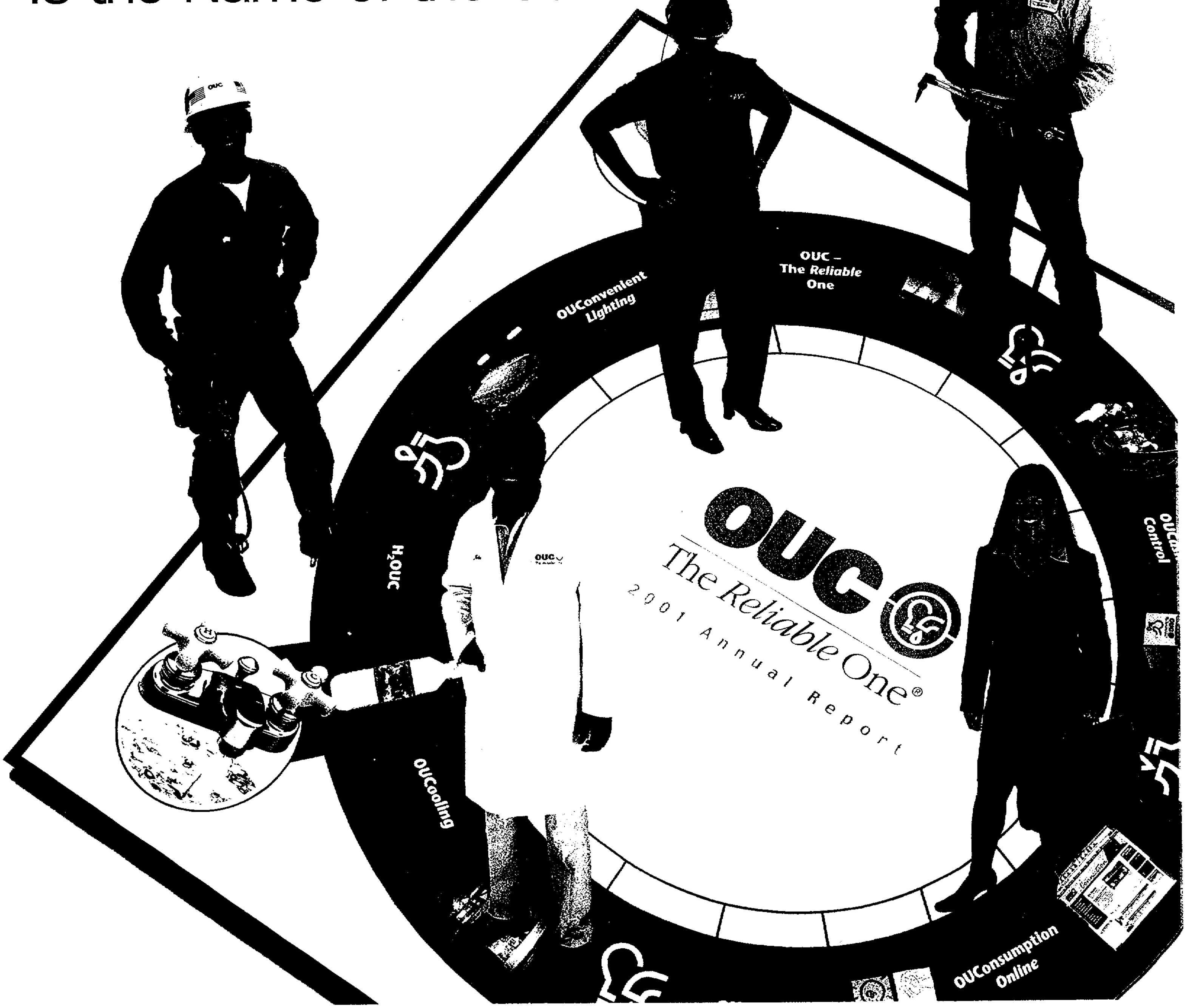
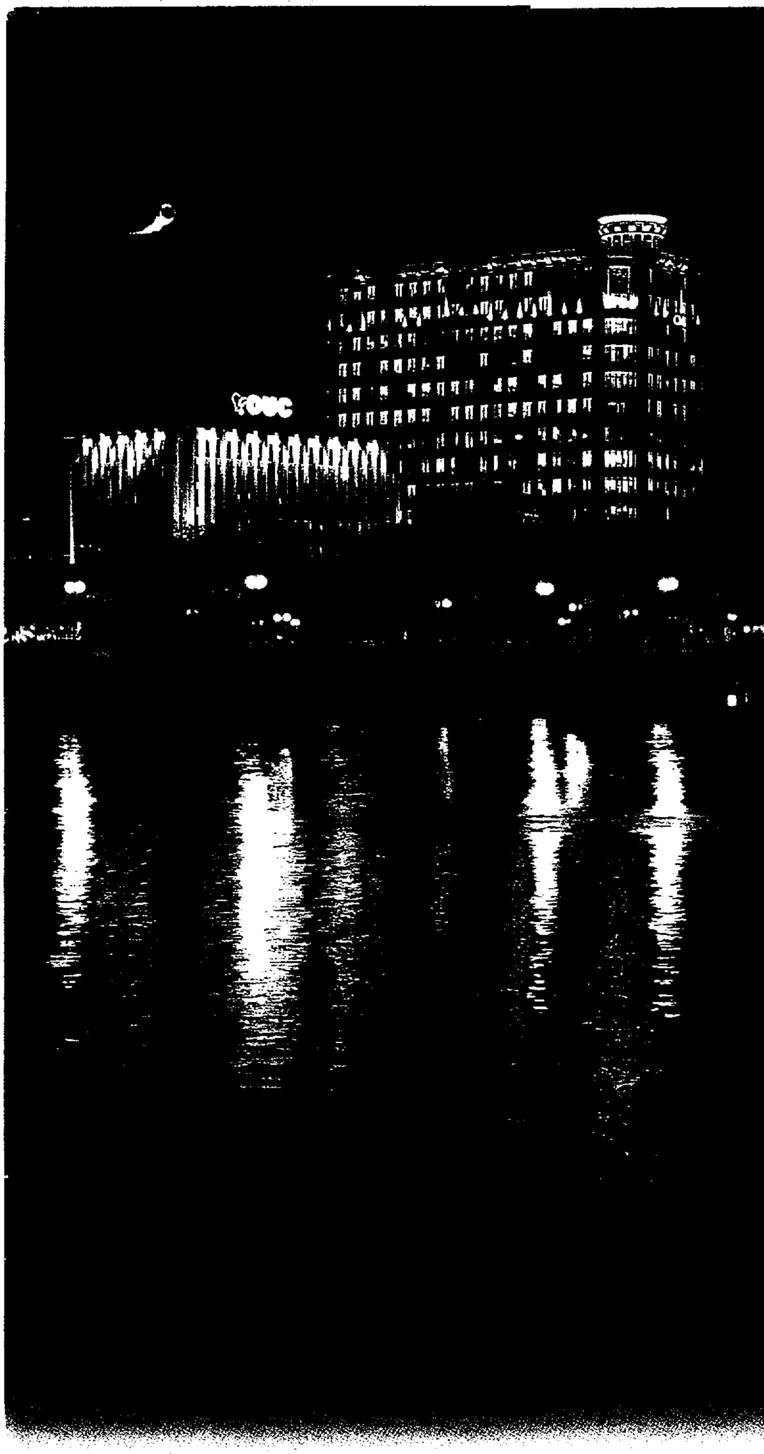
RELIABILITY
Is the Name of the Game





