

FLORIDA MUNICIPAL POWER AGENCY

Financial Statements

For The Fiscal Year Ended September 30, 2005



Independent Auditors' Report

The Board of Directors and Members, Florida Municipal Power Agency

We have audited the accompanying financial statements of the business-type activities and each major fund of Florida Municipal Power Agency as of and for the year ended September 30, 2005, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Florida Municipal Power Agency 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund, of Florida Municipal Power Agency as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year 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 November 17, 2005, on our consideration of Florida Municipal Power Agency internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, as listed in the accompanying contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

November 17, 2005
Ocala, Florida

Certified Public Accountants

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MANAGEMENT'S DISCUSSION & ANALYSIS

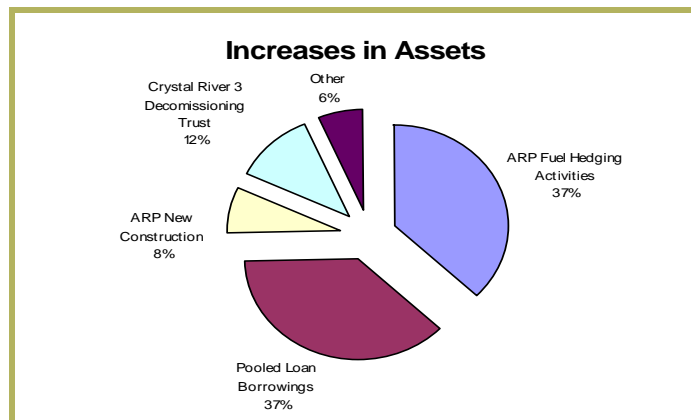
For The Fiscal Year Ended September 30, 2005

This discussion and analysis is intended to serve as an introduction to Florida Municipal Power Agency's (FMPA) basic financial statements, which are comprised of individual project or fund financial statements and the notes to those financial statements.

FMPA's financial statements are designed to provide readers with a broad overview of FMPA's finance condition in a manner similar to a private-sector business. It is important to note that, due to contractual arrangements which are the basis of each power project, no monies are shared among the projects.

FINANCIAL HIGHLIGHTS

Total Assets at September 30, 2005, of FMPA's Agency Fund, Pooled Loan Fund and projects increased \$166.6 million from prior year. The significant increases are as follows: \$62 million pertains to the mark-to-market on fuel hedging activities for the All-Requirements Project; \$61.9 is from proceeds related to new Pooled Loan borrowings; \$19.2 million is related to Crystal River Unit 3 Decommissioning Trust Cash and Investments in the Agency Fund and \$12.7 million is related to the All-Requirements new construction projects.



Total Liabilities at September 30, 2005, for FMPA's Agency Fund, Pooled Loan Fund and projects increased by \$165.2 million during the current fiscal year. The majority of these increases are directly related to the significant increases in the assets listed above.

Long-Term Debt outstanding at September 30, 2005, for FMPA's Agency Fund, Pooled Loan Fund and projects increased by \$61.4 million during the current fiscal year. This is primarily due to the All-Requirements Project borrowings for construction related activities which resulted in an increase in Commercial Paper Notes for the Pooled Loan Project, net of principal payments. Rates on the Agency's variable-rate debt ranged from .90% to 2.95% for fiscal year 2005. Interest expense increased for the current fiscal year by \$1.27 million and is attributable to a rise in overall interest rates and increased borrowings by the All-Requirement Project to finance the construction activities for the Stock Island Combustion Turbine Unit 4 (\$33 million); the Treasure Coast Energy Center (\$17.76 million) and the proposed coal project in North Florida (\$25 million).

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

For Fiscal Year Ended September 30, 2005

FINANCIAL HIGHLIGHTS (CONTINUED)

Total Operating Revenue for Agency and all projects increased by \$107.6 million for the current fiscal year. The primary source of revenue - sales of electricity to the participants - increased \$49.9 million, or 10%. This increase is largely attributable to the increase in fuel costs that are passed on to the participants through billings.

The rising interest rate environment continued throughout fiscal year 2005 and contributed to higher earnings on the investment portfolios of FMPA's funds and projects. For fiscal year 2005, interest income increased by \$4.9 million when compared to fiscal year 2004.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to FMPA's basic financial statements, which are comprised of two components: (1) individual project or fund financial statements and (2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

FMPA's **Entity-Wide Financial Statements** are designed to provide readers with a broad overview of FMPA's finances in a manner similar to a private-sector business. It is very important to note that, due to contractual arrangements that are the basis of each power project, no monies can be shared among projects.

The cash flow of one power project, although presented with all others in the financial statement presentation as required by financial reporting requirements, cannot and should not be considered available for any other project. Management encourages readers of this report, when evaluating the financial condition of FMPA, to remember that each power project or fund is a stand-alone entity.

The **Statements of Net Assets** presents information on all of FMPA's assets and liabilities with the differences between the two reported as Net Assets. As a result of a decision by the governing body of FMPA, billings and revenues in excess (deficient) of actual costs are returned to (collected from) the participants in the form of billing credits (charges). The assets within the Agency Fund represent those required for staff operations, which coordinate all of the power projects described herein. On behalf of the Crystal River Unit 3 participants, Restricted Cash and Investments in the Agency Fund were added in 2005 which are monies held in trust for the Decommissioning Fund.

The **Statements of Revenues, Expenses and Changes in Fund Net Assets** present information regarding how FMPA's net assets have changed during the fiscal year ended 2005. All changes in net assets are reported as the underlying event giving rise to the change as it occurs, regardless of the timing of related cash flows. Therefore, some revenues and expenses that are reported in these statements for some items will only result in cash flows in future fiscal periods, such as unrealized gains or losses from investment activities, uncollected billings and earned but unused vacation.

The **Statements of Cash Flows** provide information about FMPA's Agency Fund, Pooled Loan Fund and each project's cash receipts and disbursements during the fiscal year. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

For Fiscal Year Ended September 30, 2005

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

All of the activities of FMPA are of a business type, as compared to governmental activities. FMPA has no component units to report. The Financial Statements can be found on pages 11 through 16 of this report.

The **Fund Financial Statements** are comprised of a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. FMPA, like governments and other special agencies or districts, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of FMPA are reported on the proprietary basis.

FMPA maintains only one type of **Proprietary Fund**, the Enterprise Fund type. Enterprise Funds are used to report the same functions presented as business-type activities in the financial statements. FMPA uses enterprise funds to account for all of its power projects, as well as the Agency and Pooled Loan business operations. Each of the funds is considered a "major fund" according to specific accounting rules. The major fund proprietary financial statements can be found on pages 11 through 16 of this report.

The **Notes to Financial Statements** provide additional information that is essential to understanding the data provided in both the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 18 through 55 of this report.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, when readers use the financial presentations to evaluate FMPA's financial position and results of operations, it is essential to remember the legal separation that exists among the projects. Nevertheless, broad patterns and trends may be observed at this level that should lead the reader to study carefully the financial statements of each fund and project. For example, total Utility Plant increased during fiscal year 2005 due to the development and construction of three new power plants within the All-Requirements Project. The Agency Fund and other FMPA Projects' total Utility Plant decreased during 2005 and is attributable to the difference between depreciation and any capital outlays required during the year. See additional information in the Notes to Financial Statements beginning on page 18.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

For Fiscal Year Ended September 30, 2005

FINANCIAL ANALYSIS OF FMPA'S FUNDS AND PROJECTS

FMPA uses fund accounting, Federal Energy Regulatory Commission accounting and special utility industry terminology to ensure and demonstrate compliance with finance-related legal requirements. The projects and funds are presented below and in the financial statements in the order in which they were established.

The **Agency Fund** accounts for the administrative activities of FMPA. The expenses incurred while operating the projects and administrative activities are allocated to the power projects, net of any miscellaneous receipts. Total General and Administrative expenses increased \$53,000 in fiscal year 2005 when compared to fiscal year 2004. This is attributable to increases in Insurance premiums, Salaries and Benefits and decreases in Outside Services, Advertising and Building Maintenance.

FMPA has a letter of credit that supports the financing of capital expenditures of its members or the Agency through the issuance of commercial paper. These loans and the repayments of these loans are accounted for in the **Pooled Loan Fund**. On September 30, 2005, long-term commercial paper note debt was \$160.6 million. In fiscal year 2005, as a result of redemptions and issuances, commercial paper notes increased by \$65.7 million. The Utility Board of the City of Key West, Florida and the All-Requirements Project were issued new loans totaling \$82 million. Management is not aware of any pending non-payment of commercial paper notes and no loans were in default at September 30, 2005.

The **St. Lucie Project** consists of an 8.806% undivided ownership interest in St. Lucie Unit 2. This unit is a nuclear power plant primarily owned and operated by Florida Power & Light (FPL). FPL submitted an application to the Nuclear Regulatory Commission seeking to extend the operating license for Units 1 and 2 by 20 years. The NRC granted the license renewal for 20 years, which allows Unit 1 to operate until 2035 and Unit 2 to operate until 2043, subject to FPL's final acceptance.

The Project billed Megawatt-hours (MWh) of 589,050 in fiscal year 2005. The average all-inclusive billing rate which includes budgeted Demand, Energy and Transmission expenses increased 0.23% to \$60.65/MWh in fiscal year 2005. The cost of power production and delivery increased from \$23.33 to \$29.24 per MWh in fiscal year 2005 (an increase of 25.31% from the prior year). General and Administrative expenses also increased \$1.1 million. The primary reason for both of these increases is due to the occurrence of a refueling outage during fiscal year 2005.

The **Stanton Project** derives its power from a 14.8193% ownership interest in Stanton Unit 1, a 425 MW coal-fired power plant operated by its primary owner, Orlando Utilities Commission (OUC). Operations and Maintenance expenses increased by \$1 million during fiscal year 2005 and are attributable to billings by OUC for Stanton Unit 1 boiler maintenance.

The Project billed 413,435 MWh in fiscal year 2005. The average all-inclusive billing rate which includes budgeted Demand, Energy and Transmission expenses increased 13.7% to \$50.57 per MWh in fiscal year 2005. This increase was primarily due to rising coal costs which are billed to the participants through the energy charge on each Project's invoice.

The cost of power production and delivery, which is calculated using actual Operating expenses excluding Administrative and General expenses, rose to \$32.58 per MWh in fiscal year 2005, an increase of 22.03% in fiscal year 2005. This change is due to the rising cost of coal as well as boiler maintenance expenses. General and Administrative expenses decreased \$206,000.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

For Fiscal Year Ended September 30, 2005

FINANCIAL ANALYSIS OF FMPA'S FUNDS AND PROJECTS (CONTINUED)

The **All-Requirements Project** (ARP) consists of 15 participants. The ARP energy resources are part of the Florida Municipal Power Pool (FMPP), a consortium of three municipal energy suppliers - ARP, Lakeland Electric and OUC - which have agreed to dispatch resources on a cost and availability basis in order to meet combined loads. The average billed rate to ARP member cities was \$68.24 per MWh in fiscal year 2005, which is all-inclusive of Energy, Demand and Transmission expenses. The billed Megawatt hours for fiscal year 2005 were 6,542,263.

Billings to ARP participants in fiscal year 2005 were 11.78% higher, increasing from \$399.4 million to \$446.4 million. This increase is primarily due to higher fuel costs.

Power costs, exclusive of Administrative and General and Depreciation expenses, increased to \$73.47 per MWh in fiscal year 2005, a 21.75% increase from fiscal year 2004. This increase was primarily due to a rise in coal and natural gas prices and the Project's generation and contractual resource mix. General and Administrative expenses increased \$948,000, a 9.4% change from prior year or \$.14 per MWh. The fuel supply mix was 38.7% for purchased power, 23.2% for natural gas and fuel oils, 28.6% for coal and 9.5% for nuclear.

After consideration of amounts to be refunded to or recovered from Project participants, the net assets of the All-Requirement Project were zero by design again in fiscal year 2005. The ARP bills an estimated rate during the year and then credits back (charges) participants the amounts in excess (deficit) of those needed to operate and meet all the Project's obligations. This amount is shown in the Statements of Revenues, Expenses and Changes in Fund Net Assets as an addition or reduction to "Billings to Participants" and as "Participant Accounts Receivable" or "Net Costs Recoverable From Future Participant Billings" in the accompanying Statement of Net Assets.

The **Tri-City Project** consists of a 5.3012% ownership interest in Stanton Unit 1. The Project billed 140,549 MWh in fiscal year 2005. The average all-inclusive billing rate, which includes budgeted Demand, Energy and Transmission expenses, increased 9.4% to \$56.64 per MWh during fiscal year 2005. This increase was primarily due to rising coal costs which are billed to the participants through the energy charge on each Project's invoice.

The cost of power production and delivery, which is calculated using actual Operating expenses excluding Administrative and General expenses, rose to \$34.54 per MWh in fiscal year 2005, a 27.14% increase. This change is due to the rising cost of coal as well as boiler maintenance expenses. General and administrative expenses decreased by \$95,000 or \$.68 per MWh.

The **Stanton II Project** consists of a 23.2367% ownership interest in Stanton Unit 2, a coal-fired power plant operated by its primary owner, Orlando Utilities Commission. During March 2005, the Stanton II plant was shut down for a routine maintenance outage.

The Project billed 740,975 MWh in 2005. The average all-inclusive billing rate, which includes budgeted Demand, Energy and Transmission expenses, increased .84% to \$47.63 per MWh in fiscal year 2005. This increase was primarily due to rising coal costs which are billed to the participants through the energy charge on each Project's invoice.

During fiscal year 2005, an increase in MWh generated, combined with an increase in fuel and production expenses, caused the Stanton II Project's cost of power production and delivery (which is calculated using actual Operating expenses excluding Administrative and General expenses) to increase by 7.47%, to \$27.76 MWh. General and Administrative expenses decreased by \$416,000, or \$.56 per MWh.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

For Fiscal Year Ended September 30, 2005

BUDGETARY HIGHLIGHTS

The FMPA Board of Directors approves the project budgets, establishing legal boundaries for expenditures. For fiscal year 2005, the amended budget authority was not exceeded.

CAPITAL ASSETS AND LONG-TERM DEBT

FMPA's investment in **Capital Assets** as of September 30, 2005 was \$473 million, net of accumulated depreciation and inclusive of work-in-process and development projects. This investment in capital assets includes operational and construction in progress of generation facilities, distribution and transmission systems, land, buildings, improvements, and machinery and equipment.

FMPA's investment in capital assets for fiscal year 2005 increased by 1.96% or \$9 million. This equates to a 7.06% increase in the All-Requirements utility plant while all other projects' net change ranged from a decrease of (1.22%) to (4.04%). This overall reduction highlights the relatively stable nature of these generating assets and FMPA's participation in them or the capital renewal and replacement program.

At September 30, 2005, FMPA had **Long-Term Debt** of \$954.2 million in notes, loans and bonds payable. The remaining principal payments on long-term debt, net of unamortized premium and discount, and unamortized loss on refunding are as follows:

| | |
|----------------------------|----------------|
| • Agency Fund | \$ 2,405,000 |
| • Pooled Loan Fund | \$ 160,570,000 |
| • St. Lucie Project | \$ 215,774,722 |
| • Stanton Project | \$ 80,979,929 |
| • All-Requirements Project | \$ 275,535,270 |
| • Tri-City Project | \$ 35,498,102 |
| • Stanton II Project | \$ 183,409,157 |

See **Note IX** to the Notes to Financial Statements for further information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Multi-year operational and financial modeling was conducted to arrive at the fiscal year 2005 budget which took into consideration the member cities' economies that have shown varying amounts of growth in both demand and energy.

SIGNIFICANT EVENTS

FMPA has acquired land in Ft. Pierce, Fla., for a future generation site of a natural gas power plant. The Treasure Coast Energy Center Unit 1 has a total budget not to exceed \$257,405,000. Construction on this facility is to commence mid-2006.

The city of Vero Beach requested arbitration with FMPA pursuant to the Capacity and Energy Sales Contract between FMPA and Vero Beach under the terms of the All-Requirements Project Participation Agreement. Subsequent to year end, the Agency received the award from the Panel of Arbitrators deciding all contested issues in favor of FMPA, and awarding certain FMPA costs (totaling \$25,000) to be paid by the City of Vero Beach. See **Note XVII** in the Notes to Financial Statements for more information.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

For Fiscal Year Ended September 30, 2005

SIGNIFICANT EVENTS (CONTINUED)

During fiscal year 2005, a Category 4 hurricane (Katrina) had a devastating impact on the country's fuel supply. This caused fuel prices to rise at a rate that was not predictable. The All-Requirements Project was the most impacted by these unpredictable fuel costs because of its high dependency on natural gas.

