The Plan held no investments that individually represent 5% or more of the Plan's net assets available for benefits during the years ended September 30, 2012 and 2011, respectively. The Plan has no instrument that, in whole or part, is accounted for as a derivative instrument under GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments during the current Plan year.

The Plan held the following fixed investments as of September 30, 2012 and 2011:

Investment Type	Percent of Total Fund	Fair Value 9/30/12	Overall Credit Rating (S&P and Moody's)	Average Effective Duration (Years)
Integrity Bond Fund	23.7%	$ 12,823,206	A+	5.1
Temporary Investment Fund	2.9%	1,590,397	A+ or better	N/A
Total		$ 14,413,603		

Investment Type	Percent of Total Fund	Fair Value 9/30/11	Overall Credit Rating (S&P and Moody's)	Average Effective Duration (Years)
Integrity Bond Fund	33.7%	$ 14,645,759	AA-	5.0
Temporary Investment Fund	2.4%	1,029,911	A+ or better	N/A
Total		$ 15,675,670		

Credit Risk: Consistent with state law the Plan's investment guidelines limits its fixed income investments to a quality rating of "A" or equivalent as rated by one or more recognized bond rating services at the time of purchase. Fixed income investments which are downgraded to "BAA" or equivalent must be liquidated within a reasonable period of time not-to-exceed twelve months. Fixed income investments which are downgraded below "BAA" shall be liquidated immediately.

Interest Rate Risk and Duration: Through its investment policies, the Plan manages its exposure to market value losses arising from increasing interest rates. In this regard, the Plan adopted the Merrill Lynch Government Corporate Bond Index (MLGC) benchmark. The Plan further limited the effective duration of its fixed investment portfolio to between 50% and 150% of the duration of the MLGC duration.

Custodial Credit Risk: The Plan requires all securities to be held by a third party custodian in the name of the Plan. Securities transactions between a broker-dealer and the custodian involving the purchase or sale of securities must be made on a delivery vs. payment basis to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The investments in mutual funds are considered unclassified pursuant to the custodial risk categories of GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book entry form.

The Plan's investments at both cost and market value as of September 30, 2012 and 2011 are summarized as follows:

	2012		2011	
Investments	**Cost**	**Market Value**	**Cost**	**Market Value**
US Government & Agency Bonds	$ 5,851,985	$ 5,940,122	$ 5,134,605	$ 5,245,649
Domestic Stocks	22,539,054	25,343,860	20,094,155	18,380,625
Corporate & Municipal Obligations	6,733,639	6,883,084	9,342,423	9,400,110
Pooled Equity Funds	8,203,272	1,710,715	3,342,883	3,385,822
Foreign Equity	1,621,403	7,416,155	7,624,027	6,011,941
Realestate Fund	5,241,512	5,241,512	-	-
Temporary Investment Funds	1,590,397	1,590,397	1,029,915	1,029,911
Total	$ 51,781,262	$ 54,125,845	$ 46,568,008	$ 43,454,059

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, 2012 and 2011 included the following designations:

Current Assets	2012	2011
Undesignated	$ 4,342,076	$ 4,048,166
Designated for:		
Capital Improvements	12,562,257	13,505,407
Self-Insurance	15,000,000	15,400,000
Decommissioning	627,807	626,759
Good Neighbor Fund	7,254	5,967
General Reserve	11,960,784	6,422,223
ARP Load Retention Funding Credits	1,492,408	1,103,324
Total	$ 45,992,586	$ 41,111,846

Note 4 – Restricted Cash and Investments

Restrictions are made in accordance with bond resolutions, contracts and developers, 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, 2012 and 2011, included the following:

Restricted Assets	2012	2011
Debt Service Reserve	$ 12,163,073	$ 12,163,073
Sinking Fund	20,322,715	11,409
Cash with Paying Agent	-	15,185,645
Construction Fund	-	1,494,336
Restricted Reserve Fund	19,474,525	19,442,887
Renewal, Replacement & Improvement	1,500,000	1,500,000
Advances for Construction	140,151	2,415,888
Customer Deposits	11,919,128	11,353,493
Crystal River Unit #3 Decommissioning	5,665,857	5,308,603
ARP Working Capital	3,735,063	3,735,063
Rate Stabilization - Retail	23,900,000	27,900,000
Rate Stabilization - Bulk System	15,923,544	11,856,581
Total	$ 114,744,056	$ 112,366,978

Note 5 – Capital Assets

Utility plant activity for the years ended September 30, 2012 and 2011 was as follows:

Utility Plant	9/30/11 Balance	Additions	Deletions & Reclassifications	9/30/12 Balance
Land & SFAS71	$ 15,394,058	$ -	$ -	$ 15,394,058
Nuclear Production	10,563,033	676,874	-	11,239,907
Transmission Plant	60,280,092	4,470,919	(286,191)	64,464,820
Distribution Plant	129,324,580	15,666,182	(471,130)	144,519,632
General	33,074,340	1,169,868	(191,495)	34,052,713
Subtotal	248,636,103	21,983,843	(948,816)	269,671,130
Less Accumulated Depreciation:				
Nuclear Production	(5,075,015)	(382,439)	$ -	(5,457,454)
Transmission Plant	(28,104,924)	(1,913,635)	411,452	(29,607,107)
Distribution Plant	(52,986,606)	(4,514,064)	885,313	(56,615,357)
General	(15,020,566)	(1,383,588)	191,495	(16,212,659)
Subtotal	(101,187,111)	(8,193,726)	1,488,260	(107,892,577)
CWIP	17,727,570	10,656,612	(26,568,951)	1,815,231
Nuclear Fuel	1,572,509	(129,802)	369,668	1,812,375
Net Plant	$ 166,749,071	$ 24,316,927	$ (25,659,839)	$ 165,406,159

Utility Plant	9/30/10 Balance	Additions	Deletions & Reclassifications	9/30/11 Balance
Land & SFAS71	$ 15,394,058	$ -	$ -	$ 15,394,058
Nuclear Production	10,023,243	539,790	-	10,563,033
Transmission Plant	55,837,897	4,442,195	-	60,280,092
Distribution Plant	110,760,762	19,215,225	(651,407)	129,324,580
General	33,308,905	1,286,232	(1,520,797)	33,074,340
Subtotal	225,324,865	25,483,442	(2,172,204)	248,636,103
Less Accumulated Depreciation:				
Nuclear Production	(4,712,860)	(362,155)	$ -	(5,075,015)
Transmission Plant	(26,695,203)	(1,409,721)	-	(28,104,924)
Distribution Plant	(48,743,828)	(5,025,924)	783,146	(52,986,606)
General	(15,195,568)	(1,345,795)	1,520,797	(15,020,566)
Subtotal	(95,347,459)	(8,143,595)	2,303,943	(101,187,111)
CWIP	32,417,950	17,495,334	(32,185,714)	17,727,570
Nuclear Fuel	1,381,175	138,439	52,895	1,572,509
Net Plant	$ 163,776,531	$ 34,973,620	$ (32,001,080)	$ 166,749,071

Depreciation expense for Utility Plant totaled approximately $8,194,000 and $8,144,000 for years ended September 30, 2012 and 2011, respectively.

The capital contribution of plant costs was approximately $2,440,000 and $1,024,000 for years ended September 30, 2012 and 2011 respectively. These funds are recorded as reductions to gross plant.

Note 6 – Construction Project Interest Cost

KUA capitalizes interest on construction projects financed with revenue bonds. 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 expense was approximately $6,642,000 and $8,387,000 which is net of capitalized interest expense of approximately $52,000 and $155,000 for fiscal years 2012 and 2011, respectively.

Note 7 - Net Investment in Capital Lease

The KUA negotiated with FMPA All-Requirements Power Supply Project (ARP) the Revised, Amended, and Restated Capacity and Energy Sales Contract (TARP Contract) effective October 1, 2008, under which FMPA-ARP will pay the KUA a fixed capacity credit that will not vary for the KUA owned generating assets over various periods of time that are tied to the useful life of such KUA assets. The total amount of fixed capacity credits that will be paid to the KUA from FY 2009 through FY 2028 will be approximately $342 million. In return for this fixed rate of return, not tied to market variations, the KUA ceded to FMPA operational control of these assets and waived its right to exercise its contract rate of delivery associated with the KUA's Cane Island Units 1, 2, and 3, Hansel, Stanton Energy Center Units 1 and A, and Indian River Units A and B. The KUA also passed responsibility for the operation, maintenance, and capital costs of these generation assets to FMPA, see Note 8. The KUA retained responsibility for its ownership share of Cane Island land and common transmission facilities and a proportionate share of decommissioning costs or benefits of the generation assets.

The following lists the components of the net investment in capital lease as of September 30:

	2012	2011
Total minimum lease payments to be received	$ 259,653,757	$ 280,329,793
Less: Unearned lease revenue	(155,399,128)	(167,773,444)
Net investment in capital lease	$ 104,254,629	$ 112,556,349
Shown in the accompanying Statement of Net Assets as:		
Current Assets - current portion	$ 7,693,085	$ 8,301,719
Other Assets - long term portion	96,561,544	104,254,630
Total	$ 104,254,629	$ 112,556,349

Fiscal Year	Minimum Lease Payments to be Received	Unearned Lease Revenue
2013	$ 19,160,188	$ 11,467,103
2014	19,160,188	11,467,103
2015	18,993,011	11,367,050
2016	18,993,011	11,367,050
2017	18,993,011	11,367,050
2018-2022	87,286,895	52,239,980
2023-2027	75,769,659	45,347,076
2028	1,297,794	$776,716
Total	$ 259,653,757	$ 155,399,128