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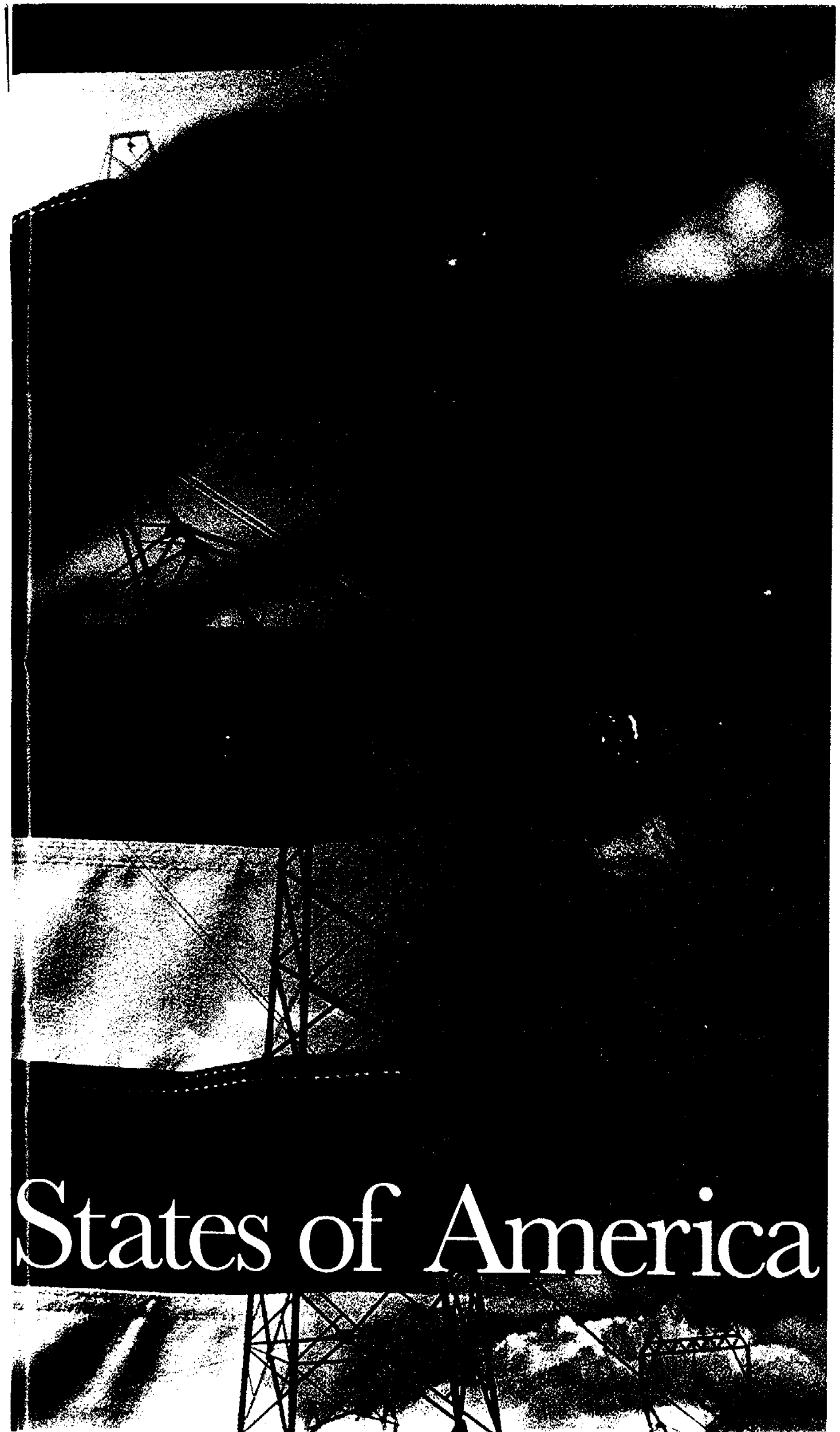
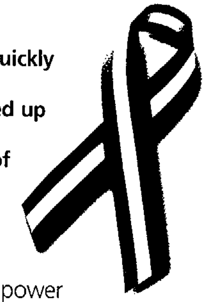
Pictured on cover (clockwise): Jeff Gustafson (Line Technician), Debra Harvard (Customer Service Representative), Joe Yarborough (Technician), Zoila Puig (Associate General Counsel), and John Gray (Manager, Water Quality Lab)