FMPA has broken ground in Key West, Florida (Stock Island) for a 42 megawatt, low sulfur oil-fired combustion turbine power plant. This plant will be owned by FMPA and operated by Keys Energy Services, the municipal electric utility serving Key West and the lower Florida Keys. The total budget for this construction project is approximately \$33 million.

FMPA, along with three other utilities, are negotiating on a 3,200 acre site in North Florida for a potential future site to build an 800 megawatt coal-fired power plant. Other utilities involved in the construction project, along with FMPA are JEA, the city of Tallahassee and Reedy Creek Improvement District. See **Note X** in the Notes to Financial Statements for further information.

FMPA has joined with six other public gas and electric utilities in five different states to form a gas supply agency called Public Gas Partners, Inc (PGP). This agency was created to secure economical, long-term wholesale natural gas supplies for its seven members in order to stabilize and reduce the cost of natural gas. See **Note X** in the Notes to Financial Statements for more information.

INTEREST ARBITRAGE AND REBATE

As a result of lower interest rates on outstanding debt in contrast to higher yields on investments, the Agency has the following remaining potential arbitrage rebate liabilities as of September 30, 2005:

| | |
|----------------------------|---------------------|
| • St. Lucie Project | \$ 2,106,692 |
| • All-Requirements Project | \$ 81,608 |
| • Tri-City Project | \$ 36,917 |
| • Stanton II Project | <u>\$ 396,180</u> |
| Total | <u>\$ 2,621,397</u> |

\$4,349,600 of the previous total arbitrage rebate liability was paid in fiscal year 2005. See **Note XV** in the Notes to Financial Statements for further information regarding the arbitrage rebate liabilities.

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the *Assistant General Manager and CFO, Florida Municipal Power Agency, 8553 Commodity Circle, Orlando, FL 32819.*

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FLORIDA MUNICIPAL POWER AGENCY

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2005

(thousands omitted)

| ASSETS | Business-Type Activities- | | |
|--------------------------------------------------------|---------------------------|---------------------|----------------------|
| | Agency | Pooled Loan Fund | St. Lucie Project |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 1,622 | \$ | \$ 3,294 |
| Investments | 3,699 | | 50,561 |
| Participant accounts receivable | 2,017 | | 5,409 |
| Other receivables | 136 | 58 | 425 |
| Fuel stock and material inventory | | | |
| Other current assets | 269 | | 70 |
| Restricted assets available for current liabilities | | 659 | 52 |
| Total Current Assets | 7,743 | 717 | 59,811 |
| Non-Current Assets: | | | |
| Restricted Assets: | | | |
| Cash and cash equivalents | 709 | 34,936 | 1,111 |
| Investments | 18,391 | 38,851 | 53,831 |
| Accrued interest | 76 | 10 | 316 |
| Pooled loan receivables from members | | 31,510 | |
| Pooled loan receivables from projects | | 56,905 | |
| Less: Portion classified as current | | (659) | (52) |
| Total Restricted Assets | 19,176 | 161,553 | 55,206 |
| Capital Assets: | | | |
| Electric plant | | | 188,880 |
| General plant | 5,962 | | 9,863 |
| Less accumulated depreciation and amortization | (1,669) | | (112,307) |
| Net Capital Assets | 4,293 | | 86,436 |
| Construction work in progress | | | |
| Development projects in progress | 30 | | |
| Total Capital Assets, Net | 4,323 | | 86,436 |
| Deferred Costs: | | | |
| Net costs recoverable from future participant billings | 1,173 | | 52,213 |
| Other | 5 | | 1,798 |
| Total Deferred Costs | 1,178 | | 54,011 |
| Total Non-Current Assets | 24,677 | 161,553 | 195,653 |
| Total Assets | \$ 32,420 | \$ 162,270 | \$ 255,464 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Payable from unrestricted assets: | | | |
| Current portion of pooled loans notes payable | \$ 175 | \$ | \$ |
| Accounts payable | 289 | 405 | 2,674 |
| Accrued liabilities | 639 | | 315 |
| Total Current liabilities from Unrestricted Assets | 1,103 | 405 | 2,989 |
| Payable from restricted assets: | | | |
| Current portion of long-term revenue bonds | | | |
| Accrued interest on long-term debt | | 659 | 52 |
| Total Current liabilities from Restricted Assets | | 659 | 52 |
| Total Current Liabilities | 1,103 | 1,064 | 3,041 |
| Liabilities Payable from Restricted Assets: | | | |
| Commercial paper notes | | 160,570 | |
| Accrued decommissioning expenses | 19,176 | | 36,385 |
| Total Liabilities Payable from Restricted Funds | 19,176 | 160,570 | 36,385 |
| Long-Term Liabilities: | | | |
| Long-term revenue bonds, less current portion | | | 215,775 |
| Long-term loans | | | |
| Pooled loans notes payable | 2,230 | | |
| Deferred revenues | | | |
| Advances from participants | | | |
| Other liabilities | | 636 | 263 |
| Total Long-Term Liabilities | 2,230 | 636 | 216,038 |
| Total Liabilities | \$ 22,509 | \$ 162,270 | \$ 255,464 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | \$ 1,918 | \$ | \$ (129,339) |
| Restricted | | 347 | 18,558 |
| Unrestricted | 7,993 | (347) | 110,781 |
| Total Net Assets | \$ 9,911 | \$ | \$ |

The accompanying notes are an integral part of these financial statements

FLORIDA MUNICIPAL POWER AGENCY

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2005

(thousands omitted)

-Proprietary Funds

| Stanton Project | All-Requirements Project | Tri-City Project | Stanton II Project | Totals |
|--------------------|-----------------------------|---------------------|-----------------------|----------------|
| \$ 1,060 | \$ 29,942 | \$ 738 | \$ 3,208 | \$ 39,864 |
| 16,426 | 103,888 | 3,591 | 20,654 | 198,819 |
| 1,955 | 40,159 | 704 | 3,602 | 53,846 |
| 183 | 16,489 | 38 | 196 | 17,525 |
| 515 | 21,741 | 184 | 1,160 | 23,600 |
| 19 | 2,707 | 5 | 101 | 3,171 |
| 4,251 | 7,880 | 2,696 | 6,434 | 21,972 |
| <u>24,409</u> | <u>222,806</u> | <u>7,956</u> | <u>35,355</u> | <u>358,797</u> |
| 4,390 | 8,620 | 2,748 | 6,785 | 59,299 |
| 4,949 | 18,000 | 2,930 | 5,779 | 142,731 |
| 40 | 110 | 13 | 30 | 595 |
| | | | | 31,510 |
| | | | | 56,905 |
| (4,251) | (7,880) | (2,696) | (6,434) | (21,972) |
| <u>5,128</u> | <u>18,850</u> | <u>2,995</u> | <u>6,160</u> | <u>269,068</u> |
| 70,545 | 259,209 | 29,054 | 169,698 | 717,386 |
| 112 | 2,488 | 36 | 159 | 18,620 |
| (30,848) | (76,112) | (12,766) | (42,500) | (276,202) |
| 39,809 | 185,585 | 16,324 | 127,357 | 459,804 |
| | 13,330 | | | 13,330 |
| | | | | 30 |
| <u>39,809</u> | <u>198,915</u> | <u>16,324</u> | <u>127,357</u> | <u>473,164</u> |
| 13,598 | 5,371 | 9,570 | 15,067 | 96,992 |
| 805 | 2,714 | 442 | 4,047 | 9,811 |
| <u>14,403</u> | <u>8,085</u> | <u>10,012</u> | <u>19,114</u> | <u>106,803</u> |
| <u>59,340</u> | <u>225,850</u> | <u>29,331</u> | <u>152,631</u> | <u>849,035</u> |
| \$ 83,749 | \$ 448,656 | \$ 37,287 | \$ 187,986 | \$ 1,207,832 |
| \$ 1,424 | \$ 51,330 | \$ 1,088 | \$ 2,308 | \$ 175 |
| | | | | 59,518 |
| <u>1,424</u> | <u>51,330</u> | <u>1,088</u> | <u>2,308</u> | <u>954</u> |
| | | | | 60,647 |
| 2,905 | 4,780 | 1,995 | 4,165 | 13,845 |
| 1,346 | 3,100 | 701 | 2,269 | 8,127 |
| 4,251 | 7,880 | 2,696 | 6,434 | 21,972 |
| <u>5,675</u> | <u>59,210</u> | <u>3,784</u> | <u>8,742</u> | <u>82,619</u> |
| | | | | 160,570 |
| | | | | 55,561 |
| | | | | <u>216,131</u> |
| 69,622 | 220,002 | 30,477 | 175,600 | 711,476 |
| 1,524 | 6,918 | 545 | 2,389 | 11,376 |
| 6,928 | 43,836 | 2,481 | 1,255 | 56,730 |
| | 88,690 | | | 88,690 |
| | 30,000 | | | 30,000 |
| | | | | 899 |
| <u>78,074</u> | <u>389,446</u> | <u>33,503</u> | <u>179,244</u> | <u>899,171</u> |
| \$ 83,749 | \$ 448,656 | \$ 37,287 | \$ 187,986 | \$ 1,197,921 |
| \$ (41,170) | \$ (76,621) | \$ (19,174) | \$ (56,052) | \$ (320,438) |
| 8,033 | 23,630 | 4,990 | 10,325 | 65,883 |
| 33,137 | 52,991 | 14,184 | 45,727 | 264,466 |
| <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| | | | | 9,911 |

The accompanying notes are an integral part of these financial statements

FLORIDA MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005
(thousands omitted)

| | Business-Type Activities- | | |
|---------------------------------------------------------|---------------------------|---------------------|----------------------|
| | Agency | Pooled Loan Fund | St. Lucie Project |
| Operating Revenue: | | | |
| Billings to participants | \$ | \$ 2,658 | \$ 35,726 |
| Amounts to be recovered from(refunded to) participants | | 6 | 2,312 |
| Sales to others | | | 2,814 |
| Total Operating Revenue | | 2,664 | 40,852 |
| Operating Expenses: | | | |
| Operation and maintenance | | | 11,490 |
| Fuel expense | | | |
| Nuclear fuel amortization | | | 2,502 |
| Spent fuel fees | | | 488 |
| Purchased power | | | 2,370 |
| Transmission services | | | 371 |
| General and administrative | 7,384 | | 3,029 |
| Interest expense | | 2,629 | |
| Depreciation | 373 | | 6,370 |
| Decommissioning | | | 4,577 |
| Capitalized development projects and allocated costs | (8,141) | | |
| Total Operating Expense | (384) | 2,629 | 31,197 |
| Total Operating Income (Loss) | \$ 384 | \$ 35 | \$ 9,655 |
| Non-Operating Income (Expense): | | | |
| Interest expense | (67) | | (8,393) |
| Amortization of debt related costs | (11) | | (3,175) |
| Investment income | 92 | (35) | 5,138 |
| Development fund fee | 922 | | |
| Total Non-operating Income (Expenses) | \$ 936 | \$ (35) | \$ (6,430) |
| | | | |
| Change in net assets before regulatory asset adjustment | 1,320 | | 3,225 |
| Regulatory asset adjustment | | | (3,225) |
| Change in net assets after regulatory asset adjustment | 1,320 | | |
| | | | |
| Net assets at beginning of year | 8,591 | | |
| Net assets at end of year | \$ 9,911 | \$ - | \$ - |

The accompanying notes are an integral part of these financial statements

FLORIDA MUNICIPAL POWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2005
(thousands omitted)

| -Proprietary Funds | | | | |
|----------------------------|-------------------------------------|-----------------------------|-------------------------------|--------------------|
| Stanton Project | All-Requirements Project | Tri-City Project | Stanton II Project | Totals |
| \$ 20,906 | \$ 446,433 | \$ 7,959 | \$ 35,296 | \$ 548,978 |
| (155) | 28,361 | (573) | 565 | 30,516 |
| 441 | 33,851 | 158 | 691 | 37,955 |
| <u>21,192</u> | <u>508,645</u> | <u>7,544</u> | <u>36,552</u> | <u>617,449</u> |
| 4,035 | 38,075 | 1,445 | 4,320 | 59,365 |
| 8,725 | 178,227 | 3,119 | 15,184 | 205,255 |
| | | | | 2,502 |
| | | | | 488 |
| | 243,497 | | | 245,867 |
| 711 | 20,832 | 290 | 1,062 | 23,266 |
| 629 | 11,011 | 244 | 945 | 23,242 |
| | | | | 2,629 |
| 1,900 | 9,360 | 769 | 4,344 | 23,116 |
| | | | | 4,577 |
| | | | | (8,141) |
| <u>16,000</u> | <u>501,002</u> | <u>5,867</u> | <u>25,855</u> | <u>582,166</u> |
| <u>\$ 5,192</u> | <u>\$ 7,643</u> | <u>\$ 1,677</u> | <u>\$ 10,697</u> | <u>\$ 35,283</u> |
| (3,284) | (9,384) | (1,491) | (7,649) | (30,268) |
| (471) | (793) | (638) | (1,454) | (6,542) |
| 416 | 2,322 | 123 | 752 | 8,808 |
| | | | | 922 |
| <u>\$ (3,339)</u> | <u>\$ (7,855)</u> | <u>\$ (2,006)</u> | <u>\$ (8,351)</u> | <u>\$ (27,080)</u> |
| 1,853 | (212) | (329) | 2,346 | 8,203 |
| <u>(1,853)</u> | <u>212</u> | <u>329</u> | <u>(2,346)</u> | <u>(6,883)</u> |
| | | | | 1,320 |
| | | | | 8,591 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,911</u> |

The accompanying notes are an integral part of these financial statements

FLORIDA MUNICIPAL POWER AGENCY

STATEMENTS OF CASH FLOWS PROPRIETARY FUNDS YEAR ENDED SEPTEMBER 30, 2005 (thousands omitted)

| | Business-Type Activities- | | |
|---------------------------------------------------------------------------------|---------------------------|-------------------------|------------------------|
| | Agency | Pooled Loan Fund | St Lucie Project |
| Cash Flows from Operating Activities: | | | |
| Cash Received From (Paid To) Customers | \$ 7,478 | \$ 1,098 | \$ 38,410 |
| Cash Paid to Suppliers | (6,539) | (2,706) | (18,287) |
| Cash Paid To/(Received From) Participants | | | (452) |
| Net Cash Provided by (Used In) Operating Activities | <u>\$ 939</u> | <u>\$ (1,608)</u> | <u>\$ 19,671</u> |
| Cash Flows from Investing Activities: | | | |
| Proceeds from Sales and Maturities of Investments | \$ 1,444 | \$ 25,058 | \$ 269,072 |
| Crystal River 3 Decommissioning Deposits & Related Interest Earnings | 19,176 | | |
| Purchases of Investments | (18,467) | (62,904) | (283,459) |
| Other Receivables & Net cost Recoverable | (3,214) | | |
| Income Received on Investments | 92 | (37) | 5,102 |
| Net Cash Provided (Used In) Investing Activities | <u>\$ (969)</u> | <u>\$ (37,883)</u> | <u>\$ (9,285)</u> |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Proceeds from Issuance of Bonds | \$ | \$ 78,375 | \$ |
| Payments of Bond Principal and Issuance Costs | 1 | (217) | |
| Capital Expenditures for Utility Plant | (177) | | (7,306) |
| Principal Payments on Long-Term Debt | (180) | (12,641) | |
| Interest Paid on Debt | (92) | 507 | (8,394) |
| Cash Received for Development Fund | 921 | | |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | <u>\$ 473</u> | <u>\$ 66,024</u> | <u>\$ (15,700)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>\$ 443</u> | <u>\$ 26,533</u> | <u>\$ (5,314)</u> |
| Cash and Cash Equivalents, Beginning of Year | <u>\$ 1,888</u> | <u>\$ 8,403</u> | <u>\$ 9,719</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 2,331</u></u> | <u><u>\$ 34,936</u></u> | <u><u>\$ 4,405</u></u> |
| Consisting of: | | | |
| UnRestricted | 1,622 | | 3,294 |
| Restricted | 709 | 34,936 | 1,111 |
| | <u>\$ 2,331</u> | <u>\$ 34,936</u> | <u>\$ 4,405</u> |
| Reconciliation of Operating Income to Net Cash Provided By (Used In) | | | |
| Operating Activities: | | | |
| Operating Income | \$ 384 | \$ 35 | \$ 9,655 |
| Adjustments to Reconcile Net Operating Income to Net Cash Provided By (Used In) | | | |
| Operating Activities: | | | |
| Depreciation and Decommissioning | 373 | | 10,947 |
| Amortization of Nuclear Fuel | | | 2,502 |
| Changes In Assets and Liabilities Which Provided (Used) Cash: | | | |
| Inventory | | | (189) |
| Receivable From/(Payable To) Participants | (540) | (72,811) | (2,378) |
| Prepays | (90) | | (44) |
| Accounts Payable and Accrued Expenses | (232) | (77) | (306) |
| Amounts To Be Refunded | 173 | | (387) |
| Loans To Participants | 886 | | |
| Other Receivables | (15) | 71,245 | (129) |
| Net Cash Provided By (Used In) Operating Activities | <u>\$ 939</u> | <u>\$ (1,608)</u> | <u>\$ 19,671</u> |