Note 8 –Power Supply Agreements

FMPA All-Requirements Power Supply Project (ARP): The KUA purchases power exclusively from Florida Municipal Power Agency (FMPA) through the State-wide bulk power system. The KUA has an All-Requirements Power Supply Project Contract (effective 10/1/2002) with FMPA which requires FMPA to sell and deliver to the KUA and the KUA to purchase from FMPA all electric power that the KUA requires in excess of the amount the KUA receives from its percentage ownership interest in Crystal River 3 and power entitlement in St. Lucie 2. The contract shall remain in effect until October 1, 2045, and is subject to automatic five-year extensions each fifth anniversary unless either party notifies the other in writing at least two years prior to such automatic extension date of its decision not to extend the contract. The KUA pays for electric power under the contract at the rates set forth in the applicable rate schedule of FMPA, which FMPA may revise from time to time. The contract provides the option for the KUA to leave the FMPA after notice and making the remaining project participants whole. This is generally understood to mean paying off its portion of the project's long-term debt.

Effective October 1, 2008, the KUA leased, as discussed in Note 7, its ownership share of the generating assets associated with the KUA's Cane Island Units 1, 2, and 3, Hansel, Stanton Energy Center Units 1 and A, and Indian River Units A and B. In addition, the KUA entered into a Consolidated Operating and Joint Ownership Contract with the FMPA whereby the KUA provides operation and maintenance services for Cane Island, Gulfstream Interconnection, and Hansel facilities and FMPA reimburses the expenditures.

Power Supply Entitlements: Stanton Energy Center (SEC): KUA is a member of FMPA's Stanton and Stanton II projects whereby the KUA has a total power entitlement of 1.8072% in SEC 1, approximately 8 MW and 7.6628% in SEC 2, approximately 33 MW. These resources are dedicated to the ARP. The participation costs are paid by the ARP.

The following are excluded resources under the ARP agreement:

- St. Lucie Nuclear Power Plant: KUA is a member of FMPA's St. Lucie project whereby the KUA has a total power entitlement of 0.8282%, approximately 7 MW in the St. Lucie nuclear power plant. The KUA is billed for its share of the participation costs which are included in purchased power.
- Crystal River Unit No. 3 (CR3): The KUA entered into a Participation Agreement with Florida Power Corporation (FPC), now Duke Energy, to purchase a 0.6754% undivided ownership interest, approximately 6 MW in their nuclear powered electric generating plant. During an outage, CR3 was found to have cracking or delamination in the upper portions of the concrete containment structure and the Nuclear Regulatory Commission has been notified. A third-party independent review of the containment repair plan completed in October 2012, found that the current repair plan appears to be technically feasible. A final repair or retire decision by the Duke Energy Board of Directors is expected in 2013. Duke Energy's corporate and site engineering, licensing, operations, project management and construction groups are carefully analyzing the report and remain committed to providing the board comprehensive information, including their assessment of the report, so that board members can make well-informed decisions. An agreement between Duke Energy and the minority owners, that include KUA, requires that 87% of replacement power is delivered annually until the end of 2013. Replacing this small amount of energy following 2013 is not expected to have a major rate impact. Additional costs for repairs are expected to be paid by insurance according to Duke Energy. However, this has not been finalized. Duke Energy has been communicating

with the minority owners as updates are available. The KUA is billed for its share of operating and capital costs. Operating costs are included as fuel and power supply-other expenses and capital costs are included in Property, Plant and Equipment, see note 5. The amounts of utility plant in service for CR3 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 respective share. The KUA does not exercise significant influence or control over the operating or financial policies of Duke Energy.

Note 9 – Long-Term Liabilities

Long-Term Liabilities for the years ended September 30, 2012 and 2011 were as follows:

	9/30/2011 Balance	Additions	Reductions	9/30/2012 Balance	Amounts Due Within One Year	Long-Term
Debt						
Revenue Bonds Payable	$ 149,220,000	$ -	$ (11,935,000)	$ 137,285,000	$ 17,065,000	$ 120,220,000
Commercial Paper	43,200,000	-	-	43,200,000	-	43,200,000
Total Debt	192,420,000	$ -	$ (11,935,000)	180,485,000	$ 17,065,000	$ 163,420,000
Deferred Bond Premiums, Discounts and Losses on Refunding	(358,089)			(97,512)		
Total	$ 192,061,911			$ 180,387,488		
Other Liabilities						
Self Insurance Fund	$ 15,400,000	$ 44,851	$ (444,851)	$ 15,000,000	$ 83,006	$ 14,916,994
Compensated Absences	3,265,279	2,139,523	(1,797,170)	3,607,632	1,851,085	1,756,547
Other Post Employment Benefits	389,920	124,384	-	514,304	90,757	423,547
Total Other Liabilities	$ 19,055,199	$ 2,308,758	$ (2,242,021)	$ 19,121,936	$ 2,024,848	$ 17,097,088