Pictured on page 2: Sam Smiling (Line Technician)

It's All in the Name: United





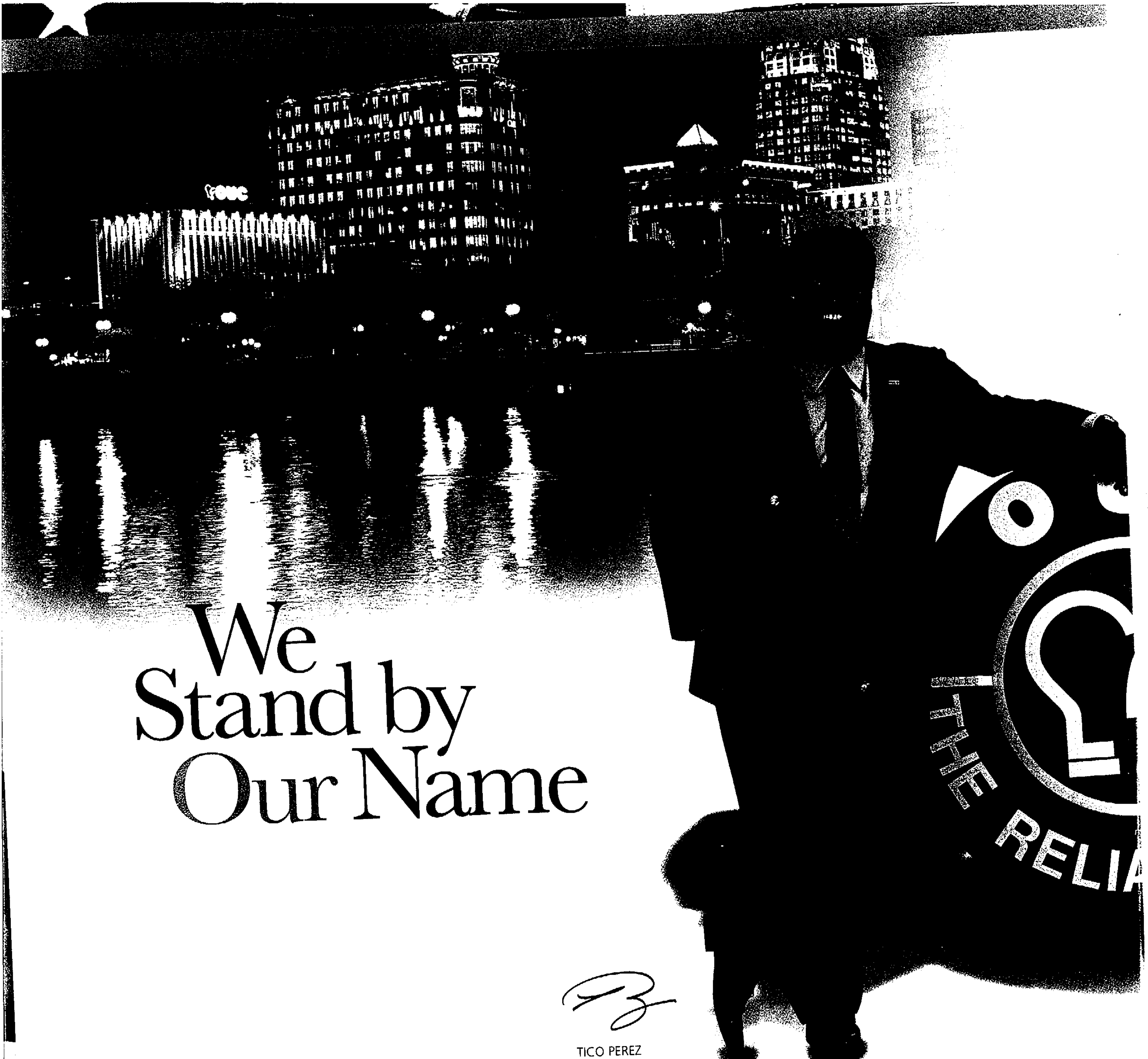
Like other utilities across America, OUC quickly tightened access to its facilities and stepped up other security measures in the aftermath of the tragic events of September 11, 2001.