The accompanying notes are an integral part of these financial statements

FLORIDA MUNICIPAL POWER AGENCY

STATEMENTS OF CASH FLOWS PROPRIETARY FUNDS YEAR ENDED SEPTEMBER 30, 2005 (thousands omitted)

-Proprietary Funds

| Stanton Project | All Requirements Project | Tri-City Project | Stanton II Project | Total |
|--------------------|-----------------------------|---------------------|-----------------------|--------------------|
| \$ 21,366 | \$ 396,940 | \$ 8,124 | \$ 36,146 | \$ 509,562 |
| (14,052) | (388,641) | (4,650) | (19,331) | (454,206) |
| (419) | 4,457 | (446) | (6,722) | (3,582) |
| <u>\$ 6,895</u> | <u>\$ 12,756</u> | <u>\$ 3,028</u> | <u>\$ 10,093</u> | <u>\$ 51,774</u> |
| \$ 13,838 | \$ 273,618 | \$ 5,091 | \$ 23,977 | \$ 612,098 |
| (14,414) | (326,607) | (4,270) | (19,272) | (729,393) |
| 648 | 2,546 | 230 | 1,057 | 9,638 |
| <u>\$ 72</u> | <u>\$ (50,443)</u> | <u>\$ 1,051</u> | <u>\$ 5,762</u> | <u>\$ (91,695)</u> |
| \$ | \$ 80,865 | \$ | \$ | \$ 159,240 |
| (2,790) | (5,691) | (1,950) | (5,900) | (16,547) |
| (1,221) | (22,491) | (435) | (2,772) | (34,402) |
| (844) | (4,899) | (299) | (199) | (19,062) |
| (3,372) | (9,612) | (1,524) | (7,808) | (30,295) |
| <u>\$ (8,227)</u> | <u>\$ 38,172</u> | <u>\$ (4,208)</u> | <u>\$ (16,679)</u> | <u>\$ 921</u> |
| <u>\$ (1,260)</u> | <u>\$ 485</u> | <u>\$ (129)</u> | <u>\$ (824)</u> | <u>\$ 59,855</u> |
| <u>\$ 6,710</u> | <u>\$ 38,077</u> | <u>\$ 3,615</u> | <u>\$ 10,817</u> | <u>\$ 79,229</u> |
| <u>\$ 5,450</u> | <u>\$ 38,562</u> | <u>\$ 3,486</u> | <u>\$ 9,993</u> | <u>\$ 99,163</u> |
| 1,060 | 29,942 | 738 | 3,208 | 39,864 |
| 4,390 | 8,620 | 2,748 | 6,785 | 59,299 |
| <u>\$ 5,450</u> | <u>\$ 38,562</u> | <u>\$ 3,486</u> | <u>\$ 9,993</u> | <u>\$ 99,163</u> |
| \$ 5,192 | \$ 7,643 | \$ 1,677 | \$ 10,697 | \$ 35,283 |
| 1,900 | 9,360 | 769 | 4,344 | 27,693 |
| (175) | (2,543) | (63) | 158 | (2,812) |
| (419) | (2,732) | 3 | 722 | (78,155) |
| (19) | 82 | (4) | (101) | (176) |
| 242 | 36,172 | 515 | 2,122 | 38,436 |
| 155 | (23,057) | 124 | (8,009) | (31,001) |
| 19 | (12,169) | 7 | 160 | 886 |
| <u>\$ 6,895</u> | <u>\$ 12,756</u> | <u>\$ 3,028</u> | <u>\$ 10,093</u> | <u>\$ 51,774</u> |

The accompanying notes are an integral part of these financial statements

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NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

I. Summary of Significant Accounting Policies

A. Reporting Entity

Florida Municipal Power Agency (FMPA or Agency) was created on February 24, 1978, pursuant to the terms of an Interlocal Agreement signed by the governing bodies of 25 Florida municipal corporations or utility commissions chartered by the State of Florida.

The Florida Interlocal Cooperation Act of 1969 authorizes local government units to enter together into mutually advantageous agreements which create separate legal entities for certain specified purposes. FMPA, as one such entity, was authorized under the Joint Power Act to finance, acquire, construct, manage, operate or own electric power projects or to accomplish these same purposes jointly with other public or private utilities. An amendment to the Act in 1985 and an amendment to the Interlocal Agreement in 1986 authorized FMPA to implement a pooled financing or borrowing program for electric, water, wastewater, waste refuse disposal or gas projects for FMPA and its members.

FMPA established itself as a project-oriented agency.

This structure allows each member the option of whether to participate in a project, to participate in more than one project, or not to participate in any project. Each of the projects are independent from the other and the project bond resolutions specify that no revenues or funds from one project can be used to pay the costs of any other project. As of September 30, 2005, FMPA has 29 members.

B. Basis of Accounting

The Agency Fund, Pooled Loan Fund and each of the projects are maintained using the Uniform System of Accounts of the Federal Energy Regulatory Commission and with Generally Accepted Accounting Principles of the United States (GAAP) using the accrual basis of accounting. Application of the Statement of Financial Accounting Standards No. 71, *Accounting for the Effect of Certain Types of Regulation*, is also included in these financial statements. This standard relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process.

The Agency's General Bond Resolution requires that its rate structure be designed to produce revenues sufficient to pay operating, debt service and other specified costs. The Agency's Board of Directors, which is comprised of one representative from each member city, is responsible for reviewing and approving the rate structure. The application of a given rate structure to a given period's electricity sales may produce revenues not intended to pay that period's costs and conversely, that period's costs may not be intended to be recovered in that period's revenues. The affected revenues and/or costs are, in such cases, deferred for future recognition. The recognition of deferred items is correlated with specific future events, primarily payment of debt principal.

In accordance with Governmental Accounting Standards No. 20, FMPA has elected not to follow Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its operations. FMPA has adopted the provisions of Governmental Accounting Standards Board (GASB) GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which is an amendment of GASB Statement No. 3.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

I. Summary of Significant Accounting Policies (continued)

B. Basis of Accounting (continued)

FMPA considers electric revenues and costs that are directly related to generation, purchases, transmission and distribution of electricity to be operating revenues and expenses. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, following GAAP.

1. Fund Accounting

FMPA maintains its accounts on a fund/project basis, in compliance with appropriate bond resolutions, and operates its various projects in a manner similar to private business. Operations of each project are accounted for as a proprietary fund and as such, inter-project transactions, revenues and expenses are not eliminated.

The Agency operates the following major funds:

- the Agency Fund, which accounts for general operations beneficial to all members and projects;
- the Pooled Loan Fund, which accounts for operations of pooled financing of loans to other FMPA projects and members for utility-related projects;
- the St. Lucie Project, which accounts for ownership interest in the St. Lucie Unit 2 nuclear generating facility;
- the Stanton Project and the Tri-City Project, which account for respective ownership interests in the Stanton Energy Center (SEC) Unit 1, a coal-fired generation facility;
- the All-Requirements Project, which accounts for ownership interest in SEC Unit 1, SEC Unit 2, Stanton Unit A, Indian River Combustion Turbine Units A, B, C and D, Cane Island Units 1, 2 and 3, and FMPA's Key West Combustion Turbine Units 2 and 3. Also included in All-Requirements Project is the purchase of power for resale to the participants as well as the purchase of equipment necessary for dispatching requirements; and
- the Stanton II Project, which accounts for ownership interest in SEC Unit 2.

Certain accounts within these funds are grouped and classified in the manner established by respective bond resolutions and/or debt instruments.

All funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary or business fund's principal ongoing operations. The principal operating revenues of FMPA's proprietary or business funds are charges to participants for sales and services. Operating expenses for proprietary or business funds include the cost of sales and services, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is FMPA's policy to use restricted funds for their intended purposes only, based on the bond resolutions. Unrestricted resources are used as they are needed in a hierarchal manner from the General Reserve accounts to the Operations and Maintenance accounts.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

I. Summary of Significant Accounting Policies (continued)

B. Basis of Accounting (continued)

2. Capital Assets

Certain direct and indirect expenses allocable to FMPA's undivided ownership in the St. Lucie Project, the Stanton Project, the All-Requirements Project, the Tri-City Project and the Stanton II Project are capitalized as part of the cost of acquiring or constructing the respective utility plant. Direct and indirect expenses not associated with these projects are capitalized as part of the cost of Development Projects in Progress in the Agency Fund. Electric Plant in Service is depreciated using the straight-line and declining balance methods and is amortized over the assets' respective estimated useful lives. Estimated useful lives for electric plant assets range from 23 years to 40 years.

FMPA has adopted the policy of capitalizing net interest costs during the period of project construction (interest expense less interest earned on the investment of bond proceeds). Capitalized net interest cost on borrowed funds include amortization of bond discount and bond premium, interest expense and interest income. The cost of major replacements of assets in excess of \$1,500 is capitalized to the utility plant accounts. The cost of maintenance, repairs and replacements of minor items are expensed as incurred.

3. Inventory

Coal and oil inventory is stated at weighted average cost for the All-Requirement Project's SEC Units 1 and 2 and Cane Island Units 1, 2 and 3. Parts inventory at Cane Island Units 1, 2 and 3 is also stated at weighted average cost. Nuclear fuel is carried at cost and is amortized on the units of production basis.

4. Cash Equivalents

FMPA considers the following highly liquid investments (including restricted assets) to be cash equivalents:

- time deposits (not including certificates of deposits)
- money market funds
- flexible repurchase agreements

5. Investments

Florida Statutes authorize FMPA to invest in the Local Government Surplus Funds Trust Fund, obligations of the U.S. Government Agencies and Instrumentalities, Money Market Funds, U.S. Government and Agency Securities, Certificates of Deposit, commercial paper and repurchase agreements fully collateralized by U.S. Government obligations. In addition to the above, FMPA's policy also authorizes the investment in bonds, bankers acceptances, prime commercial paper and repurchase agreements, guaranteed investment contracts and other investments approved by the rating agencies.

Investments are stated at fair value based on quoted market prices. Investment income includes changes in the fair value of these investments. Interest on investments is accrued at the balance sheet date. All of FMPA's project and fund investments can be sold

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

I. Summary of Significant Accounting Policies (continued)

B. Basis of Accounting (continued)

5. Investments (continued)

at any point due to cash flow needs, changes in market trends or risk management strategies.

6. Debt Related Costs

Unamortized debt issuance costs are amortized on the bonds outstanding method, which approximates the effective interest method. This method is used for the St. Lucie Project, the Stanton Project, the All-Requirements Project, the Tri-City Project and the Stanton II Project. Debt related costs relative to loans from the Pooled Loan Fund are amortized using the straight-line method over the life of the loans. Accounting for gains and losses on the refunding of bonds are deferred and amortized over the life of the refunding bonds or the life of the refunded bonds, whichever is shorter, using the straight-line method.

7. Compensated Absences

Liabilities related to Compensated Absences are recognized as incurred in accordance with GASB Statement No. 16 and are included in accrued expenses. Regular, full-time employees in good standing, upon resignation or retirement, are eligible for vacation and sick/personal pay. At September 30, 2005, the liability for unused vacation was \$276,092 and \$181,106 for unused sick/personal leave.

8. Allocation of Agency Fund Expenses

General and administrative operating expenses of the Agency Fund are allocated based on direct labor hours to each of the projects (except Pooled Loan). General and administrative operating expenses of the Agency Fund related to the Pooled Loan Fund are recovered through a fixed fee from participants of the Pooled Loan Fund.

9. Billing to Participants

Participant billings are designed to systematically provide revenue sufficient to recover costs. Rates and budgets can be amended by the Board of Directors or the Executive Committee at any time.

Should the All-Requirements General Reserve Fund have a balance equivalent to one half of the required sixty day Operating and Maintenance Fund Balance, and notwithstanding any notice requirements in Section 6 (c) of the All-Requirements Power Supply Contract, at any month end, FMPA's General Manager has been given authority to approve one energy rate increase or decrease to the All-Requirements Project's energy rate not to exceed 8%. Any such rate change approved by the General Manager shall become effective with the next billing month, provided the revised rate schedule is submitted by the General Manager for ratification and adoption at the next regularly scheduled All-Requirements Participant meeting.

Amounts due from participants are deemed to be entirely collectible and as such, no allowance for uncollectible accounts has been recorded.

For the St. Lucie Project, the Stanton Project, the All-Requirements Project, the Tri-City Project and the Stanton II Project, variances in current fiscal year billings and actual project costs are computed and under the terms of the project contract, net excesses or deficiencies are credited or charged to future participant billings or may be paid from the General Reserve Fund, as approved by the Executive Committee.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

I. Summary of Significant Accounting Policies (continued)

B. Basis of Accounting (continued)

9. Billing to Participants (continued)

Billings to Pooled Loan Fund participants are designed to provide cash flows that are sufficient to pay principal and interest on outstanding debt and recover the cost of operating the Pooled Loan Fund.

10. Income Taxes

FMPA is exempt from federal and state income taxes.

11. Use of Estimates

The management of FMPA has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with GAAP. Examples of major areas where estimates are used include the estimate for useful lives of property, plant and equipment and the estimate for the nuclear decommissioning liability. Actual results could differ from those estimates.

12. Derivative Financial Investments

FMPA uses commodity futures contracts, commodity price swap contracts and commodity options on forward contracts to hedge the effects of fluctuations in the price of natural gas purchases as well as the use of interest rate swap contracts to hedge the fluctuations in the interest rate of variable-rate debt. The contracts require the Agency to pay a fixed interest rate and receive a variable interest rate, based upon the London Interbank Offered Rate (LIBOR) and the Bond Market Association (BMA) indices. These transactions meet the requirements for hedge accounting, including high correlation. Related gains or losses on the commodity price swap contracts are recorded as either a reduction of or an addition to fuel costs. The cash received or paid on the interest rate swap contracts are recorded as a reduction of or an addition to interest expense.

II. Loans Receivable

All loans receivable are of the Pooled Loan Fund. They are comprised of \$56,905,000 for FMPA-related undertakings and \$31,510,000 for loans receivable from member cities, net of Undistributed Proceeds of \$69,517,000. Amounts for the FMPA-related undertakings are recoverable from each project and are identified in Note IX, Long-Term Debt, by project.

III. Nuclear Decommissioning Liability

1. St. Lucie Project

The U.S. Nuclear Regulatory Commission (NRC) requires that each licensee of a commercial nuclear power reactor furnish to the NRC a certification of its financial capability to meet the costs of nuclear decommissioning at the end of the useful life of the licensee's facility. As a co-licensee of St. Lucie Unit 2, FMPA's St. Lucie Project is subject to these requirements and therefore has complied with the NRC regulations.

To comply with the NRC's financial capability regulations, FMPA established an external trust fund (Decommissioning Trust) pursuant to a trust agreement with Wachovia Bank. This agreement requires that the St. Lucie Project make annual deposits to the Decommissioning Trust which, together with investment earnings and amounts previously on deposit in the Trust, are anticipated to result in sufficient funds in the

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

III. Nuclear Decommissioning Liability (continued)

1. St. Lucie Project (continued)

Decommissioning Trust at the expiration of the current operating license to meet the project's share of the decommissioning costs. This is reflected in the St. Lucie Project's Balance Sheet as Restricted Cash and Investments (\$37.4 million) and Accrued Decommissioning Expense (\$36.4 million), for the sole purpose of paying the St. Lucie nuclear decommissioning costs. Based on a 1998 site-specific study approved by the Florida Public Service Commission in 2002, Unit 2's decommissioning costs are estimated to be \$1.938 billion (in 2000 dollars). FMPA's share is estimated to be \$170 million (in 2000 dollars). The Decommissioning Trust is irrevocable and funds may be withdrawn from the Trust solely for the purpose of paying the St. Lucie Project's share of costs for nuclear decommissioning.

Also, under NRC regulations, the Trust is required to be segregated from other FMPA assets and outside FMPA's administrative control. FMPA has complied with these regulations.

2. Crystal River Unit 3

As a service to six of the minority owners of the Crystal River Unit 3 (CR3) Power Plant, FMPA acts as Trustee for the CR3's decommissioning liability. FMPA invests the monies collected from the participants in a Decommissioning Trust. This is reflected in the Agency Fund Balance Sheet as Restricted Cash and Investments and Accrued Decommissioning Expense, for the sole purpose of paying the CR3's nuclear decommissioning costs. There is approximately \$19.2 million in the accounts at September 30, 2005.