	9/30/2010 Balance	Additions	Reductions	9/30/2011 Balance	Amounts Due Within One Year	Long-Term
Debt						
Revenue Bonds Payable	$ 180,325,000	$ 30,005,000	$ (61,110,000)	$ 149,220,000	$ 11,935,000	$ 137,285,000
Commercial Paper	43,200,000	-	-	43,200,000	-	43,200,000
Total Debt	223,525,000	$ 30,005,000	$ (61,110,000)	192,420,000	$ 11,935,000	$ 180,485,000
Deferred Bond Premiums, Discounts and Losses on Refunding	(837,587)			(358,089)		
Total	$ 222,687,413			$ 192,061,911		
Other Liabilities						
Self Insurance Fund	$ 15,738,756	$ 440,690	$ (779,446)	$ 15,400,000	$ 99,071	$ 15,300,929
Compensated Absences	3,115,722	2,009,433	(1,859,877)	3,265,279	1,952,870	1,312,409
Other Post Employment Benefits	275,866	114,054	-	389,920	74,905	315,015
Total Other Liabilities	$ 19,130,344	$ 2,564,177	$ (2,639,322)	$ 19,055,199	$ 2,126,846	$ 16,928,353

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

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

1. Establishment and maintenance of various funds:
   - Revenue Fund records all operating revenues and expenses of the system;
   - Sinking Fund records principal and interest requirements;
   - Bond Amortization Fund records funds held for the retirement of term bonds;
   - Reserve Fund records funds held in reserve for the maximum annual debt service requirements;
   - Renewal, Replacement & Improvement Fund is to be used only for making improvements, extensions and replacements to the system;
   - Construction Fund records the cost of major additions to the system financed by revenue bonds; and
   - Rate Stabilization - Retail Fund records funds to be used to the extent provided in the current Annual Budget or to be transferred, as appropriate, to any other fund or account under the resolutions.

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

3. Rate Covenant:
   - The KUA will at all times establish, fix, prescribe and collect rates and charges for the services and facilities furnished by the 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, 2012 and 2011 consisted of the following serial and term bonds, and outstanding Commercial Paper Notes:

Description	Final Maturity	Original Amount	2012	2011
Refunding & Improvement Bonds Series 2003 4.125%-5.25% - 4/1; 10/1	10/1/2018	$ 55,835,000	$ 25,595,000	$ 30,430,000
Refunding Revenue Bonds Subordinate Series 2003 5.00%-5.25% - 4/1; 10/1	10/1/2018	$ 60,700,000	60,700,000	60,700,000
Refunding Revenue Bonds Subordinate Series 2005 3.25%-5.25% - 4/1; 10/1	10/1/2018	$ 63,680,000	20,985,000	28,085,000
Refunding Revenue Bonds Series 2011 2.00% - 4.00% - 4/1; 10/1	10/1/2017	$ 30,005,000	30,005,000	30,005,000
Subtotal			137,285,000	149,220,000
Commercial Paper Program Series B, Variable Interest		$ 35,000,000	35,000,000	35,000,000
Commercial Paper Program Series B, Second Installment Variable Interest		$ 8,200,000	8,200,000	8,200,000
Subtotal			43,200,000	43,200,000
			$ 180,485,000	$ 192,420,000

The annual long-term debt service requirements at September 30, 2012 are as follows (excludes Series A and B Commercial Paper):

Fiscal Year	Interest	Principal	Total
2013	6,152,278	17,065,000	23,217,278
2014	5,383,000	17,775,000	23,158,000
2015	4,563,150	18,605,000	23,168,150
2016	3,724,575	19,310,000	23,034,575
2017	2,771,713	20,065,000	22,836,713
2018	2,339,894	44,465,000	46,804,894
Total	$ 24,934,610	$ 137,285,000	$ 162,219,610

Commercial Paper Notes

KUA authorized the issuance of the Commercial Paper Notes pursuant to Resolution No. 00-04, adopted by the Board on October 25, 2000. The Notes were issued in three series, 2000A, 2000B, and 2000B second installment for $35,000,000, $35,000,000 and $8,200,000, respectively to (a) finance the cost of the Cane Island Project (including repayment of amounts previously borrowed to provide financing therefore) and (b) 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 $60,000,000). During the year ended September 30, 2012, interest rates on the Commercial Paper ranged from .13% to .25% and averaged .19%.

The Notes are secured by the Commercial Paper Purchase Agreement between KUA and JP Morgan Chase Bank. In the Purchase Agreement, the Bank has agreed, subject to certain conditions, to purchase Commercial Paper Notes which have not been sold by the Dealers so that moneys will be available in the Commercial Paper Notes 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 the Notes; KUA is obligated to make provision for payment of interest on maturing Commercial Paper Notes from Subordinates Revenues.