We increased security at our water plants, power plants, substations and office buildings. We made sure that our key facilities were a top priority for local law enforcement patrols. And we instituted a litany of other security measures, such as reinforcing entrance gates at our properties and requiring all visitors to show picture ID upon arrival.

To us, these measures were reasonable and prudent, and employees and visitors have adjusted to the changes easily.

At OUC, the safety of our people and assets has always been of paramount importance. Our water plants are equipped with intrusion-detection systems, alarms, cameras and security fences around the perimeter of the properties. We also have limited employee access to facilities that are crucial to delivering electricity and water to our customers.

The threat of terrorism has created a new level of vigilance at OUC — and we intend to stay at this new level. OUC is confident that its infrastructure for providing reliable service is safe and secure, and the company continues to explore new ways to enhance security while maintaining productive and comfortable working conditions.



We Stand by Our Name

TICO PEREZ
Commission President

Here at OUC, reliability is the name of the game.
Always has been, always will be.

So in that respect, nothing changed at OUC – The *Reliable* One in fiscal year 2001. We're still delivering the most dependable electric and water services in the state of Florida. And, of course, we're still your hometown utility, where policy decisions are made by people who live in this community and who answer to its residents.

But in many other respects, last year was anything but routine at OUC. We won regulatory approvals for an exciting new power generation project with Southern Company, we rolled out even more products and services for our valued customers and, naturally, we stepped up security in the face of America's new terrorism threat.

As our customer base grew and demand for services increased, revenues hit an all-time high in fiscal 2001. Net income also increased, enabling us to set aside additional funds to prepare for deregulation while continuing our financial transfer to our owners, the City of Orlando.

We saw solid growth in *OUCooling*, our chilled water service for commercial air-conditioning systems, and in OUConvenient*Lighting*, the utility's lighting division. Meanwhile, we pressed forward with plans for even more offerings for our 168,000 customers. Among the soon-to-come services: residential lighting (decorative and security) and prepaid electric metering, which gives users greater control over their consumption while helping them conserve energy, too.

Speaking of conservation, OUC continued encouraging residents to use electricity and water more efficiently. Again faced with low rainfall levels, we spread the word about the need for protecting our all-important water resources — and even implemented water conservation rates that provide incentives to use less.

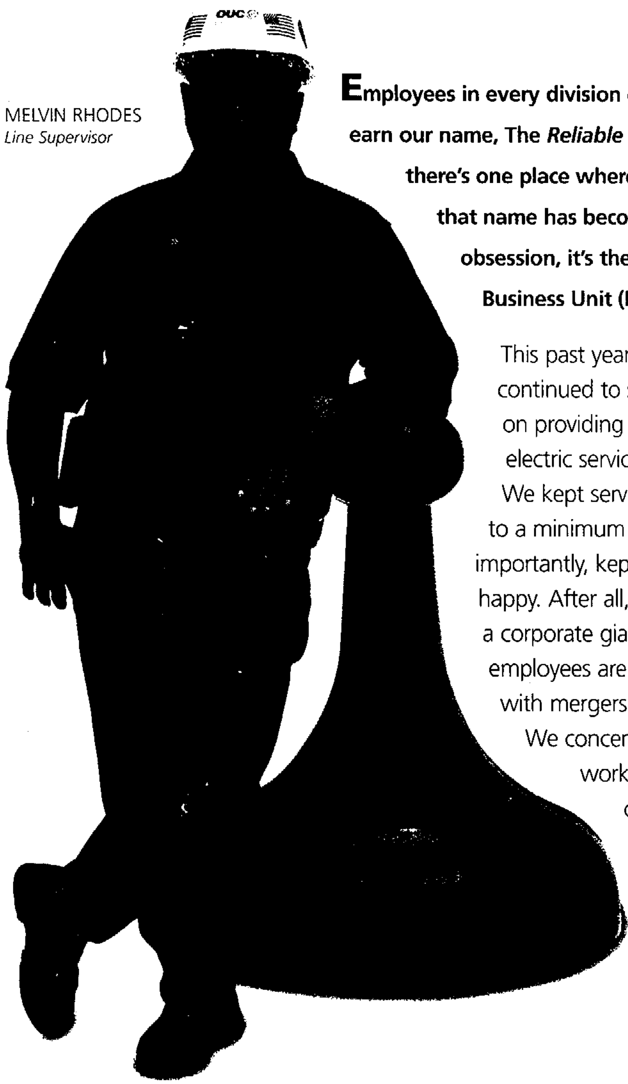
Even as electric industry restructuring slowed in Florida, we worked diligently with other utilities and power marketers to solidify a federally mandated regional transmission organization.