IV. Capital Assets

A description and summary as of September 30, 2005, of Capital Assets by fund and project, is as follows:

1. Agency Fund

The Agency Fund contains the general plant assets of the Agency that are not associated with specific projects. Depreciation of general plant assets is computed by using the straight-line method over the expected useful life of the asset. Expected lives of the different types of general assets are:

| | |
|-----------------------------|----------|
| • Structures & Improvements | 25 years |
| • Furniture & Fixtures | 8 years |
| • Office Equipment | 5 years |
| • Automobiles and Computers | 3 years |

New capital undertakings are accounted for in the Development Projects in Progress account. Depending on whether these undertakings become a project, costs are either capitalized or expensed. The column labeled Increases reflects new capital undertakings and the column labeled Decreases reflects the expensing or retirements of those costs.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IV. Capital Assets (continued)

1. Agency Fund (continued)

The activity for the Agency's general plant assets for the year ended September 30, 2005 was as follows:

| | <i>September 30, 2005</i> | | | <i>Ending Balance</i> |
|-------------------------------------|------------------------------|------------------|------------------|---------------------------|
| | <i>Beginning Balance</i> | <i>Increases</i> | <i>Decreases</i> | |
| | (thousands omitted) | | | |
| General Plant | \$ 5,673 | \$ 360 | \$(71) | \$ 5,962 |
| Construction Work in Progress | 70 | | (70) | 0 |
| Development Projects in Progress | <u>72</u> | <u>35</u> | <u>(77)</u> | <u>30</u> |
| General Plant in Service | \$ 5,815 | \$ 395 | \$(218) | \$ 5,992 |
| Less Accumulated Depreciation | <u>(1,310)</u> | <u>(359)</u> | | <u>(1,669)</u> |
| General Plant in Service, Net | <u>\$ 4,505</u> | <u>\$ 36</u> | <u>\$(218)</u> | <u>\$ 4,323</u> |

2. St. Lucie Project

The St. Lucie Project consists of an 8.806% undivided ownership interest in St. Lucie Unit 2, a nuclear power plant primarily owned and operated by Florida Power & Light (FPL).

Depreciation is computed using the straight-line and declining balance methods over the expected useful life of the asset, which is computed to be 34.6 years. Nuclear fuel is amortized over 18 months. Land is included in the electric plant component on a non-depreciable cost basis.

St. Lucie plant asset activity for the year ended September 30, 2005 was as follows:

| | <i>September 30, 2005</i> | | | <i>Ending Balance</i> |
|-------------------------------------|------------------------------|------------------|-------------------|---------------------------|
| | <i>Beginning Balance</i> | <i>Increases</i> | <i>Decreases</i> | |
| | (thousands omitted) | | | |
| Electric Plant | \$ 182,272 | \$ 6,720 | \$(112) | \$188,880 |
| General Plant | 14 | 1,194 | | 1,208 |
| Nuclear Fuel | 8,367 | 4,298 | (4,010) | 8,655 |
| Development Projects in Progress | <u>497</u> | <u>700</u> | <u>(1,197)</u> | <u>0</u> |
| Electric Utility Plant in Service | \$ 191,150 | \$ 12,912 | \$(5,319) | \$198,743 |
| Less Accumulated Depreciation | <u>(103,435)</u> | <u>(8,872)</u> | | <u>(112,307)</u> |
| Utility Plant In Service, Net | <u>\$ 87,715</u> | <u>\$ 4,040</u> | <u>\$(5,319)</u> | <u>\$ 86,436</u> |

3. Stanton Project

The Stanton Project consists of 14.8193% undivided ownership in Stanton Energy Center Unit 1, a coal-fired power plant. Asset retirements and additions for the plant are decided by Orlando Utilities Commission (OUC), the primary owner and operator of the plant.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IV. Capital Assets (continued)

3. Stanton Project (continued)

Depreciation of plant assets is computed using the straight-line and declining balance methods over the expected useful life of the different plant assets. Expected useful lives of the assets are:

- Electric Plant 40 years
- Computer Equipment 9 years
- Land is included in the electric plant component on a non-depreciable cost basis

Stanton Unit 1 plant asset activity for the year ended September 30, 2005, was as follows:

| | <i>Beginning Balance</i> | <i>September 30, 2005</i> | | <i>Ending Balance</i> |
|-------------------------------|------------------------------|---------------------------|------------------|---------------------------|
| | | <i>Increases</i> | <i>Decreases</i> | |
| | | (thousands omitted) | | |
| Electric Plant | \$ 69,371 | \$ 1,539 | \$(365) | \$ 70,545 |
| General Plant | <u>65</u> | <u>47</u> | | <u>112</u> |
| Utility Plant in Service | \$ 69,436 | \$ 1,586 | \$(365) | \$ 70,657 |
| Less Accumulated Depreciation | <u>(28,946)</u> | <u>(1,902)</u> | | <u>(30,848)</u> |
| Utility Plant In Service, Net | <u>\$ 40,490</u> | <u>\$(316)</u> | <u>\$(365)</u> | <u>\$ 39,809</u> |

4. All-Requirements Project

The All-Requirements Project's current utility plant assets consist of varying ownership interests in Stanton Energy Center Units 1 and 2; Cane Island Units 1, 2 and 3; Indian River Combustion Turbines A, B, C and D; Key West Units 2 and 3 and Stanton A.

Retirements and additions for the All-Requirements Project are decided by the primary owners of the plants. Land is included in the electric plant component on a non-depreciable cost basis.

Depreciation of plant assets is computed using the straight-line and declining balance methods over the expected useful life of the asset. Expected lives of the different plant assets are as follows:

- Stanton Energy Center Units 1 and 2 40 years
- Stanton Energy Center Unit A 35 years
- Cane Island Units 2 and 3 30 years
- Cane Island Unit 1 25 years
- Key West Units 2 and 3 25 years
- Indian River Units A, B, C and D 23 years
- Computer Equipment 9 years

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IV. Capital Assets (continued)

4. All-Requirements Project (continued)

All-Requirements plant asset activity for the year ended September 30, 2005 was as follows:

| | <i>Beginning Balance</i> | <i>September 30, 2005</i> | | <i>Ending Balance</i> |
|-------------------------------------|------------------------------|---------------------------|------------------|---------------------------|
| | | <i>Increases</i> | <i>Decreases</i> | |
| | | (thousands omitted) | | |
| Electric Plant | \$249,462 | \$20,648 | \$ (10,901) | \$259,209 |
| General Plant | 2,265 | 223 | | 2,488 |
| Construction Work in Progress | 698 | 16,667 | (4,035) | 13,330 |
| Development Projects in Progress | 115 | 864 | (979) | 0 |
| Utility Plant in Service | \$252,540 | \$38,402 | \$ (15,915) | \$275,027 |
| Less Accumulated Depreciation | (66,752) | (9,360) | | (76,112) |
| Utility Plant in Service, Net | \$185,788 | \$29,042 | \$ (15,915) | \$198,915 |

5. Tri-City Project

The Tri-City Project consists of an undivided 5.3012% ownership interest in Stanton Unit 1, a coal-fired power plant. Retirements and additions for Stanton Unit 1 are determined by OUC, the primary owner and operator.

Depreciation of plant assets is computed using the straight-line and declining balance methods over the expected useful life of the different assets. Expected useful lives of the assets are:

- Electric Plant 40 years
- Computer Equipment 9 years
- Land is included in the electric plant component on a non-depreciable cost basis

Tri-City Project plant asset activity for the year ended September 30, 2005 was as follows:

| | <i>Beginning Balance</i> | <i>September 30, 2005</i> | | <i>Ending Balance</i> |
|-------------------------------|------------------------------|---------------------------|------------------|---------------------------|
| | | <i>Increases</i> | <i>Decreases</i> | |
| | | (thousands omitted) | | |
| Electric Plant | \$ 28,635 | \$ 548 | \$ (129) | \$ 29,054 |
| General Plant | 20 | 16 | | 36 |
| Utility Plant in Service | \$ 28,655 | \$ 564 | \$ (129) | \$ 29,090 |
| Less Accumulated Depreciation | (11,997) | (769) | | (12,766) |
| Utility Plant in Service, Net | \$ 16,658 | \$ (205) | \$ (129) | \$ 16,324 |

6. Stanton II Project

The Stanton II Project consists of an undivided 23.2367% ownership interest in Stanton Unit 2, a coal-fired power plant. Retirements and additions for Stanton Unit 2 are determined by OUC, the primary owner and operator.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IV. Capital Assets (continued)

6. Stanton II Project (continued)

Depreciation of plant assets is computed using the straight-line and declining balance methods over the expected useful life of the different assets. Expected useful lives of the assets are:

- Electric Plant 40 years
- Computer Equipment 9 years
- Land is included in the electric plant component on a non-depreciable cost basis

Stanton Unit 2 plant asset activity for the year ended September 30, 2005 was as follows:

| | <i>Beginning Balance</i> | <i>September 30, 2005</i> | | <i>Ending Balance</i> |
|-------------------------------|------------------------------|---------------------------|------------------|---------------------------|
| | | <i>Increases</i> | <i>Decreases</i> | |
| | | (thousands omitted) | | |
| Electric Plant | \$ 167,000 | \$ 3,736 | \$(1,038) | \$ 169,698 |
| General Plant | 86 | 73 | | 159 |
| Utility Plant in Service | \$ 167,086 | \$ 3,809 | \$(1,038) | \$ 169,857 |
| Less Accumulated Depreciation | (38,156) | (4,344) | | (42,500) |
| Utility Plant in Service, Net | <u>\$ 128,930</u> | <u>\$(535)</u> | <u>\$(1,038)</u> | <u>\$ 127,357</u> |

V. Cash, Cash Equivalents and Investments

FMPA assumes that its callable investments will be called for yield calculation purposes. Cash, cash equivalents and investments are discussed separately below.

A. Cash and Cash Equivalents

At September 30, 2005, FMPA's Cash and Cash Equivalents consisted of demand accounts, Florida State Board of Administration (SBA) money market accounts and flexible repurchase agreements, which are authorized under FMPA ordinances and various bond resolutions. Cash and cash equivalents are held at three financial institutions, the State Board of Administration and with one commodity dealer. All of FMPA's demand deposits at September 30, 2005 were insured by Federal Depository Insurance Corporation (FDIC) or collateralized pursuant to the Public Depository Security Act of the State of Florida. Current unrestricted cash and cash equivalents are used in FMPA's funds' and projects' day-to-day operations.

B. Investments

FMPA adheres to an investment policy based on the requirements of the bond resolutions. The policy requires diversification based upon security type, issuing institutions and duration. All of the fund and project accounts have specified requirements with respect to investments selected and the length of allowable investment. Investments at September 30, 2005 were insured or registered and held by its agent in FMPA's name. Changes in the fair value of investments are reported in current period revenues and expenses. All of FMPA's fund and project investments can be sold at any point due to cash flow needs, changes in market trends or risk management strategies.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

V. Cash, Cash Equivalents and Investments (continued)

B. Investments (continued)

Foreign Currency Risk

FMPA's Investments are not exposed to foreign currency risk.

Interest-Rate Risk

FMPA's investment policy requires that funds generally be invested to match the anticipated cash flow. All fund and project accounts have a specified maximum maturity for investments and the majority of FMPA's funds are required to be invested for less than five years. All project funds and accounts are monitored using weighted average maturity analysis as well as maturity date restrictions.

Concentration of Credit Risk

Each project is separate from the others and as such, each project is evaluated individually to determine the credit and interest rate risk. FMPA's investment policy prohibits investments in commercial paper that exceed 50% of any of the projects' or the Agency's assets. For the last four years, FMPA has not invested more than 25% of any one project in commercial paper. All commercial paper must be rated in the highest rated category by a nationally recognized bond rating agency at the time of purchase. Money market funds rated in the highest rated category are allowed as well as those collateralized with specific high-quality instruments. These investments must not exceed 20% for any of FMPA's funds or projects. As of September 30, 2005, investment types held by any one issuer (investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are excluded) that represent 5% or more of the projects' investment assets are listed below:

All Requirements Project:

- | | |
|----------------------------------------------|------|
| • Autobahn Funding Commercial Paper | 6.5% |
| • Bavaria Trr. Corporation Commercial Paper | 6.5% |
| • Beethoven Funding Company Commercial Paper | 6.5% |

Pooled Loan Fund

- | | |
|---------------------|------|
| • Rhineland Funding | 6.8% |
|---------------------|------|

Custodial Credit Risk

FMPA maintains all assets other than demand deposit accounts within a trust department of a bank or with the State Board of Administration. Under Florida Statutes, Chapter 280, public deposits in a bank or savings association by a trust department company are fully secured under trust business laws. All cash and investments, other than demand deposit accounts, are held in the name of a custodian or a trustee for the Agency and its projects.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

Cash, Cash Equivalents and Investments (continued)

B. Investments (continued)

1. Agency Fund

Cash, cash equivalents and investments on deposit for the Agency at September 30, 2005 are as follows:

| | <u>September 30, 2005</u> | <u>Weighted Average Maturity (Days)</u> | <u>Credit Rating</u> |
|-------------------------------------|-------------------------------|-------------------------------------------------|----------------------|
| Restricted (Crystal River 3) | | | |
| Cash and Cash Equivalents | \$ 709 | | |
| US Gov't/Agency Securities | <u>18,391</u> | 552 | AAA & AAA/Aaa |
| Total Restricted | <u>\$ 19,100</u> | | |
| Unrestricted | | | |
| Cash and Cash Equivalents | \$ 1,622 | | |
| US Gov't/Agency Securities | <u>3,699</u> | 960 | AAA & AAA/Aaa |
| Total Unrestricted | <u>\$ 5,321</u> | | |
| Total | <u>\$ 24,421</u> | | |

2. Pooled Loan Fund

The Pooled Loan Fund is invested in accordance with the Note Resolution provisions. The Fund invests in agencies, treasuries, commercial paper, bankers' acceptances, the SBA and short-term money market investments that match the debt obligations on the commercial paper. With the exception of monies deposited into the Pooled Loan Fund's revenue account, all funds collected are for the payment of debt service on the commercial paper and expenses of the program. The commercial paper is marketed in increments over a 1 to 270-day time frame. Pooled Loan fund proceeds are invested at direction of the borrower or participant. The loan rates are set in concert with the commercial paper rates with an allowance for program expenses. All of the funds of the loan program are on deposit with the Trustee and invested as indicated above for specific borrowers and are not exposed as uncollateralized or uninsured balances.