The amount of the Bank's obligation under the Purchase Agreement is limited to $43.2 million, reduced by the amount of any outstanding Notes previously purchased by the Bank and subject to adjustment upward upon request of KUA and consent of the Bank or downward upon unilateral request by KUA, in either case in $1 million increments.

The duration of the Bank's obligation under the Commercial Paper Purchase Agreement is for three years, beginning on June 8, 2011 and terminating on August 5, 2014. 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.

In the event that Bank Notes owned by the Bank are outstanding on the expiration date, August 5, 2014, the Bank agrees to accept amortization of the principal thereof and payment of the interest thereon as indicated. The Bank agrees that it shall continue to hold such Bank Notes for the Term Out Period, an additional period up to three years. This will occur provided that all Bank Notes shall bear interest at the Term Out Rate during the Term Out Period, payable in arrears, on the last day of each calendar month; and provided further that KUA shall redeem the Bank Notes, by paying to the Bank the principal amount of the Bank Notes, in six (6) equal principal amounts on a semi-annual basis, on each sixth Interest Payment Date together with accrued interest, commencing on the sixth interest payment date after the expiration date. The Term Out Rate is a Base Rate plus two percent (2.00%) calculated on the basis of a 360 day year and actual days elapsed. The Base Rate means for any day, the higher of (a) the Prime Rate plus one and one half percent (1.50%), (b) the Federal Funds Rate plus two percent (2.00%), or (c) eight and one half percent (8.50%) per annum.

Debt Refundings

As of September 30, 2005, $35,000,000 of the Series A was refunded. On October 13, 2005, $32,000,000 was refunded and the remaining $3,000,000 was refunded on November 16, 2005. The Series B in the amount of $43,200,000 are outstanding and are reflected as Long-Term Liabilities on the Statement of Net Assets.

The KUA refunds and defeases debt primarily as a means of reducing debt service, thereby postponing or reducing future electric rate adjustments. On July 7, 2011, the KUA refunded the Series 2001 A&B Bonds originally issued on October 25, 2001 and maturing on October 1, 2012 and thereafter. This refunding resulted in gross present value debt service savings of $17,178,379.83 and net present value benefit of $3,275,160.84. On the $30,005,000 debt issuance, the net present value benefit was 10.915%. In addition, the KUA deposited into an escrow account sufficient funds to cash defease the Series 2001 A&B Bonds maturing on October 1, 2011. Outstanding serial bonds, which were refunded through the net cash defeasance method on July 7, 2011, are as follows at September 30, 2012:

Electric Revenue and Refunding Bonds	2012	2011
2001A	$ -	$ 14,010,000
2001B	-	25,150,000
Total	$ -	$ 39,160,000

Government obligations were held in escrow for the payment of principal and interest on these bonds as of September 30, 2011 and were subsequently used to pay the principal and interest on these bonds during 2012. These bonds were not liabilities to the KUA as of September 30, 2011 and 2012.

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 2013 will be approximately $34,594,000 of which $17,200,000 is for the upgrade and replacement of the current Hansel Substation. An additional $39,497,000 is estimated for years 2014 through 2016.

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 KUA.

The KUA is subject to general liability claims throughout the year. The range of loss is such that an estimate cannot be made. These claims are well within our insurance limits. The KUA has established a Self-Insurance fund to cover any claims that exceed our insurance deductibles and/or limits.

On August 7, 2011, a transformer exploded at the Clay Street Substation. At this time, the exact cause of the accident remains undetermined. KUA believes it had no responsibility for the accident. At this time, we are uncertain of the outcome of any litigation resulting from this accident. In the opinion of management, the resolution of this matter will not have a material effect on the financial position of the KUA which has insurance coverage.

The KUA has purchase agreements with utilities whereby the KUA must pay capacity demand fees whether or not electricity or fuel is received from these utilities. The utilities involved and the approximate charges of the purchase agreements to be paid in Fiscal Year 2013 are as follows:

	Date	Commitment
Orlando Utilities Commission (OUC)		
SEC 1, Indian River, SEC A	NONE	$1,585,663
FMPA (St. Lucie, SEC1, SEC2)	NONE	5,093,486
Progress Energy (Crystal River 3)	NONE	152,323
Total		$6,831,472

The KUA owns a portion of Progress Energy's nuclear power plant at Crystal River, Florida. This plant is scheduled to be decommissioned beginning in the year 2016. The KUA will be liable for approximately $5,818,000 in decommissioning costs in 2011 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 Crystal River 3 (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, 2012 and 2011 including interest earnings was approximately $5,666,000 and $5,309,000, 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 $375 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 $117.5 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 $17.5 million per incident. The KUA is liable for its ownership interest of any assessment made against CR3 under this plan.