Above all, last year saw OUC strengthen its core competencies while enhancing its customer service. For as long as anyone can remember, the utility's primary objective has been to deliver reliable, low-cost electric and water services. And we're accomplishing that and more.

The *Reliable* One is not just our name.
It's a driving force behind everything we do.

ROBERT C. HAVEN, P.E.
General Manager and CEO

Worthy of the Name



MELVIN RHODES
Line Supervisor

Employees in every division of OUC help earn our name, The *Reliable* One. But if there's one place where living up to that name has become almost an obsession, it's the Energy Delivery Business Unit (EDBU).

This past year, EDBU continued to sharpen its focus on providing the most reliable electric service possible. We kept service interruptions to a minimum and, most importantly, kept our customers happy. After all, we're not a corporate giant whose employees are preoccupied with mergers and layoffs. We concentrate on working hard for our customers and maintaining "hometown" relationships with the communities we serve.

OUC line technicians restore service quickly and safely, even in inclement weather.

The keys to our success are many. For starters, OUC uses electric system equipment specifically designed to protect against lightning and handle Central Florida's other harsh weather conditions. Also, nearly 50 percent of our distribution system is underground, protecting it from trees and high wind.

Among the other reasons for OUC's dependability: proactive maintenance programs to identify and correct potential problems, proactive replacement of old equipment, and a tree-trimming program that minimizes tree-related service disruptions while maintaining a healthy, beautiful tree canopy.

To further minimize outage time, EDBU fine-tuned its approach to scheduling personnel in fiscal 2001. The business unit now deploys multiple layers of response staff, including overnight trouble crews, to expedite power restoration.

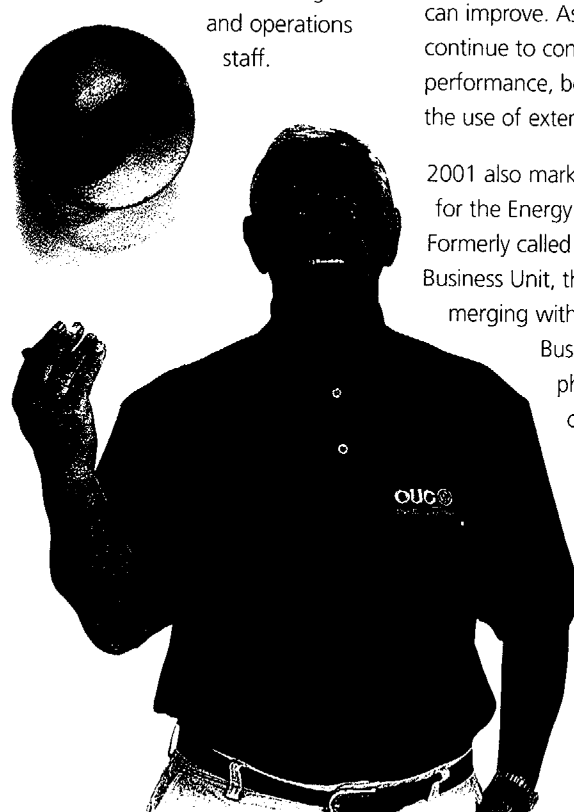
In addition, OUC schedules a contingent of personnel who can be immediately redirected from performing routine work to resolve trouble calls. To increase the accuracy, speed and safety of these restorations, OUC has implemented mobile map access — via laptop computer — for its troubleshooting and operations staff.

"Above all, our talented and dedicated employees should take the credit for making us The *Reliable* One," says Ken Ksionek, Vice President of the Energy Delivery Business Unit.

At different points last year, we pushed the average annual customer interruption to below 32 minutes in Orlando and below 62 minutes in St. Cloud. While the numbers rose during the year's active storm season, OUC still maintained the solid reliability our customers have come to expect.

Another utility recently questioned OUC's reliability, so we commissioned an independent audit of our own data. The results affirmed the excellence of our system performance, as well as the way we document it, while also pointing to ways we can improve. As we move forward, OUC will continue to conduct systematic reviews of its performance, both internally and through the use of external auditors.

2001 also marked a historic milestone for the Energy Delivery Business Unit. Formerly called the Electric Distribution Business Unit, the unit was renamed after merging with OUC's Electric Transmission Business Unit, which is being phased out with the anticipated creation of a regional, independent transmission organization.