Cash, cash equivalents and investments on deposit for the Pooled Loan Fund at September 30, 2005 are as follows:

| | (thousands omitted) <u>September 30, 2005</u> | <u>Weighted Average Maturity (Days)</u> | <u>Credit Rating</u> |
|----------------------------|------------------------------------------------------|-------------------------------------------------|----------------------|
| Restricted | | | |
| Cash and Cash Equivalents | \$ 34,936 | | |
| US Gov't/Agency Securities | 30,854 | 181 | AAA & AAA/Aaa |
| Commercial Paper | <u>7,997</u> | 19 | A1 P1 |
| Total Restricted | <u>\$ 73,787</u> | | |
| Total | <u>\$ 73,787</u> | | |

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

V. Cash, Cash Equivalents and Investments (continued)

B. Investments (continued)

3. St. Lucie Project

Cash, cash equivalents and investments for the St. Lucie Project at September 30, 2005 are as follows:

| | (thousands omitted) <u>September 30, 2005</u> | <u>Weighted Average Maturity (Days)</u> | <u>Credit Rating</u> |
|----------------------------|------------------------------------------------------|-------------------------------------------------|----------------------|
| Restricted | | | |
| Cash and Cash Equivalents | \$ 1,111 | | |
| US Gov't/Agency Securities | 28,197 | 1,102 | AAA & AAA/Aaa |
| Municipal Bonds | 4,051 | 7,631 | AAA |
| Commercial Paper | <u>21,583</u> | 3 | A1 P1 |
| Total Restricted | <u>\$ 54,942</u> | | |
| Unrestricted | | | |
| Cash and Cash Equivalents | \$ 3,294 | | |
| US Gov't/Agency Securities | 29,515 | 469 | AAA & AAA/Aaa |
| Municipal Bonds | <u>21,046</u> | 5,802 | AAA |
| Total Unrestricted | <u>\$ 53,855</u> | | |
| Total | <u>\$108,797</u> | | |

4. Stanton Project

Cash, cash equivalents and investments for the Stanton Project at September 30, 2005 are as follows:

| | (thousands omitted) <u>September 30, 2005</u> | <u>Weighted Average Maturity (Days)</u> | <u>Credit Rating</u> |
|----------------------------|------------------------------------------------------|-------------------------------------------------|----------------------|
| Restricted | | | |
| Cash and Cash Equivalents | \$ 4,390 | | |
| US Gov't/Agency Securities | <u>4,949</u> | 727 | AAA & AAA/Aaa |
| Total Restricted | <u>\$ 9,339</u> | | |
| Unrestricted | | | |
| Cash and Cash Equivalents | \$ 1,060 | | |
| US Gov't/Agency Securities | 15,434 | 826 | AAA & AAA/Aaa |
| Commercial Paper | <u>992</u> | 91 | A1 P1 |
| Total Unrestricted | <u>\$ 17,486</u> | | |
| Total | <u>\$ 26,825</u> | | |

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

V. Cash, Cash Equivalents and Investments (continued)

B. Investments (continued)

5. All-Requirements Project

Cash, cash equivalents and investments for the All-Requirements Project at September 30, 2005 are as follows:

| | (thousands omitted) <u>September 30,</u> <u>2005</u> | <u>Weighted</u> <u>Average</u> <u>Maturity (Days)</u> | <u>Credit Rating</u> |
|----------------------------|------------------------------------------------------------|-------------------------------------------------------------|----------------------|
| Restricted | | | |
| Cash and Cash Equivalents | \$ 8,620 | | |
| US Gov't/Agency Securities | <u>18,000</u> | 839 | AAA & AAA/Aaa |
| Total Restricted | <u>\$ 26,620</u> | | |
| Unrestricted | | | |
| Cash and Cash Equivalents | \$ 29,942 | | |
| US Gov't/Agency Securities | 7,526 | 157 | AAA & AAA/Aaa |
| Commercial Paper | 15,003 | 10 | A1 P1 |
| Options/Futures | <u>81,359</u> | | |
| Total Unrestricted | <u>\$133,830</u> | | |
| Total | <u>\$160,450</u> | | |

6. Tri-City Project

Cash, cash equivalents and investments for the Tri-City Project at September 30, 2005 are as follows:

| | (thousands omitted) <u>September 30,</u> <u>2005</u> | <u>Weighted</u> <u>Average</u> <u>Maturity (Days)</u> | <u>Credit Rating</u> |
|----------------------------|------------------------------------------------------------|-------------------------------------------------------------|----------------------|
| Restricted | | | |
| Cash and Cash Equivalents | \$ 2,748 | | |
| US Gov't/Agency Securities | <u>2,930</u> | 607 | AAA & AAA/Aaa |
| Total Restricted | <u>\$ 5,678</u> | | |
| Unrestricted | | | |
| Cash and Cash Equivalents | \$ 738 | | |
| US Gov't/Agency Securities | <u>3,591</u> | 537 | AAA & AAA/Aaa |
| Total Unrestricted | <u>\$ 4,329</u> | | |
| Total | <u>\$10,007</u> | | |

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

V. Cash, Cash Equivalents and Investments (continued)

B. Investments (continued)

7. Stanton II Project

Cash, cash equivalents and investments for the Stanton II Project at September 30, 2005 are as follows:

| | (thousands omitted) September 30, 2005 | Weighted Average Maturity (Days) | Credit Rating |
|----------------------------|----------------------------------------------|----------------------------------------|---------------|
| Restricted | | | |
| Cash and Cash Equivalents | \$ 6,785 | | |
| US Gov't/Agency Securities | <u>5,779</u> | 892 | AAA & AAA/Aaa |
| Total Restricted | <u>\$ 12,564</u> | | |
| Unrestricted | | | |
| Cash and Cash Equivalents | \$ 3,208 | | |
| US Gov't/Agency Securities | 19,159 | 578 | AAA & AAA/Aaa |
| Commercial Paper | <u>1,495</u> | 45 | A1 P1 |
| Total Unrestricted | <u>\$ 23,862</u> | | |
| Total | <u>\$ 36,426</u> | | |

VI. Derivative Financial Instruments

FMPA uses derivative instruments to hedge the effects of fluctuations in interest rates and the price of natural gas. Following are the types of derivatives used and the associated risks.

A. Swap Agreements

Four of FMPA's projects are party to interest rate swap agreements. The objective for entering into these agreements is to convert variable interest rates to fixed rates thus reducing interest rate exposure. The Bond Market Association Municipal Swap Index (BMA), the London Interbank Offered Rate (LIBOR) and the Consumer Price Index (CPI) are used to determine the variable rates received. Interest requirements for variable rate debt are determined using the rate in effect at the financial statement date.

Credit Risk

The swap agreements are subject to credit risk. All of the counterparties have credit ratings of at least A1/A+/AA by two or more nationally recognized credit rating organizations. The maximum loss due to credit risk as of September 30, 2005 is listed, by project, in the tables to follow. As part of the swap agreements, if the providers' credit rating drops below certain levels and a termination value indicates an amount that would be payable to the Agency, collateral (or cash in some circumstances) would need to be posted by the counterparty with a third-party custodian if the value of the termination payment exceeds certain threshold levels. Conversely, the Agency would have to post collateral for the same reason in some circumstances.

For the 2004 issue, the Agency purchased swap termination insurance and thereby is not obligated to post collateral should there be a decline in a project's credit rating. If the insurance is drawn on to pay a termination payment, the Agency would be required to reimburse the insurance company over a period of time. In all of the agreements dated

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

VI. Derivative Financial Instruments (continued)

Credit Risk (continued)

prior to 2003, the payment amounts are netted out on each payment date on a weekly basis. On the swap agreements dated in 2003, FMPA receives funds every payment date, which is every 7 or 28 days, and pays the provider twice annually. The 2004 and 2005 swap agreements provide for monthly payments.

The Agency has approved a Debt Management Policy with regard to derivatives whereby approval is required of the appropriate project participants and the Board of Directors prior to entering into swaps or other derivative products. The policy sets minimum standards for all derivative transactions. The Agency also consults with its Finance Advisory Committee and its Financial Advisor before accepting these types of agreements.

Interest Rate Risk

FMPA has entered into swap agreements to fix the interest rate on variable rate bonds for the entirety of the term of the bonds. As interest rates increase above the swap rates, the value of these swaps will increase. As rates decrease below the swap rates, the values will decrease.

Basis Risk

Basis risk exists on all of the swap agreements. The variable rate indices used on the swaps differ from the variable rates on the bonds, though historically, there has been a high correlation between these indices and the bonds. If there were a mismatch between the indices, the budget process would allow FMPA to adjust rates for this difference.

Termination Risk

Termination values are listed in the tables as of September 30, 2005. These amounts vary with changes in the market. The swaps may be terminated by the Agency if the counterparty's credit quality falls below certain levels. The Agency or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bonds would no longer carry a synthetic fixed interest rate. If, at the time of the termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value. The Agency also has an optional right to terminate with certain notice requirements for swap agreements completed in 2005.

Rollover Risk

The Agency is exposed to rollover risk on swaps that may be terminated prior to the maturity of the associated debt. If these swaps are terminated prior to the maturity of the bonds, the Agency will not realize the synthetic fixed rate offered by the swaps on the underlying debt issues.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

VI. Derivative Financial Instruments (continued)

A. Swap Agreements (continued)

1. St. Lucie Project

Swaps Currently Effective
Series 2002

(thousands omitted)

| <i>Notional Amount</i> | <i>Effective Date</i> | <i>Fixed Rate Paid</i> | <i>Variable Rate Received</i> | <i>Term Date</i> | <i>Fair Value**</i> | <i>Counterparty Credit Rating</i> |
|------------------------|-----------------------|------------------------|-------------------------------|------------------|---------------------|-----------------------------------|
| \$ 27,200 | 7/10/2002 | 3.69% | BMA Swap* | 7/1/2006 | \$(148) | Aa3/A+/AA- |
| 27,200 | 7/10/2002 | 3.69% | BMA Swap* | 7/1/2006 | (148) | Aa1/AA/AA |
| 27,200 | 7/10/2002 | 3.88% | BMA Swap* | 7/1/2007 | (310) | Aa3/A+/AA- |
| 27,200 | 7/10/2002 | 3.88% | BMA Swap* | 7/1/2007 | (310) | Aa1/AA/AA |
| 27,200 | 7/01/2005 | 4.14% | BMA Swap* | 7/1/2011 | (917) | Aa3/A+/AA- |
| <u>27,200</u> | <u>7/01/2005</u> | <u>4.14%</u> | <u>BMA Swap*</u> | <u>7/1/2011</u> | <u>(917)</u> | <u>Aa1/A+/AA</u> |
| | | | | | <u>\$(2,750)</u> | |

Swaps to Become Effective at Future Dates

| | | | | | | |
|---------------|------------------|--------------|-------------------|------------------|-------------------|-----------------|
| \$ 27,200 | 7/03/2006 | 4.24% | BMA Swap* | 7/1/2010 | \$(694) | Aa3/A+/AA- |
| 27,200 | 7/03/2006 | 4.24% | BMA Swap* | 7/1/2010 | (694) | Aa1/A+/AA |
| 73,125 | 7/03/2006 | 3.44% | 72% LIBOR* | 10/1/2021 | (378) | Aa3/A+/AA- |
| 17,150 | 7/03/2006 | 3.44% | 72% LIBOR* | 10/1/2021 | (89) | Aa3/A+/AA- |
| 27,200 | 7/02/2007 | 3.48% | 72% LIBOR* | 10/1/2021 | (123) | Aa3/A+/AA- |
| 27,200 | 7/01/2010 | 3.59% | 72% LIBOR* | 10/1/2021 | (8) | Aa3/A+/AA- |
| 27,200 | 7/01/2011 | 3.63% | 72% LIBOR* | 10/1/2021 | (27) | Aa3/A+/AA- |
| 8,525 | 7/03/2006 | 3.44% | 72% LIBOR* | 10/1/2021 | (44) | A1/A+/AA |
| 27,200 | 7/02/2007 | 3.48% | 72% LIBOR* | 10/1/2021 | (123) | A1/A+/AA |
| 27,200 | 7/01/2010 | 3.59% | 72% LIBOR* | 10/1/2021 | (8) | A1/A+/AA |
| <u>27,200</u> | <u>7/01/2011</u> | <u>3.63%</u> | <u>72% LIBOR*</u> | <u>10/1/2021</u> | <u>(27)</u> | <u>A1/A+/AA</u> |
| | | | | | <u>\$(2,215)</u> | |

*floating to fixed

** () denotes market value is less than notional value

2. Stanton Project

Swaps Currently Effective
Series 2003

(thousands omitted)

| <i>Notional Amount</i> | <i>Effective Date</i> | <i>Fixed Rate Paid</i> | <i>Variable Rate Received</i> | <i>Term Date</i> | <i>Fair Value**</i> | <i>Counterparty Credit Rating</i> |
|------------------------|-----------------------|------------------------|-------------------------------|------------------|---------------------|-----------------------------------|
| <u>\$ 19,975</u> | <u>7/09/2003</u> | <u>3.478%</u> | <u>72% LIBOR*</u> | <u>10/1/2019</u> | <u>\$(131)</u> | <u>Aa3/AA-</u> |

*floating to fixed

** () denotes market value is less than notional value

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

VI. Derivative Financial Instruments (continued)

A. Swap Agreements (continued)

3. All Requirements Project

Swaps Currently Effective

Series 2003B-1

(thousands omitted)

| <i>Notional Amount</i> | <i>Effective Date</i> | <i>Fixed Rate Paid</i> | <i>Variable Rate Received</i> | <i>Term Date</i> | <i>Fair Value**</i> | <i>Counterparty Credit Rating</i> |
|------------------------|-----------------------|------------------------|-------------------------------|------------------|---------------------|-----------------------------------|
| \$ 35,850 | 7/09/2003 | 3.58% | 72% LIBOR* | 10/1/2025 | \$(777) | Aa3/AA- |

Series 2003B-2

| | | | | | | |
|------------------|-----------|-------|-----------|-----------|------------------|------------|
| <u>\$ 54,975</u> | 7/09/2003 | 4.08% | BMA Swap* | 10/1/2025 | <u>\$(1,122)</u> | Aa1/AA/AA+ |
| <u>\$ 90,825</u> | | | | | <u>\$(1,899)</u> | |

*floating to fixed

** () denotes market value is less than notional value

4. Stanton II Project

Swaps Currently Effective

Series 2002

(thousands omitted)

| <i>Notional Amount</i> | <i>Effective Date</i> | <i>Fixed Rate Paid</i> | <i>Variable Rate Received</i> | <i>Term Date</i> | <i>Fair Value***</i> | <i>Counterparty Credit Rating</i> |
|------------------------|-----------------------|------------------------|-------------------------------|------------------|----------------------|-----------------------------------|
| \$ 1,040 | 4/30/2002 | 3.77% | CPI Rate + 1.14 | 10/1/2008 | \$(28) | Aa3/A+/AA- |
| 1,415 | 4/30/2002 | 3.94% | CPI Rate + 1.27 | 10/1/2009 | (37) | Aa3/A+/AA- |
| 1,490 | 4/30/2002 | 4.06% | CPI Rate + 1.35 | 10/1/2010 | (37) | Aa3/A+/AA- |
| 3,220 | 4/30/2002 | 4.17% | CPI Rate + 1.39 | 10/1/2011 | (65) | Aa3/A+/AA- |
| <u>1,730</u> | 4/30/2002 | 4.26% | CPI Rate + 1.40 | 10/1/2012 | <u>(29)</u> | Aa3/A+/AA- |
| <u>\$ 8,895</u> | | | | | <u>\$(196)</u> | |

Series 2004

| | | | | | | |
|------------------|-----------|-------|------------|-----------|------------------|-------------|
| \$ 29,400 | 8/05/2004 | 3.86% | BMA Swap* | 10/1/2027 | \$(1,380) | Aa2/AA+/AA+ |
| <u>\$ 29,400</u> | 8/05/2004 | 3.86% | BMA Swap** | 10/2/2027 | <u>(1,380)</u> | AA1/AA-/AA- |
| <u>\$ 67,695</u> | | | | | <u>\$(2,956)</u> | |

*floating to fixed

**converts to 72% LIBOR 10/01/2006

*** () denotes market value is less than notional value

B. Natural Gas Futures, Contracts and Options

FMPA uses New York Mercantile Exchange (NYMEX), natural gas futures contracts, options on futures contracts and fixed-price firm physical purchases of natural gas (gas) as a tool to establish the cost of natural gas that will be needed by the All-Requirements Project in the future (next month or several years from now). NYMEX futures contracts can be used to obtain physical gas supplies, however, all futures contracts that FMPA enters into will be financially settled before physical settlement is required by the Exchange. Any gain or loss of value in these futures contracts are ultimately rolled into the price of the natural gas burned in the Project's electric generators.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

VI. Derivative Financial Instruments (continued)

B. Natural Gas Futures, Contracts and Options (continued)

All NYMEX transactions are entered into as hedges against the volatility of natural gas prices. The Agency at September 30, 2005, had futures and options contracts outstanding in the following amounts, covering the fiscal years 2006 through 2010.

| | <u>Thousands of mmBtu</u> | | | <u>Mark-to-Market Value</u> |
|------|---------------------------|----------------|-----------------|-----------------------------|
| | <u>Futures</u> | <u>Options</u> | <u>Physical</u> | <u>at 9/30/05</u> |
| | | | | (in thousands) |
| 2006 | 10,900 | 1,560 | 6,618 | \$ 61,663 |
| 2007 | 5,380 | 130 | 6,388 | 18,146 |
| 2008 | 1,500 | | 6,400 | 2,985 |
| 2009 | 180 | | 2,740 | 20 |
| 2010 | <u>0</u> | | <u>2,008</u> | <u>0</u> |
| | <u>17,960</u> | <u>1,690</u> | <u>24,154</u> | <u>\$ 82,814</u> |

Although the Agency marks every position to market daily for management reporting purposes, it does not trade on these contracts. A margin account is maintained with the Agency's brokerage firm. Option premiums paid and collected and market gains and losses realized on contract sales of futures expirations are booked as cost of energy. For fiscal year 2005, the Agency recorded a realized net gain of \$19,254,389 which represents positive hedging activities.

FMPA has also purchased three heating oil futures contracts (126,000 gallons) for delivery in April, 2006 on the NYMEX to hedge a portion of its exposure to the estimated 1.2 million gallons of No. 2 oil that will be required for the Stock Island CT #4, currently under construction. This exposure results from the initial fill of a new 1 million gallon fuel tank and for testing purposes for the new unit. These contracts had a mark-to-market value of \$17,401 on September 30, 2005. This mark-to-market value was not included in the mark-to-market schedule listed above.