Note 11 – Risk Management

The KUA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The KUA has established a Self-Insurance reserve to account for and finance its uninsured risks of loss for the transmission and distribution system as well as other uninsured losses. The reserve balance is approximately $15,000,000 and $15,400,000 for the years ended September 30, 2012 and 2011, respectively. The Self-Insurance reserve is the KUA's best estimate based upon available information and is decreased by claims paid each year. This reserve is reflected as a liability under Other Long-term Liabilities on the Statement of Net Assets (see Note 9).

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, 2012 and 2011:

	2012	2011
Debt Service:		
Sinking funds	$ 20,322,715	$ 11,409
Accrued Interest Payable-Revenue Bonds	(3,257,715)	(3,262,054)
Cash with Paying Agent	-	15,185,645
Other:		
ARP Working Funds	3,735,063	3,735,063
Restricted Reserve Fund	19,474,525	19,442,887
Asset Renewal and Replacement Fund	1,500,000	1,500,000
Total Restricted Assets	$ 41,774,588	$ 36,612,950

Note 13 – Other Post Employment Benefits

The KUA provides medical, dental and life insurance benefits to current employees and eligible retirees and their families. These benefit provisions have been established by and may be amended by the KUA's Board of Directors. Retirees participating in the plans offered by the KUA are required to contribute 100% of the active premiums. The KUA does not contribute any funds on behalf of the retirees.

The annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution to the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC is used for accrual accounting purposes, not for funding purposes. It is a basis for the allocation of the KUA's projected cost of providing OPEB over periods that approximate the periods in which the KUA receives services from the covered employees. The following table shows the components of the annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the net OPEB obligation at September 30, 2012 and 2011:

	2012	2011
Annual Required Contribution	$ 211,741	$ 185,418
Interest on Net OPEB Obligation	19,496	13,793
Adjustment to Annual Required Contribution	(16,096)	(10,252)
Annual OPEB Cost (Expense)	215,141	188,959
Estimated Net Contributions Made	(90,757)	(74,905)
Increase in Net OPEB Obligation	124,384	114,054
NET OPEB Obligation - Beginning of Year	389,920	275,866
NET OPEB Obligation - End of Year	$ 514,304	$ 389,920

The annual OPEB cost and the percentage of annual OPEB cost contributed to the plan is as follows:

FY Ended	Annual OPEB Cost	% of Annual OPEB	Net OPEB Obligation
9/30/2012	$ 215,141	42.2%	$ 514,304
9/30/2011	$ 188,959	39.6%	$ 389,920
9/30/2010	$ 165,618	37.8%	$ 275,866
9/30/2009	$ 146,509	34.9%	$ 172,810

The funding status of at September 30, 2012 and 2011 is as follows:

	2012	2011
Actuarial Accrued Liability (AAL)	$ 2,246,423	$ 2,077,968
Actuarial Value of Assets (AVA)	-	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 2,246,423	$ 2,077,968
Funded Ratio	0.0%	0.0%
Covered Payroll	$ 14,816,189	$ 15,766,943
Ratio of UAAL to Covered Payroll	15.2%	13.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2011 actuarial valuation, the Entry Age Normal Actuarial Cost Method (Level Percent of Pay) was used. The actuarial assumptions included a 5.0% investment rate of return (net of investment related expenses) and an annual healthcare cost trend rate of 9.0%, reduced each year until the ultimate rate of 5.0% in FY 2015. Both rates included a 3.4% inflation assumption and used techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The amortization of the UAAL is the level percentage of payroll (closed amortization over 30 years). Other factors used in the development of the annual OPEB expense are as follows:

Amortization of Unfunded Actuarial Accrued Liability		
	2012	**2011**
Actuarial Accrued Liability	$ 2,246,423	$ 2,077,968
Actuarial Value of Assets	-	-
Unfunded Actuarial Accrued Liability	$ 2,246,423	$ 2,077,968
Amortization Period	30	30
Amortization Method	Closed	Closed
Discount Rate	5.0%	5.0%
Payroll Growth Rate	3.4%	4.2%
Amortization Amount	$ 102,754	$ 83,952

Development of Annual Required Contribution (ARC)		
	2012	**2011**
Normal Cost	$ 98,904	$ 92,636
Interest on Normal Cost	4,945	4,632
Normal Cost Component	$ 103,849	$ 97,268
Amortization Amount	$102,754	$83,952
Amortization Interest	5,138	4,198
Amortization Component	$ 107,892	$ 88,150
Annual Required Contribution	$ 211,741	$ 185,418
As a Percent of Covered Payroll	1.4%	1.1%

Development of Annual OPEB Cost		
	2012	**2011**
Annual Required Contribution	$ 211,741	$ 185,418
NET OPEB Obligation, Beginning of Year	$ 389,920	$ 275,866
Discount Rate	5.0%	5.0%
Interest on Net OPEB Obligation	$ 19,496	$ 13,793
NET OPEB Obligation, Beginning of Year	$ 389,920	$ 275,866
Amortization Factor	0.0413	0.0372
Adjustment to Annual Required Contribution	$ (16,096)	$ (10,252)
Annual OPEB Cost	$ 215,141	$ 188,959

Note 14 – Pension Plan

Plan Description: The Kissimmee Utility Authority Employees' Retirement 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 for all full-time employees. 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.