EMIL KUNZ
Chief Relay Technician

SOUTHERN COMPANY
Energy to Serve Your World®

A Big Name in the Industry

Plans call for Stanton A to be operational in fall 2003.

Over the past year, OUC and its big-name partner — Southern Company — laid the groundwork for an important power generation project called Stanton A.

Site work for the 633-megawatt unit has already begun at OUC's Stanton Energy Center, with completion slated for fall 2003. Aside from giving our community the additional juice it needs for the future, the natural gas-fired unit will feature the most efficient, environmentally advanced technology available.

This is an exciting project that carries a substantial capital investment. It will create both good-paying construction jobs and a number of permanent positions. That's fantastic news for our community, considering recent layoffs in the tourism industry and other downward economic indicators.

Construction of Stanton A represents the third phase of OUC's comprehensive asset restructuring program. The program is aimed at diversifying and balancing OUC's mix of power generation resources to ensure "a competitively priced, reliable and environmentally clean asset base," says Fred Haddad, Vice President of OUC Power Resources.

PATTY WHITTAKER
Administrative Specialist
Stanton Energy Center

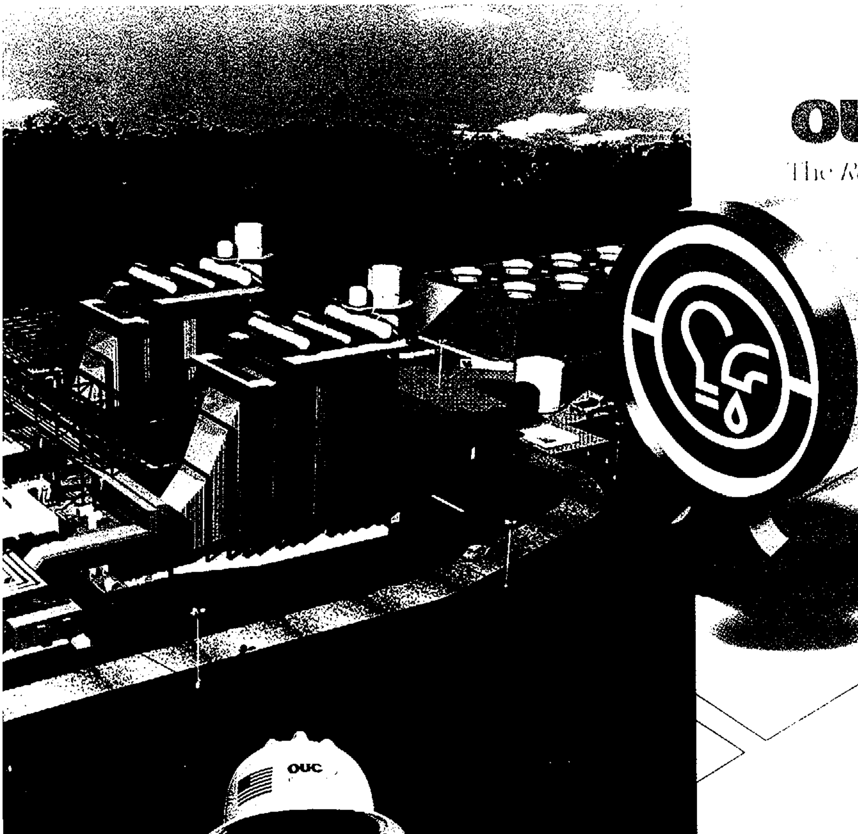
The first phase of the program was selling our oldest power plant assets, the Indian River steam units.

The second phase was launching an Energy Risk Management Program that utilizes financial tools to hedge and stabilize fuel prices in the face of unprecedented market volatility.

"Our multifaceted strategy gives us the flexibility to maneuver in an uncertain energy market," Haddad says. "We've now reached a point where we're focused on fine-tuning our position and making adjustments to our strategy as the markets continue to move."