Basis Risk

The commodity hedge transactions are subject to basis risk. NYMEX transactions are based on pricing at the Henry Hub delivery point where the project purchases natural gas at various delivery points in Florida. Changes in natural gas prices have been and are anticipated to be highly correlated.

Credit Risk

The commodity hedge transactions are subject to credit risk. Credit risk associated with these transactions is mitigated by margin accounts required under the contract terms.

FMPA transacts its NYMEX futures contracts through Calyon Financial (formerly Carr Futures, Inc.), a licensed commodity broker. Transactions that are entered into Over-The-Counter provide alternatives to transactions on the NYMEX when liquidity on the exchange may prevent the timely execution of hedges.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

VII. Regulatory Assets (Net Costs Recoverable Due From/Due To Future Participants)

FMPA is subject to the accounting requirements of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*. Billing rates are established by the Board of Directors and are designed to fully recover each project's costs over the life of the project, but not necessarily in the same year that costs are recognized under generally accepted accounting principles (GAAP). Instead of GAAP costs, annual participant billing rates are structured to systematically recover current debt service requirements, operating costs and certain reserves that provide a level rate structure over the life of the project which is equal to the amortization period. Accordingly, certain project costs are classified as deferred on the accompanying Statement of Net Assets as a regulatory asset titled "Net Costs Recoverable from Future Participant Billings" until such time as they are recovered in future rates. Types of deferred costs include depreciation and amortization in excess of bond principal payments, prior capital construction interest cost, bond issuance costs and gains/losses resulting from debt restructuring.

In addition, certain billings recovering costs of future periods have been recorded as a regulatory liability or as a reduction of deferred assets on the accompanying Statement of Net Assets. Types of deferred revenues include billings for certain reserve funds and related interest earnings in excess of expenditures from those funds, and billings for nuclear fuel purchases in advance of their use.

VIII. Restricted Net Assets

Bond resolutions require that certain designated amounts from bond proceeds and project revenues be deposited into designated funds. These funds are to be used for specific purposes and certain restrictions define the order in which available funds may be used. Other restrictions require minimum balances or accumulation of balances for specific purposes. At September 30, 2005, all FMPA projects were in compliance with requirements of the bond resolutions. Two minor cash balance exceptions were remedied on October 3, 2005.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

VIII. Restricted Net Assets (continued)

The restricted assets of the funds and projects consist primarily of cash, cash equivalents and investments, including accrued interest. Segregated restricted net assets at September 30, 2005 are as follows:

| | (thousands omitted) | | | |
|------------------------------------|------------------------|--------------------------------|------------------------------|----------------------------|
| | <u>Agency Fund</u> | <u>Pooled Loan Project</u> | <u>St. Lucie Project</u> | <u>Stanton Project</u> |
| Debt Service Funds | \$ | \$ 485 | \$ 4,956 | \$ 6,833 |
| Reserve & Contingency Funds | | | 12,869 | 2,547 |
| Decommissioning Fund | 19,176 | | 37,433 | |
| Project Fund | | 69,517 | | |
| Revenue Fund | | 3,794 | | |
| Loans receivable* | | 88,416 | | |
| Commercial paper notes | | (160,570) | | |
| Accrued interest on | | | | |
| long-term debt | | (659) | (52) | (1,347) |
| Other Liabilities | | (636) | (263) | |
| Accrued decommissioning | | | | |
| Expense | \$(19,176) | | (36,385) | |
| Total Restricted Net Assets | <u>\$ 0</u> | <u>\$ 347</u> | <u>\$ 18,558</u> | <u>\$ 8,033</u> |

| | (thousands omitted) | | |
|------------------------------------|-------------------------------------|-----------------------------|-------------------------------|
| | <u>All-Requirements Project</u> | <u>Tri-City Project</u> | <u>Stanton II Project</u> |
| Debt Service Funds | \$ 12,256 | \$ 4,516 | \$ 10,363 |
| Reserve & Contingency Funds | 6,312 | 1,175 | 2,231 |
| Depository Trust Fund-FGU | 8,162 | | |
| Accrued interest on | | | |
| long-term debt | (3,100) | (701) | (2,269) |
| Total Restricted Net Assets | <u>\$ 23,630</u> | <u>\$ 4,990</u> | <u>\$ 10,325</u> |

*2005 net of undistributed proceeds of \$69,517

Restrictions of the various bank funds are as follows:

- Debt service funds include the Debt Service Account, which is restricted for payment of the current portion of the bond principal and interest and Debt Service Reserve Account, which includes sufficient funds to cover one half of the maximum annual principal and interest requirement of the respective issues or 10% of the original bond proceeds.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

VIII. Restricted Net Assets (continued)

- Reserve and Contingency Funds are restricted for payment of major renewals, replacements, repairs, additions, betterments and improvements for capital assets. If, at any time, the Debt Service Fund is below the current debt requirement and there are not adequate funds in the General Reserve Fund to resolve the deficiency, funds will be transferred from the Reserve and Contingency Fund to the Debt Service Fund.
- The Depository Trust Fund Account (exclusive of the All-Requirements Project) includes amounts held by the Trustee for the benefit of Florida Gas Utility (FGU) to support credit standing in purchases of natural gas supplies for the All-Requirements Project. Credit support deposits are required for gas purchase services from FGU.
- Decommissioning Funds are restricted and are funded for the payment of costs related to the decommissioning, removal and disposal of FMPA's ownership on nuclear power plants.
- Project Funds are restricted under the terms of the Pooled Loan agreements, and are used for the acquisition, construction and capitalized interest, as specified by the participants.
- Revenue Funds are restricted under the terms of outstanding Pooled Loan resolutions.
- Loans Receivable Funds are restricted under the terms of outstanding Pooled Loan agreements.

IX. Long-Term Debt

A. Debt

FMPA enters into long term debt to fund different projects. The type of long-term debt differs among each of the projects. A description and summary of long-term debt at September 30, 2005, is as follows:

1. Agency Fund

The Agency Fund has two loans payable to the Pooled Loan Fund. Interest is payable monthly at a variable rate tied to the interest rates paid on the Pooled Loan Fund debt. Interest rates on the loans varied from 0.95% to 2.85% during the fiscal year ended September 2005.

| <i>Business-Type Activities</i> | <i>2005</i> | | | <i>Ending Balance</i> | <i>Amounts Due Within One Year</i> |
|--------------------------------------------|-------------------------------------|-------------------------|-------------------------|----------------------------------|---------------------------------------------------|
| | <i>Beginning Balance</i> | <i>Increases</i> | <i>Decreases</i> | | |
| Pooled Loan 1998 | \$ 110 | \$ | \$(60) | \$ 50 | \$ 50 |
| Pooled Loan 1999 | <u>2,475</u> | <u> </u> | <u>(120)</u> | <u>2,355</u> | <u>125</u> |
| Total Business-Type Activities | <u>\$ 2,585</u> | <u>\$ 0</u> | <u>\$(180)</u> | <u>\$ 2,405</u> | <u>\$ 175</u> |

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IX. Long-Term Debt (continued)

A. Debt (continued)

2. Pooled Loan Fund

FMPA is authorized to issue commercial paper notes with Wachovia Bank N.A., the current letter of credit provider. The commercial paper is used to fund loans to FMPA members and other FMPA projects. The respective loan agreements between the Pooled Loan Fund and FMPA members or other FMPA projects are equal in the aggregate to the principal of the current notes issued and are executed simultaneously with each note issue.

At September 30, 2005, the outstanding commercial paper notes total \$160,570,000. The commercial paper notes bear interest at a rate that varies periodically as determined by the dealer and remarketed at prevailing market rates.

| 2005 | | | | | |
|--------------------------------------------|-------------------------------------|-------------------------|-------------------------|----------------------------------|-----------------------------------------------------|
| <i>(thousands omitted)</i> | | | | | |
| <u>Business-Type Activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year *</u> |
| Commercial Paper Notes | \$ 94,836 | \$ 78,375 | \$(12,641) | \$160,570 | \$ 0 |
| Total Business-Type Activities | <u>\$ 94,836</u> | <u>\$ 78,375</u> | <u>\$(12,641)</u> | <u>\$160,570</u> | <u>\$ 0</u> |

*Amounts due within one year equals zero due to commercial paper being remarketed.

Interest is paid periodically, ranging from 1 to 270 days. During the fiscal year ended September 30, 2005, interest rates ranged from 1.54% to 2.61%.

The commercial paper notes are further collateralized by an irrevocable long-term letter of credit with Wachovia Bank N.A. in an amount sufficient to pay the outstanding principal plus 65 days accrued interest at an assumed rate of 10%. The letter of credit expires August 22, 2008, with an annual extension unless Wachovia Bank N.A. gives notice during the 60-day period prior to August 22, 2006. At September 30, 2005, the fee paid on the letter of credit was 38 basis points on the amount of paper outstanding plus interest on the outstanding amount at 10% for 65 days. Amounts payable to the bank under the letter of credit are due on demand and bear interest at the lower of prime rate plus 2% or the maximum rate permitted by law. There were no draws outstanding on the letter of credit at September 30, 2005.

3. St. Lucie Project

| 2005 | | | | | |
|--------------------------------------------|-------------------------------------|-------------------------|-------------------------|----------------------------------|---------------------------------------------------|
| <i>(thousands omitted)</i> | | | | | |
| <u>Business-Type Activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
| Revenue Bonds: | | | | | |
| Refunding 2000 | \$ 17,150 | \$ | \$ | \$ 17,150 | \$ 0 |
| Refunding 2002 | 244,850 | | | 244,850 | 0 |
| Less Deferred Refundings And Discounts | (49,299) | 3,074 | _____ | (46,225) | 0 |
| Total Business-Type Activities | <u>\$212,701</u> | <u>\$ 3,074</u> | <u>\$ 0</u> | <u>\$215,775</u> | <u>\$ 0</u> |

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IX. Long-Term Debt (continued)

A. Debt (continued)

3. St. Lucie Project (continued)

The variable interest rates ranged between 1.18% and 2.80% for the year ended September 30, 2005.

The Series 2000 bonds are subject to redemption prior to maturity at the election of FMPA on any interest payment date at a call rate of 100%.

4. Stanton Project

| 2005 | | | | | |
|--------------------------------------------|-------------------------------------|-------------------------|-------------------------|----------------------------------|------------------------------------------------------|
| <i>(thousands omitted)</i> | | | | | |
| <u>Business-Type Activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year **</u> |
| Revenue Bonds: | | | | | |
| Refunding 1997* | \$ 10,890 | \$ | \$ | \$ 10,890 | \$ 0 |
| Refunding 2000 | 4,425 | | | 4,425 | 0 |
| Refunding 2002 | 43,145 | | (2,765) | 40,380 | 2,880 |
| Refunding 2003 | 20,000 | | (25) | 19,975 | 25 |
| Less Deferred Refundings | | | | | |
| And Discounts | (3,507) | \$ 364 | \$ | \$(3,143) | \$ 0 |
| Total Revenue Bonds | \$ 74,953 | \$ 364 | \$(2,790) | \$ 72,527 | \$ 2,905 |
| Other Liabilities: | | | | | |
| Pooled Loan #1 | \$ 6,725 | \$ | \$(595) | \$ 6,130 | \$ 0 |
| Pooled Loan #2 | 907 | | (89) | 818 | 0 |
| Less Undistributed Proceeds | (87) | 67 | _____ | (20) | 0 |
| Total Net Pooled Loans | \$ 7,545 | \$ 67 | \$(684) | \$ 6,928 | \$ 0 |
| Wachovia Bank Taxable | 1,684 | _____ | (160) | 1,524 | 0 |
| Total Other Liabilities | \$ 9,229 | \$ 67 | \$(844) | \$ 8,452 | \$ 0 |
| Total Business-Type Activities | \$ 84,182 | \$ 431 | \$(3,634) | \$ 80,979 | \$ 2,905 |

*These bonds are re-marketed weekly. The average rates were 1.45% and 2.90% for the year ended September 30, 2005.

**Amounts due within one year reflect payments due at October 1. Long-term loans are due on or before October 1 and since the October 1 payment fell on a weekend in 2005, the current portion was paid and recorded during fiscal year 2005. As a result of this payment, the current portion for fiscal year 2005 is zero. The next scheduled payment is October 1, 2006.

The variable interest rates ranged from 1.30% to 2.90% for the year ended September 30, 2005.

The Series 1997, 2000 and Series 2003 bonds are subject to redemption prior to maturity at the election of FMPA on any interest payment date at a call rate of 100%.

The Series 2002 bonds are subject to redemption prior to maturity at the election of FMPA at 100% beginning October 1, 2012.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IX. Long-Term Debt (continued)

A. Debt (continued)

4. Stanton Project (continued)

Loans Payable to Pooled Loan Fund

The Stanton Project has two loans payable to the Pooled Loan Fund at September 30, 2005. Interest is payable monthly using the variable rate tied to the interest rates paid on the Pooled Loan Fund debt. Interest rates on the loan varied from 0.95% to 2.85% during fiscal year ended September 30, 2005. The first loan payable balance is due in 14 annual principal payments ranging from \$310,000 to \$655,000, with the final payment due October 1, 2018. The second loan balance is due in 14 annual principal payments ranging from \$45,000 to \$69,000 with the final payment due October 1, 2018. Both loans are subordinate to the other debt of the project.

Loan Payable to Wachovia Bank

In December 2003, the Stanton Project entered into a taxable loan with Wachovia Bank to finance a partial interest in the brine plant facility at the Stanton Energy Center.

5. All-Requirements Project

| 2005 | | | | | |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-----------------------|--------------------------|
| <i>(thousands omitted)</i> | | | | | |
| <u>Business-Type</u> | <u>Beginning</u> | | | <u>Ending</u> | <u>Amounts</u> |
| <u>Activities</u> | <u>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> | <u>Due Within</u> |
| | | | | | <u>One Year *</u> |
| Revenue Bonds: | | | | | |
| Refunding 2000 (June) | \$ 20,125 | \$ | \$ | \$ 20,125 | \$ 0 |
| 2000 (August) | 70,000 | | | 70,000 | 0 |
| Refunding 2003(July) | 61,625 | | (4,485) | 57,140 | 4,605 |
| Refunding 2003(July) | 90,975 | | (150) | 90,825 | 175 |
| Less Deferred Refundings | | | | | |
| And Discounts | (13,895) | 587 | | \$(13,308) | 0 |
| Total Revenue Bonds | \$228,830 | \$ 587 | \$(4,635) | \$224,782 | \$ 4,780 |
| Other Liabilities: | | | | | |
| Pooled Loan #1 | \$ 4,094 | \$ | \$(630) | \$ 3,464 | \$ 0 |
| Pooled Loan #2 | 14,270 | | (1,085) | 13,185 | 0 |
| Pooled Loan #3 | 8,848 | | (230) | 8,618 | 0 |
| Pooled Loan #4 | 6,695 | | (680) | 6,015 | 0 |
| Pooled Loan #5 | 715 | | (70) | 645 | 0 |
| Pooled Loan #6 | | 5,100 | (154) | 4,946 | 0 |
| Pooled Loan #7 | | 33,000 | | 33,000 | 0 |
| Pooled Loan #8 | | 17,765 | | 17,765 | 0 |
| Pooled Loan #9 | | 25,000 | | 25,000 | 0 |
| Less Undistributed Proceeds | (364) | | (68,438) | (68,802) | 0 |
| Total Net Pooled Loans | \$ 34,258 | \$ 80,865 | \$(71,287) | \$ 43,836 | \$ 0 |
| Wachovia Taxable #1 | 1,327 | | (127) | 1,200 | 0 |
| Wachovia Taxable #2 | 7,641 | | (1,923) | 5,718 | 0 |
| Total Other Liabilities | \$ 43,226 | \$ 80,865 | \$(73,337) | \$ 50,754 | \$ 0 |
| Total Business-Type Activities | \$272,056 | \$ 81,452 | \$(77,972) | \$275,536 | \$ 4,780 |

*Amounts due within one year reflect payments due at October 1. Long-term loans are due on or before October 1 and since the October 1 payment fell on a weekend in 2005, the current portion was paid and recorded during fiscal year 2005. As a result of this payment, the current portion for fiscal year 2005 is zero. The next scheduled payment is October 1, 2006.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IX. Long-Term Debt (continued)

A. Debt (continued)

5. All-Requirements Project (continued)

The variable interest rates ranged from 1.25% to 2.95% for the year ended September 30, 2005.

The Series 2000, 2000-1, 2000-2, 2003B-1 and 2003B-2 bonds are subject to redemption prior to maturity at the election of FMPA on any interest payment date at a call rate of 100%.