At September 30, 2012 the Plan's membership consisted of:

Retirees and beneficiaries:	
Currently receiving benefits	152
DROP Retirees	13
Terminated employees entitled to benefits but not yet receiving them	80
	245

Pension Benefits: Under the Plan, a participant's normal retirement date shall be as follows:

1) Tier 1 Members: the attainment of age sixty-two (62) and the completion of ten (10) years of credited service;
2) Tier 2 Members: the attainment of the age which when added to the years of credited service, equals eighty (80) years and the completion of ten (10) years of credited service; and
3) Tier 3 Members: the attainment of age sixty-two (62) and the completion of ten (10) years of credited service.

Participants are entitled to annual pension benefits in accordance with the above schedule or an early retirement at age 55 with a benefit reduced by two percent for each year prior to normal retirement. Vesting in a Participant's accrued benefit based on their contributions begins at 25 percent at five years of credited service and increases 15 percent per year. A participant's normal retirement benefit shall be calculated in accordance with the following schedule:

1) Tier 1 Members: two and six-tenths percent (2.6%) of average final compensation for each year of credited service;
2) Tier 2 Members: two and six-tenths percent (2.6%) of average final compensation for each year of credited service; and
3) Tier 3 Members: three percent (3.0%) of average final compensation for each year of credited service.

The monthly retirement benefit shall not exceed 100 percent of the participant's average final compensation. A participant who terminates prior to five (5) continuous years of service forfeits the right to receive all benefits he/she has accumulated. However, he/she retains the right of a refund of all personal contributions made to the Plan.

Deferred Retirement Option Plan (DROP): The Plan adopted a DROP benefit on November 17, 1999. Any Plan participant who is eligible to receive a normal retirement pension may elect to participate in a deferred retirement option plan (DROP) while continuing his/her active employment. Upon participation in the DROP, the participant becomes a retiree for all Plan purposes so that he/she ceases to accrue any further benefits under the Plan. Normal retirement payments that would have been payable to the participant as a result of retirement are accumulated and invested in the DROP to be distributed to the participant upon his/her termination of employment. Participation in the DROP ceases for a Plan participant after 96 months.

Death Benefits: For any deceased employee who had been an actively employed participant eligible for early or normal retirement, the manner of benefit payable shall be at least equal to the annuity of ten years calculated as of the date of death. The benefit payable in the event of death while in service on or prior to normal retirement date is the greater of the value of a participant's accrued benefit accrued to the date of death or the smaller of 24 times a participant's average final monthly compensation at the date of death or 100 times a participant's monthly retirement income assuming retirement occurred on the date of death.

Disability Benefits: A participant that has two or more years credited service and becomes totally and permanently disabled to the extent that they are unable to engage in any reasonable occupation is entitled to a disability benefit. If granted, the pension benefit will be 2.6 percent of final average compensation multiplied by years of credited service, not to exceed thirty years of credited service, but in any event, the minimum benefit shall be 25 percent of average final compensation. Disability pension will be reduced by any workers' compensation and/or social security disability benefits such that the total does not exceed 100 percent of the disability pension benefit.

Basis of Accounting: The accrual basis of accounting is used by the Plan. KUA contributions to the Plan, as calculated by the Plan's Actuary, are recognized as revenue when due and the KUA has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Custody of Assets: Custodial and certain investment services are provided to the Plan under contracts with a custodian having trust powers in the State of Florida. The Plan's investment policies are governed by investment objectives of the KUA and the Florida State Statutes.

Authorized Plan Investments: The obligations of the Plan are long-term and the investment policy is geared toward performance and return over a numbers of years. The general investment objective is to obtain a reasonable total rate of return defined as interest and dividend income plus realized and unrealized capital gains or losses commensurate with a prudent investor rule and Chapter 112 of the Florida Statutes.

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, high capitalization common or preferred stocks, pooled equity funds, high quality bonds or notes and fixed income funds. In addition, the Plan requires assets be invested with no more than 70 percent in stocks and convertible securities measured at cost.

In addition, the Plan limits investment in common stock (equity investments) as follows:

a. No more than 5 percent at cost of an investment manager's portfolio may be invested in the common or capital stock of any single corporation.
b. The Plan's investment in the common stock of any single foreign corporation shall not exceed 25 percent of the Plan's total value.