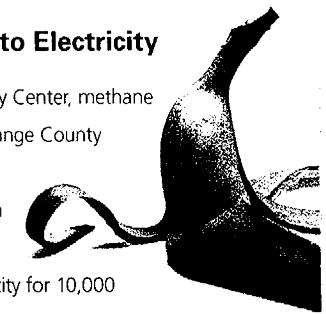
OUC

The *Reliable* One

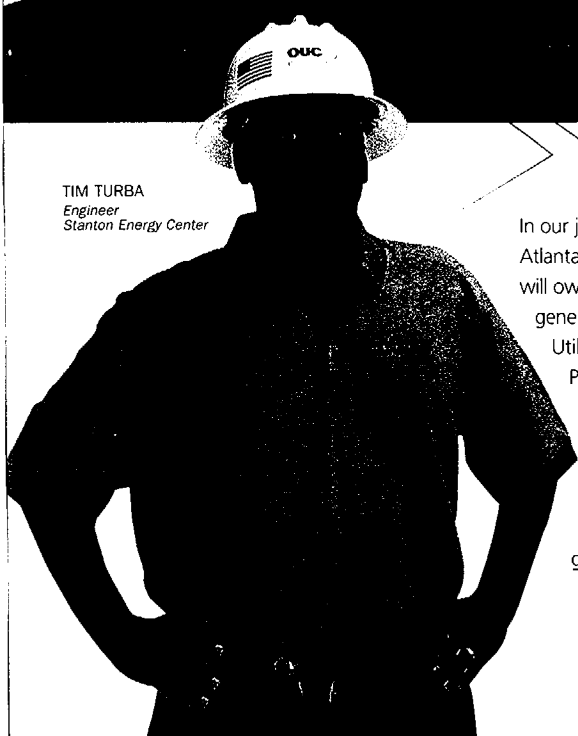


Green Power

Turning Trash into Electricity



At OUC's Stanton Energy Center, methane gas from the nearby Orange County landfill is used as fuel to generate electricity. Each day, this green power provides enough electricity for 10,000 homes while reducing methane gas emissions from the landfill. The methane gas displaces more than 3 percent of the coal required for either Stanton Unit I or Unit II, saving OUC about $1.25 million a year in fuel costs.



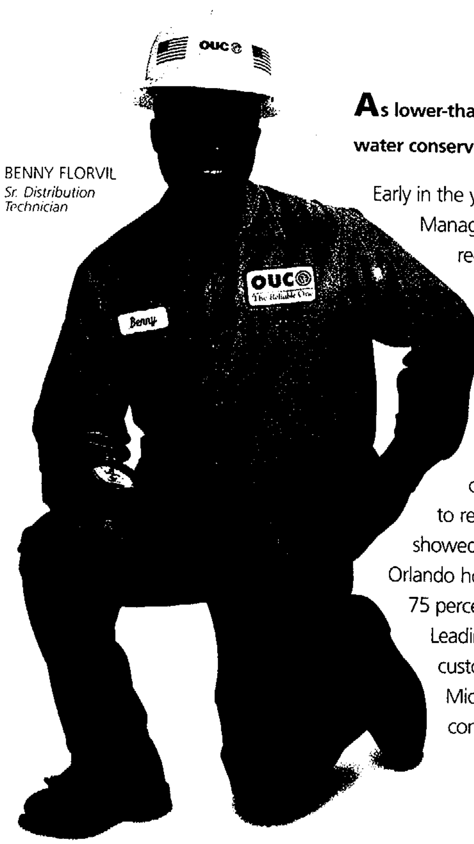
TIM TURBA
Engineer
Stanton Energy Center

In our joint development partnership with Atlanta-based Southern Company, OUC will own nearly a third of the new generation unit's output. The Kissimmee Utility Authority and Florida Municipal Power Agency will each own 3.5 percent. Southern Company will own the remaining 65 percent. Under an initial 10-year contract, OUC, KUA and FMPA will purchase all of Southern Company's generating capacity.

A highlight of 2001 was seeing Stanton A make its way through the permitting process with relative ease, winning the approval of Governor Jeb Bush and his cabinet in September. Regulating agencies focused on the unit's environmentally clean technology as well as the region's need for additional generation.

The new unit will undoubtedly afford OUC even more stability, reliability and price protection in the future. And that means good things for retail customers — our No. 1 priority — and for our wholesale customers as well.

Conservation Is Our Middle Name

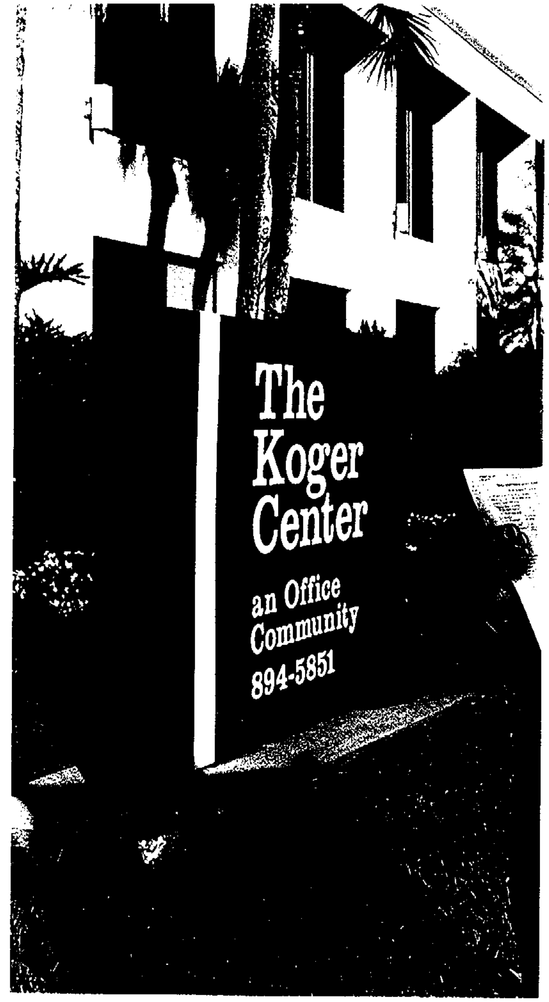


BENNY FLORVIL
Sr. Distribution Technician

As lower-than-normal rainfall levels continued, water conservation was the buzz in 2001.