Loans Payable to Pooled Loan Fund

The All-Requirements Project has nine loans payable to the Pooled Loan Fund at September 30, 2005. Interest is payable monthly at a variable rate tied to the interest rates paid on the Pooled Loan Fund debt. Interest rates on the loans varied from 0.95% to 2.85% during fiscal year ended September 30, 2005. These loans are subordinate to the other debt of the project.

Loans Payable to Wachovia Bank

In December 2003, the All-Requirements Project entered into a taxable loan with Wachovia Bank to finance a partial interest in the brine plant facility at the Stanton Energy Center.

In addition, the All Requirements Project borrowed \$7,641,000 to finance the purchase of a seven year service contract from General Electric for the Cane Island Unit 3.

6. Tri-City Project

| | 2005 | | | | |
|--------------------------------------------|-------------------------------------|-------------------------|--------------------------|----------------------------------|-----------------------------------------------------|
| | <i>(thousands omitted)</i> | | | | |
| <i>Business-Type Activities</i> | <i>Beginning Balance</i> | <i>Increases</i> | <i>Decreases</i> | <i>Ending Balance</i> | <i>Amounts Due Within One Year *</i> |
| Revenue Bonds: | | | | | |
| Refunding 2003 | \$ 38,880 | \$ | \$(1,950) | \$ 36,930 | \$ 1,995 |
| Less Deferred Refundings and Discounts | <u>(5,040)</u> | <u>582</u> | <u>0</u> | <u>(4,458)</u> | <u>0</u> |
| Total Revenue Bonds | <u>\$ 33,840</u> | <u>\$ 582</u> | <u>\$(1,950)</u> | <u>\$ 32,472</u> | <u>\$ 1,995</u> |
| Other Liabilities: | | | | | |
| Pooled Loan #1 | \$ 2,405 | \$ | \$(210) | \$ 2,195 | \$ 0 |
| Pooled Loan #2 | 325 | | (31) | 294 | 0 |
| Less Undistributed Proceeds | <u>(32)</u> | <u>24</u> | <u>0</u> | <u>(8)</u> | <u>0</u> |
| Total Net Pooled Loans | <u>\$ 2,698</u> | <u>\$ 24</u> | <u>\$(241)</u> | <u>\$ 2,481</u> | <u>\$ 0</u> |
| Wachovia Taxable | 603 | | (58) | 545 | 0 |
| Total Other Liabilities | <u>\$ 3,301</u> | <u>\$ 24</u> | <u>\$(299)</u> | <u>\$ 3,026</u> | <u>\$ 0</u> |
| Total Business-Type Activities | <u>\$ 37,141</u> | <u>\$ 606</u> | <u>\$(2,249)</u> | <u>\$ 35,498</u> | <u>\$ 1,995</u> |

*Amounts due within one year reflect payments due at October 1. Long-term loans are due on or before October 1 and since the October 1 payment fell on a weekend in 2005, the current portion was paid and recorded during fiscal year 2005. As a result of this payment, the current portion for fiscal year 2005 is zero. The next scheduled payment is October 1, 2006.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IX. Long-Term Debt (continued)

A. Debt (continued)

6. Tri-City Project (continued)

Loans Payable to Pooled Loan Fund

The Tri-City Project has two loans payable to the Pooled Loan Fund at September 30, 2005. Interest is payable monthly at a variable rate tied to the interest rates paid on the Pooled Loan Fund debt. Interest rates on the loans varied from 0.95% to 2.85% during fiscal year 2005. The loans have payable balances due in 14 annual principal payments ranging from \$110,000 to \$235,000 and \$16,000 to \$29,000 respectively, with the final payments due October 1, 2018. These loans are subordinate to other debt of the project.

Loan Payable to Wachovia Bank

In December, 2003, the Tri-City Project entered into a taxable loan with Wachovia Bank to finance a partial interest in the brine plant facility at the Stanton Energy Center.

7. Stanton II Project

| | 2005 | | | | |
|--------------------------------------------|-------------------------------------|-------------------------|--------------------------|----------------------------------|-----------------------------------------------------|
| | <i>(thousands omitted)</i> | | | | |
| <u>Business-Type Activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year *</u> |
| Revenue Bonds: | | | | | |
| Refunding 2000 | \$ 41,650 | \$ | \$(925) | \$ 40,725 | \$ 0 |
| Refunding 2002 | 82,180 | | (2,940) | 79,240 | 3,025 |
| Refunding 2003 | 18,215 | | (1,065) | 17,150 | 1,090 |
| Refunding 2004 | 59,975 | | (1,175) | 58,800 | 50 |
| Less Deferred Refundings and Discounts | <u>(17,330)</u> | <u>1,180</u> | <u> </u> | <u>(16,150)</u> | <u>0</u> |
| Total Revenue Bonds | <u>\$184,690</u> | <u>\$ 1,180</u> | <u>\$(6,105)</u> | <u>\$179,765</u> | <u>\$ 4,165</u> |
| Other Liabilities: | | | | | |
| Pooled Loan | \$ 1,422 | \$ | \$(137) | \$ 1,285 | \$ 0 |
| Less Undistributed Proceeds | <u>(136)</u> | <u>106</u> | <u> </u> | <u>(30)</u> | <u>0</u> |
| Total Net Pooled Loans | <u>\$ 1,286</u> | <u>\$ 106</u> | <u>\$(137)</u> | <u>\$ 1,255</u> | <u>\$ 0</u> |
| Wachovia Taxable | <u>2,640</u> | | <u>(251)</u> | <u>2,389</u> | <u>0</u> |
| Total Other Liabilities | <u>\$ 3,926</u> | <u>\$ 106</u> | <u>\$(388)</u> | <u>\$ 3,644</u> | <u>\$ 0</u> |
| Total Business-Type Activities | <u>\$188,616</u> | <u>\$ 1,286</u> | <u>\$(6,493)</u> | <u>\$183,409</u> | <u>\$ 4,165</u> |

*Amounts due within one year reflect payments due at October 1. Long-term loans are due on or before October 1 and since October 1 fell on a weekend in 2005, the current portion was paid and recorded during fiscal year 2005. As a result of this payment, the current portion for fiscal year 2005 is zero. The next scheduled payment is October 1, 2006.

The variable interest rates ranged from 0.90% to 2.83% for the year ended September 30, 2005.

The Series 2000 bonds provide for early redemption at the election of FMPA on any interest payment date at a call rate of 100%. The Series 2002 bonds are subject to redemption prior to maturity at the election of FMPA at 100%, beginning October 1, 2012 whereas the series 2003A bonds are not subject to early redemption. The Series 2004 bonds provide for early redemption at the election of FMPA on any interest payment date at a call price of 100% at any time.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IX. Long-Term Debt (continued)

7. Stanton II Project (continued)

Loan Payable to Pooled Loan Fund

The Stanton II Project has one loan payable to the Pooled Loan Fund as of September 30, 2005, which originated on December 19, 2003. Interest is payable monthly at a variable rate tied to the interest rates paid on the Pooled Loan Fund debt. Interest rates on the loan varied from 0.95% to 2.85% during the fiscal year ended September 30, 2005.

Loan Payable to Wachovia Bank

In December 2003, the Stanton II Project entered into a taxable loan with Wachovia Bank to finance a partial interest in the brine plant facility at the Stanton Energy Center.

B. Major Debt Provisions (All Projects)

Bonds, which are special obligations of FMPA, are payable solely from (1) revenues less operating expenses (both as defined by the respective bond resolutions) and (2) other monies and securities pledged for payment thereof by the respective bond resolutions. The respective resolutions require FMPA to deposit into special funds, all proceeds of bonds issued and all revenues generated as a result of the projects' respective Power Sales and Power Support Contracts or the Power Supply Contract. The purpose of the individual funds is also specifically defined in the respective bond resolutions.

Investments are generally restricted to those types described in Note I. Additional restrictions that apply to maturity dates are defined in the respective bond resolutions.

C. Defeased Debt

The following bonds have been defeased in substance. Since investments consisting of governmental obligations are held in escrow for payment of principal and interest, the bonds are not considered liabilities of FMPA for financial reporting purposes. The principal balances of the defeased bonds at September 30, 2005 are as follows:

| <u>Dated</u> | <u>Description</u> | <u>Defeased Portion Amount Originally Issued</u> | <u>Balance at September 30, 2005</u> |
|---------------------|-------------------------------------------------|----------------------------------------------------------|----------------------------------------------|
| (thousands omitted) | | | |
| May 1983 | St. Lucie Project Revenue Bonds, Series 1983 | \$280,075 | \$ 26,185 |

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

IX. Long-Term Debt (continued)

D. Annual Requirements

The annual cash flow debt service requirements to amortize all long-term bond debt outstanding as of September 30, 2005 are as follows:

| Fiscal Year Ending September | St. Lucie Project | Interest Rate Swaps, Net | Stanton Project | Interest Rate Swaps, Net | All- Requirements Project | Interest Rate Swaps, Net | Tri-City Project | Stanton II Project | Interest Rate Swaps, Net | Totals |
|-------------------------------------------------------------------------|----------------------|-----------------------------------|--------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------|-----------------------|-----------------------------------|---------------------|
| (thousands omitted) | | | | | | | | | | |
| 2006 | \$ 9,170 | \$ 2,022 | \$ 6,012 | \$ 4 | \$ 13,632 | \$ 2,809 | \$ 3,359 | \$ 12,479 | \$ (23) | \$ 49,464 |
| 2007 | 9,170 | (257) | 5,996 | 4 | 13,614 | 2,809 | 3,363 | 12,465 | (22) | 47,142 |
| 2008 | 9,170 | (94) | 5,991 | 4 | 13,677 | 2,810 | 3,357 | 12,458 | (22) | 47,351 |
| 2009 | 9,170 | (94) | 5,958 | 4 | 13,517 | 2,810 | 3,362 | 13,357 | (47) | 48,037 |
| 2010 | 9,170 | (7) | 5,956 | 4 | 13,604 | 2,811 | 3,345 | 13,662 | (80) | 48,465 |
| 2011 - 2015 | 45,850 | 2,458 | 29,495 | 20 | 67,695 | 14,065 | 16,573 | 65,910 | (914) | 241,152 |
| 2016 - 2020 | 45,850 | 2,665 | 44,189 | 10 | 63,392 | 14,468 | 16,275 | 59,752 | (840) | 245,761 |
| 2021 - 2025 | 271,170 | 533 | | | 64,148 | 15,238 | | 59,973 | (462) | 410,600 |
| 2026 - 2030 | | | | | 42,150 | | | 65,252 | (60) | 107,342 |
| 2031 | | | | | 70,000 | | | | | 70,000 |
| Total Principal & Interest | \$ 408,720 | \$ 7,226 | \$ 103,597 | \$ 50 | \$ 375,429 | \$ 57,820 | \$ 49,634 | \$ 315,308 | \$ (2,470) | \$ 1,315,314 |
| Less: | | | | | | | | | | |
| Interest | 146,720 | 7,226 | 27,928 | 50 | 137,339 | 57,820 | 12,704 | 119,394 | (2,470) | 506,711 |
| Unamortized Loss on refunding | 46,225 | | 4,464 | | 18,316 | | 6,312 | 17,307 | | 92,624 |
| Add: | | | | | | | | | | |
| Unamortized Premium (Discount), net | | | 1,322 | | 5,008 | | 1,854 | 1,158 | | 9,342 |
| Total Net Debt Service Requirement at September 30, 2005 | \$ 215,775 | \$ - | \$ 72,527 | \$ - | \$ 224,782 | \$ - | \$ 32,472 | \$ 179,765 | \$ - | \$ 725,321 |

Variable interest rate information is determined using an estimate of the expected rate at the financial statement date of 3.5%. Variable rates for the CPI Bonds averaged 6.226% in fiscal year 2005.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

X. Commitments and Contingencies

A. Participation Agreements

FMPA has entered into participation agreements for individual ownership of generating facilities as follows:

| Project | Operating Utility | Joint Ownership Interest | Commercial Operation Date |
|------------------|------------------------------------|-----------------------------------------------------------------|-------------------------------------|
| St. Lucie | Florida Power & Light | 8.806% of St. Lucie Unit 2 nuclear plant | August 1983 |
| Stanton | Orlando Utilities Commission (OUC) | 14.8193% of Stanton Energy Center (SEC) Unit 1 coal-fired plant | July 1987 |
| All-Requirements | OUC | 6.506% of SEC Unit 1 | July 1987 |
| Tri-City | OUC | 5.3012% of SEC Unit 1 | July 1987 |
| All-Requirements | OUC | 39% of Indian River Units A & B combustion turbines | A - June 1989 B - July 1989 |
| All-Requirements | OUC | 21% of Indian River Units C & D combustion turbines | C - August 1992 D - October 1992 |
| All-Requirements | Kissimmee Utility Authority (KUA) | 50% of Cane Island Unit 1 combustion turbine | January 1995 |
| All-Requirements | KUA | 50% of Cane Island Unit 2 combined cycle | June 1995 |
| All-Requirements | OUC | 5.1724% of SEC Unit 2 coal-fired plant | June 1996 |
| Stanton II | OUC | 23.2367 of SEC Unit 2 | June 1996 |
| All-Requirements | KUA | 50% of Cane Island Unit 3 combined cycle | January 2002 |
| All-Requirements | Southern Company | 3.5% of Stanton Unit A combined cycle | October 2003 |

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

X. Commitments and Contingencies (continued)

A. Participation Agreements (continued)

Operational control of the electric generation plants rests with the operating utility and includes the authority to enter into long-term purchase obligations with suppliers. FMPA is liable under its participation agreements for its ownership interest of total construction and operating costs. Further contracts with Orlando Utilities Commission (OUC) include commitments for purchases of coal. Through participation with OUC, FMPA has minimum annual purchases of coal through 2011 as shown below:

| Project | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------|---------------------|------|------|------|------|------|
| | (thousands of tons) | | | | | |
| Stanton Project | 166 | 162 | 149 | 144 | 107 | 95 |
| All-Requirements Project | 184 | 180 | 165 | 161 | 119 | 105 |
| Tri-City Project | 59 | 58 | 53 | 52 | 38 | 34 |
| Stanton II Project | 260 | 254 | 233 | 226 | 168 | 148 |

B. Other Agreements

FMPA has entered into certain long-term contracts for transmission services for its projects. These amounts are recoverable from participants in the projects (except The All-Requirements Project) through the Power Sales and Project Support Contracts. FMPA has entered into Power Sales and Project Support Contracts with each of the project participants for entitlement shares aggregating 100% of FMPA's joint ownership interest. In the case of the All-Requirement Project, a Power Supply Contract was entered into providing for the participant's total power requirements (except for certain excluded resources). Revenues received under these individual project contracts are expected to be sufficient to pay all of the related project costs.