Designations: A portion of the Plan net assets are designated for benefits that accrue in relation to the DROP accounts. Allocations to the DROP plan accounts for the year ended September 30, 2012 are presented below as determined in the most recent notification of DROP balances prepared by the Plan's actuary:

Designated for DROP accounts (fully funded)	$1,634,609
Undesignated plan net assets	$52,611,327
Total Plan Net Assets	$54,245,935

Actuarial Cost Method: The Plan uses the Entry Age Normal Actuarial Cost Method for funding purposes. This method allocates future normal costs based on the earnings of each employee participant. Entry age is the employee's age nearest his birthday on October first following his employment. The unfunded actuarial accrued liability is not separately identified and is not, therefore, amortized under this actuarial method. Information about funded status and funding progress was prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of the Plan.

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 years ended September 30, 2012, 2011, and 2010, respectively, was 23.44%, 19.20%, and 16.65% of total annual payroll. The Plan had been a non-contributory Plan since 1986 and was changed to a tiered plan in April 2004. Employees currently have the option of contributing to the Plan. The employee contribution rate for the years ended September 30, 2012, 2011, and 2010, respectively, was 1.55%, 1.60%, and 1.67% of total annual payroll.

Annual Pension Cost: For the years ended September 30, 2012, 2011, and 2010, respectively, the annual pension costs of $3,550,087, $2,797,124, and $2,444,831 were equal to the KUA's required and actual contributions. The annual required contribution was determined as part of the October 1, 2011 actuarial valuation using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) life expectancy calculated using the RP2000 Combined Healthy 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 benefit 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, 2012 was 30 years.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL Ratio to Covered Payroll
10/01/11	$45,961,854	$71,643,723	$25,681,869	64.15%	$14,444,644	177.80%

The schedule of funding progress, included as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Note 15 – Subsequent Event

On October 1, 2012, the Hansel Power Plant, an approximately 50 MW combined cycle generating unit ceased commercial operation. The unit had been in commercial operation since 1983. FMPA utilized its authority under the Revised, Amended, and Restated Capacity and Energy Sales contract between FMPA and KUA to determine when to retire the unit, see Note 7. FMPA based their decision on the sufficiency of capacity resources and an expected cost savings based on the known cost impacts. As a result of this retirement, the KUA will see declines in annual minimum lease payments to be received of $1,516,000 and lease revenue of $907,000 beginning October 1, 2012. Decommissioning is expected to be completed by September 30, 2013, and the associated cost responsibility is split between FMPA 34% and KUA 66% per the contract with an exception which places 100% responsibility on KUA for any decommissioning costs related to environmental damages, fines, or other environmental liabilities associated with the Hansel combined cycle and the Hansel generating site prior to KUA joining the ARP.

Required Supplemental Information

Kissimmee Utility Authority Employees' Retirement Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL Ratio to Covered Payroll
10/01/11	$45,961,854	$71,643,723	$25,681,869	64.15%	$14,444,644	177.80%
10/01/10	47,038,128	67,885,399	20,847,271	69.29%	14,500,536	143.77%
10/01/09	46,149,076	64,042,399	17,893,323	72.06%	14,524,139	123.20%
10/01/08	45,529,982	55,613,694	10,083,712	81.87%	13,481,409	74.80%
10/01/07	43,658,863	51,005,979	7,347,116	85.60%	12,205,365	60.20%
10/01/06	39,191,550	45,264,890	6,073,341	86.58%	12,126,874	50.08%
10/01/05	35,234,393	41,372,941	6,138,548	85.16%	11,966,630	51.30%
10/01/04	32,403,029	37,840,876	5,437,847	85.63%	11,872,260	45.80%
10/01/03	30,566,700	31,427,331	860,631	97.26%	11,503,917	7.48%
10/01/02	29,233,758	30,085,244	851,486	97.17%	10,726,420	7.94%
10/01/01	28,565,661	29,407,089	841,428	97.14%	10,349,488	8.13%
10/01/00	27,476,780	28,292,829	816,049	97.12%	9,622,892	8.48%
10/01/99	24,543,409	24,543,409	-	100.0%	9,338,568	-
10/01/98	21,310,000	21,310,000	-	100.0%	9,077,176	-
10/01/97	37,242,142	37,242,142	-	100.0%	19,037,030	-
10/01/96	30,720,860	30,720,860	-	100.0%	18,082,940	-

Five Year Trend Information

Year Ending	Actuarially Determined Contribution	Percentage of Actuarially Determined Contribution	Net Pension Obligation
09/30/11	$2,793,468	100%	0
09/30/10	2,441,275	100%	0
09/30/09	2,061,273	100%	0
09/30/08	1,604,600	100%	0
09/30/07	1,534,829	100%	0