1. St. Lucie Project

- FMPA has entered into a Reliability Exchange Agreement and a Replacement Power Agreement with FPL. The Reliability and Exchange agreement results in FMPA exchanging 50% of its share of the output from St. Lucie Unit 2 for a like amount from the St. Lucie Unit 1. The Replacement Power Agreement provides for replacement power and energy to be made available to FMPA if FPL voluntarily ceases to operate or reduces output from St. Lucie Unit 2 or St. Lucie Unit 1 for economic reasons or valley-load conditions.
- The St. Lucie Project, a joint owner of St. Lucie Unit 2, 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. During 2005, the Price Anderson Act was extended for twenty years. As the first layer of financial protection, FPL has purchased \$300 million of public liability insurance from pools of commercial insurers on behalf of all joint owners. The second layer of financial protection is provided under an industry retrospective payment plan. Under this plan, St. Lucie Unit 2 is subject to an assessment of \$100.59 million per reactor with a provision for payment of such assessment to be made over time, as necessary, which limits the payment in any one year to no more than \$15 million per reactor and adjusts the payout for inflation in the future. FMPA is liable for its ownership interest of any assessment made against St. Lucie Unit 2 under this plan.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

X. Commitments and Contingencies (continued)

B. Other Agreements (continued)

1. St. Lucie Project (continued)

- On December 19, 1999, FMPA (as Decommissioning Trust Administrator) and J.P. Morgan Chase (formerly Chase Manhattan Bank) entered into a Forward Sale Agreement for a portion of the St. Lucie Decommissioning Trust. The agreement provides that J.P. Morgan Chase deliver securities initially with a value not to be less than \$10,225,000 for an equivalent payment. Each month, an additional \$75,000 in securities will be delivered by J.P. Morgan Chase in exchange for an equivalent payment from the Trustee for the Decommissioning Fund. Upon maturity, the securities and the yield earned along with any cash delivered by J.P. Morgan Chase will be equivalent to 7.03% of the face value of the Agreement. The Forward Sale Agreement has a termination date of April 6, 2023.
- In addition to the Decommissioning Trust Fund, the St. Lucie Project has also recorded a liability for its estimated portion of the costs for the decommissioning and the decontamination of the United States Department of Energy nuclear fuel enrichment facilities, as provided for by the National Energy Policy Act of 1992 (Energy Act). The Energy Act states that utilities with nuclear reactors will contribute an aggregate total of \$150 million annually, for a period of 15 years, up to a total of \$2.25 billion (in 1992 dollars) for decommissioning and decontamination costs. The St. Lucie Project has \$262,576 (in current dollars) recorded as a remaining liability to be funded, compared to a total liability of \$1,273,866 (in current dollars). The Energy Act also provides that these costs are a "necessary and reasonable costs of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as other fuel costs." The St. Lucie Project intends to recover these deferred costs from its participants through billings.
- During 2003, nuclear utilities identified pressurizer heater sleeves made with a particular material (Alloy 600) were experiencing penetration cracks and leaks as a result of primary water stress corrosion cracking. As a result, in May 2004, the NRC issued a bulletin requesting utilities to identify and inspect all Alloy 600 and weld materials in all pressurizer locations and connected steam space piping. St. Lucie Unit 2 will monitor and perform inspections during the scheduled refueling outages. Due to costs and outage impacts associated with potential leaks, FPL has repaired St. Lucie Unit 2's pressurizer heater sleeve penetrations and will replace the St. Lucie Unit 2's steam generator and reactor vessel head during the refueling outage scheduled for the fall of 2007.
- In June 2004, the Agency entered into a Forward Sale Agreement and a Credit Support Agreement for the St. Lucie Project with Merrill Lynch. The Credit Support Agreement requires the Agency to establish a collateral account with the Trustee that must contain cash and securities that have a market value of \$7.5 million. This collateral is posted for the benefit of Merrill Lynch should the Agency be unable to keep its commitments under the Forward Sale Agreement. Under the Forward Sale Agreement, Merrill Lynch is required to deliver and the Trustee is required to purchase certain eligible securities on behalf of the St. Lucie Project. Under this Agreement, the securities or securities and cash to be delivered will guarantee the project an annual effective yield of 6.22% between January 1, 2005 and July 1, 2026 on the semi-annual amounts deposited. It is expected that the amounts invested pursuant to the

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

X. Commitments and Contingencies (continued)

B. Other Agreements (continued)

1. St. Lucie Project (continued)

Forward Sale Agreement will be used to redeem auction rate bonds outstanding for this project.

2. All-Requirements Project

FMPA supplies all of the wholesale power needs of the All-Requirements Project participants (except for certain excluded resources). In addition to its ownership facilities, FMPA has entered into interchange and power purchase contracts, as detailed below:

| Supplier | End of Contract | Minimum Contract Liability (millions) |
|--------------------------------|-----------------|---------------------------------------|
| Gainesville Regional Utilities | 12/31/2006 | \$ 0.225 |
| Progress Energy Florida | 12/31/2010 | 10.005 |
| Florida Power & Light | 5/31/2013 | 15.401 |
| Lakeland Electric | 12/14/2007 | 7.570 |
| Calpine Energy Services | 12/31/2009 | 34.538 |
| Orlando Utilities Commission | 12/31/2006 | 1.237 |
| Southern Company-Florida | 9/03/2013 | <u>49.933</u> |
| Total Minimum Liability | | <u>\$118.909</u> |

Other Agreements are as follows:

- In October 2003, FMPA executed contracts for a \$10 million investment in a brine water processing plant and other water facilities at the Stanton Energy Center in Orlando, Florida.

The Stanton Unit A combined cycle generator receives cooling water treatment services from the brine plant and associated facilities. The owners of Stanton Unit A (Southern Company Florida, FMPA, Kissimmee Utility Authority and Orlando Utilities Commission) will pay FMPA's Stanton, Stanton II, Tri-City and All-Requirements Projects a fixed and a variable operation and maintenance charge for services received from this facility.

- The All-Requirements Project has entered into several commitments for natural gas transportation services to supply fuel to its owned and leased generation facilities. Below are the current commitments:

| Pipeline | Daily Volume (mmBtu/day) | Annual Cost (\$000) | Expiration | Primary Delivery Usage |
|------------------------|--------------------------|---------------------|------------|-------------------------------|
| Fla Gas Transmission | 12,500 | \$3,508 | 2015 | Cane Island |
| Fla Gas Transmission | 12,500 | \$3,508 | 2021 | Cane Island |
| Fla Gas Transmission | 7,300 | \$1,024 | 2072 | Treasure Coast |
| Fla Gas Transmission* | 15,324 | \$2,996 | 2007 | Ft. Pierce/ Treasure Coast |
| Gulfstream Natural Gas | 10,000 | \$2,154 | 2013 | Cane Island |

*This transportation is an assignment from Ft. Pierce Utility Authority to FMPA and is expected to be rolled over for an additional 10 years.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

X. Commitments and Contingencies (continued)

B. Other Agreements (continued)

2. All-Requirements Project (continued)

- The All-Requirements Project, in combination with Ft. Pierce, Kissimmee and Vero Beach, has a take-or-pay contract with Florida Gas Utility effective until November, 2008 for a firm supply of natural gas of approximately 12,000 mmBtu per day. This is priced at a first of the month discounted index price.
- The All-Requirements Project has entered into a natural gas deal for physical gas purchases with Florida Gas Utility that extends through September 2010. Under this agreement, the All-Requirements Project will purchase a specific amount of gas with a total notional value of approximately \$97 million as of September 30, 2005.
- On August 5, 2004 and August 11, 2004, the city of Vero Beach requested arbitration against FMPA pursuant to Section 5(F) of the Capacity and Energy Sales Contract between FMPA and Vero Beach. The city asserted that FMPA underpaid Vero Beach for generation resources (capacity credits) for fiscal year 2005 by \$6,720,000 and will underpay fiscal year 2006 Capacity Credits by \$8,034,000. FMPA considers Vero Beach's arbitration requests for fiscal years 2005 and 2006 to be legally insufficient and bound by the Arbitration Panel's previous decision in favor of FMPA for fiscal year 2004 which determined that FMPA had complied with the rate setting methodology established by the Capacity and Energy Sales Contract and that Vero Beach was not entitled to any additional compensation. Accordingly, FMPA will not arbitrate fiscal years 2005 and 2006 capacity credits.
- FMPA is under a contractual agreement to have generation facilities in Key West, Florida, at a minimum level of 60% of the island utility's peak capacity requirements. FMPA has broken ground in Key West, Florida (Stock Island) for a 42 MW low sulfur oil-fired combustion turbine power plant. This plant will be owned by FMPA and operated by Keys Energy Services, the municipal electric utility serving Key West and the lower Florida Keys. The total budget for this construction project is approximately \$30 million.
- FMPA has acquired land in Ft. Pierce, Florida for a future generation site for a natural gas power plant. The Treasure Coast Energy Center Unit 1 has a total budget not to exceed \$258,000,000. Permitting activities are being pursued and construction on this facility is to commence mid 2006.
- FMPA, along with three other utilities, are negotiating on a 3,200 acre site in North Florida for a potential future site to build an 800 megawatt coal-fired power plant. Other utilities involved in the construction project include JEA, the city of Tallahassee and Reedy Creek Improvement District. Subsequent to September 30, 2005, the utilities have been soliciting power purchase proposals for a potential alternative to building the proposed coal plant as a means of determining the most economical option for providing the needed electricity.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

X. Commitments and Contingencies (continued)

B. Other Agreements (continued)

2. All-Requirements Project (continued)

- On November 16, 2004, FMPA signed an agreement with six other public gas and electric utilities in five different states to form a gas supply agency called Public Gas Partners, Inc. (PGP). This agency was created to secure economical, long-term wholesale natural gas supplies for its seven members in order to stabilize and reduce the cost of natural gas. The members of PGP, along with FMPA, include Municipal Gas Authority of Georgia, Florida Gas Utility, Lower Alabama Gas District, Patriots Energy Group, Southeast Alabama Gas District and Tennessee Energy Acquisition Corporation. Shortly thereafter, PGP Gas Supply Pool No. 1 (PGP Pool #1) was formed by all of the participants as the vehicle for securing the long-term supplies.

PGP Pool No.1 targeted an initial supply portfolio capable of producing 60,000 mmBtu per day of natural gas or 219 Bcf over a ten year period. At this time, PGP Pool #1 has a letter of intent to purchase natural gas reserves that have the current capability of producing approximately 18,200 mmBtu per day of natural gas and approximately 7,800 mmBtu per day equivalent of oil for \$272 million. FMPA's share of this transaction is approximately \$60 million. This transaction is expected to close in early 2006 and is to be financed through the issuance of long term debt.

Separate audited financial statements of PGP as of June 30, 2005 are available from www.publicgas.org.

See more on Public Gas Partners in the Subsequent Events Note XVII.

- The All-Requirements Project has extended a dispatching service contract with Orlando Utilities Commission (OUC) through March 2011. This contract provides the necessary services to balance load to generation and ensure a safe and reliable operation. FMPA's estimated cost for this service is estimated to be \$685,000 per year, not adjusted for inflation.
- The city of Starke and the city of Green Cove Springs have each given FMPA notice pursuant to Section 2 of the All-Requirements Power Supply Project Contract that the term of their respective contracts will not renew automatically each year after the initial contract term. The terms of their respective contracts are now fixed; Starke's contract terminates on October 1, 2036 and Green Cove Springs' contract terminates on October 1, 2037.

XI. Capacity and Energy Sales Contract

The All-Requirements Project has a contractual agreement with five member cities that own and operate generating facilities. These power plants are utilized by FMPA to meet the ARP power needs. The generating cities are compensated through capacity credits for power and reserves that they provide under the Capacity and Energy Sales Contracts between each city and FMPA.

Certain of the St. Lucie Project participants have entered into an agreement to sell capacity and energy to the All-Requirements Project. The All-Requirements Project has agreed to provide reserves and back-up capacity and energy for these sales. FMPA has been appointed as agent in the administration of this contract.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

XII. Mutual Aid Agreement

The All-Requirements Project has agreed to participate in a mutual aid agreement with seven other utilities for an extended outage of a defined base-load generating unit. The participants include the city of Tallahassee, Gainesville Regional Utilities, JEA, Lakeland Electric, Orlando Utilities Commission, Municipal Electric Authority of Georgia, and Seminole Electric Cooperative, Inc. The All-Requirements Project will receive 80 MW at a price based on gas indices and a fixed heat rate, in the event of a loss of Cane Island Unit 3. The project would receive 60 MW each for outages at Stanton Unit 1 and Stanton Unit 2. In the event of any extended outage from any other participants, the project would provide between 4 MW and 7 MW for a maximum of nine months. This agreement expires on October 7, 2007.

XIII. Employment Benefits

A Deferred Compensation Plan (in accordance with the Internal Revenue Code Section 457) and a Defined Contribution Pension (money purchase) Plan (under the Internal Revenue Code Section 401(a)) are offered to the Agency's full-time employees who become fully vested after six months of employment. FMPA's contribution is 10% of the individual's gross base salary. Total payroll for the year ended September 30, 2005 was \$4.3 million, which approximates covered payroll.

The Agency's contribution may be made to either plan at the discretion of the employee. Additionally, an employee may contribute to the Deferred Compensation Plan so that the combined annual contribution does not exceed 25% of their gross base payroll or \$14,000 for 2005. Assets of both plans are held by ICMA Retirement Corporation, the Plan Administrator and Trustee.

Expenses for the Deferred Compensation Plan during fiscal years 2005 were \$287 and \$419,729 for the Defined Money Purchase Pension Plan. Funds from these plans are not available to employees until termination or retirement, however funds from either plan can be made available, allowing an employee to borrow up to one half of their balance in the form of a loan.

FMPA also offers paid group health insurance to retired, full-time employees over the age of 55 who have a combined total of at least 900 months of age plus months of active service. This insurance is secondary to Medicare. Currently, FMPA has six retirees receiving this benefit. The cost to FMPA for fiscal year 2005 was approximately \$45,000. Expenses for post-retirement health care benefits are recognized as premiums when due.

XIV. Risk Management

The Agency is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, injuries to employees and the public and damage to property of others. In addition, FMPA enters into contracts with third parties, some of whom are empowered to act as its agents in order to carry out the purpose of the contracts.

These contracts subject FMPA to varying degrees and types of risk. The Agency has purchased commercial insurance that management believes is adequate to cover these various risks. In fiscal year 2005, FMPA elected to self-insure the Agency's risk for general liability. No other significant changes in insurance coverage have occurred. At no point have settlements exceeded coverage in the past two fiscal years.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

XIV. Risk Management (continued)

The Agency has established a Risk Oversight Committee (ROC) made up of some of FMPA's Board of Directors members and has assigned corporate risk management to its Chief Financial Officer. Risk Management also includes an internal group of managers representing all aspects of the Agency's operations. This group, known as the Risk Management Group (RMG), supports the risk oversight function in cooperation with the CFO/Risk Manager.

FMPA has created an Agency-Wide Risk Management Policy that addresses key risk areas including, but not limited to, energy, debt, investment, insurance, credit and contracts.

XV. Interest Arbitrage and Rebate

A rebate payable to the Internal Revenue Service (IRS) is calculated based on the investment of bond proceeds in financial instruments that yield interest income that is higher than the interest of the debt. This rebate is payable to the IRS within five years of the date of the bond offering and each consecutive five years thereafter.

The potential arbitrage liability at September 30, 2005 for each of the projects is as follows:

| | |
|----------------------------|--------------|
| • All-Requirements Project | \$ 81,608 |
| • St. Lucie | \$ 2,106,692 |
| • Stanton II Project | \$ 396,180 |
| • Tri-City Project | \$ 36,917 |

XVI. Related Party Transactions

A. Governing Members and Committees

Each of the 29 members of FMPA appoints a member to the Board of Directors of FMPA (the Board). The Board has responsibility for developing and approving FMPA's budget, hiring of the General Manager and General Counsel and establishing the Agency's bylaws, which govern how FMPA operates and the policies which implement such bylaws. The Board also authorizes all debt issued by FMPA. The Board elects a Chairman, Vice-Chairman, Secretary, Treasurer and an Executive Committee. The Executive Committee consists of nine members of the Board, elected by the Board, plus the current FMPA Chairman, Vice Chairman, Secretary and Treasurer of the Board. The officers of the Board also serve in the same positions of the Executive Committee.

The Executive Committee meets regularly to oversee FMPA's operations and approve expenditures and contracts. The Executive Committee also approves budgeted expenditure levels and authorizes additional work that may arise during the year that was not budgeted.

In order to facilitate the project decision-making process, there are project committees which are comprised of one representative from each participant in a project. The project committees serve in an advisory capacity, and all decisions concerning the project are decided by the Executive Committee or the Board of Directors, as appropriate.

Decisions of the Board of Directors are governed by a weighted voting system, with each member entitled to votes that are weighted based on retail kilowatt hour sales. A majority of the total votes represented on the Board must be present in order to establish a quorum. Actions of the Board of Directors require approval by a majority of the votes present.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

XVI. Related Party Transactions (continued)

B. Florida Gas Utility (FGU)

The All-Requirements Project has a contractual agreement to purchase natural gas from Florida Gas Utility (FGU) and accounts for approximately 70% of FGU's sales of natural gas.

XVII. Subsequent Events

City of Vero Beach

Arbitration

Subsequent to year end (October 11, 2005), the Agency received the award of the Panel of Arbitrators deciding all contested issues in the arbitration in favor of FMPA, and awarding certain of FMPA's costs (totaling \$25,000) to be paid by the city of Vero Beach.

Contract Rate of Delivery

The city of Vero Beach has notified FMPA that it will limit its All-Requirements Service, as defined in the All-Requirements Power Supply Project Contract (ARP Contract) as permitted pursuant to Section 3 thereof. The limitations will commence January 1, 2010 and continue for the term of the ARP Contract. No further action has been taken by FMPA.

Public Gas Partners

On October 1, 2005, FMPA signed agreements to participate in PGP Gas Supply #2 (PGP Pool #2). This pool was formed to participate in specific transactions that have different acquisition criteria from PGP Pool #1. PGP Pool #2 has a total expenditure limit of \$200 million with FMPA's share being \$50.0 million as authorized by the Board (before step-up provisions which would increase ARP's commitment to a maximum of \$62.5 million). The other members of PGP Pool #2, along with FMPA, include Municipal Gas Authority of Georgia, Patriots Energy Group, Southeast Alabama Gas District and Tennessee Energy Acquisition Corporation. PGP Pool #2 has made commitments of approximately \$73 million to date with FMPA's share being approximately \$19 million.

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