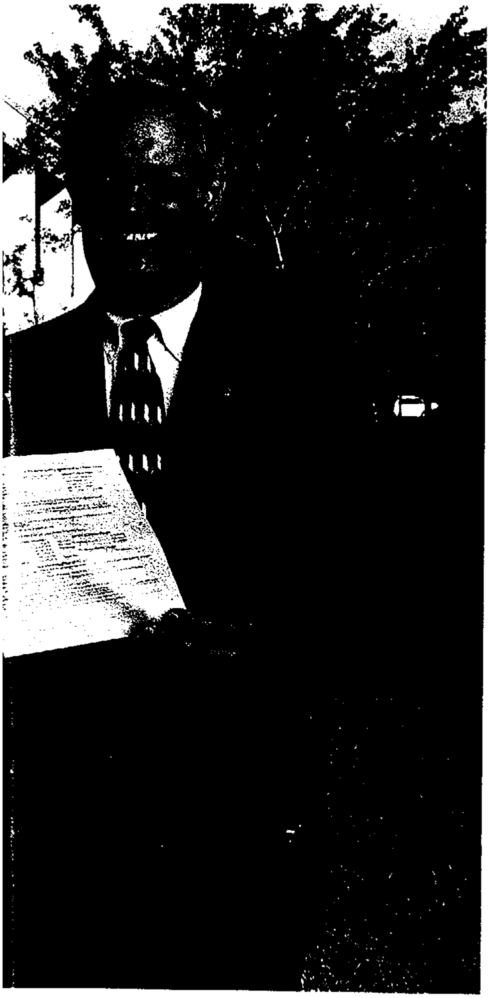
Early in the year, the St. Johns River Water Management District handed down an order requiring utilities to reduce draws from the underground aquifer — OUC's water source — by 15 percent. We quickly achieved that goal and then some.

Bolstered by a strong public relations push, OUC met with the city's largest commercial and residential customers to reduce water usage. In one case, we showed the Koger Center office complex in Orlando how to reduce its consumption by up to 75 percent and save millions of gallons a year. Leading our face-to-face meetings with customers was OUC "conservation czar" Michael Malone, the utility's first full-time conservation coordinator.



OUC worked with Dudley Bates, General Manager of the Koger Center near consumption by up to 75 percent and reduce its utility bill.

OUC spread its "save water" message through bill inserts as well as television, radio and newspaper promotions. In addition, we implemented conservation rates that reward customers with lower rates as they use less water. The combined efforts were an unqualified success, with OUC water flows down more than 17 percent for the first nine months of 2001.



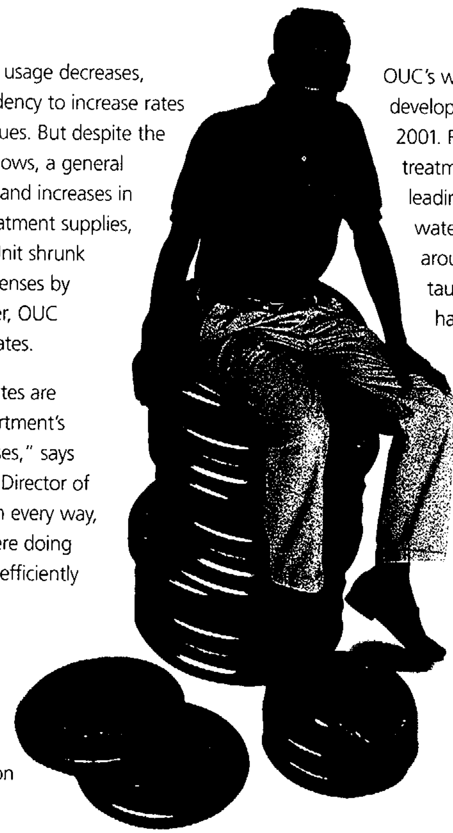
Orlando Fashion Square, to cut the business park's water

"We have an obligation to reduce flows by as much as possible, and because of OUC's conservation efforts and other factors, we have achieved considerable success in that direction over the past year," says Rick Coleman, OUC's Director of Water Engineering and Technical Services.

Typically when water usage decreases, utilities have the tendency to increase rates to offset lower revenues. But despite the drop in OUC water flows, a general economic downturn and increases in the cost of water treatment supplies, the Water Business Unit shrunk overall operating expenses by 8 percent. Even better, OUC didn't have to raise rates.

"I think our steady rates are a tribute to our department's monitoring of expenses," says Rob Hungate, OUC's Director of Water Production. "In every way, we made sure we were doing what was needed as efficiently as possible."

Contributing to the Water Business Unit's healthy financial condition was the ongoing modernization of OUC's eight water treatment plants.

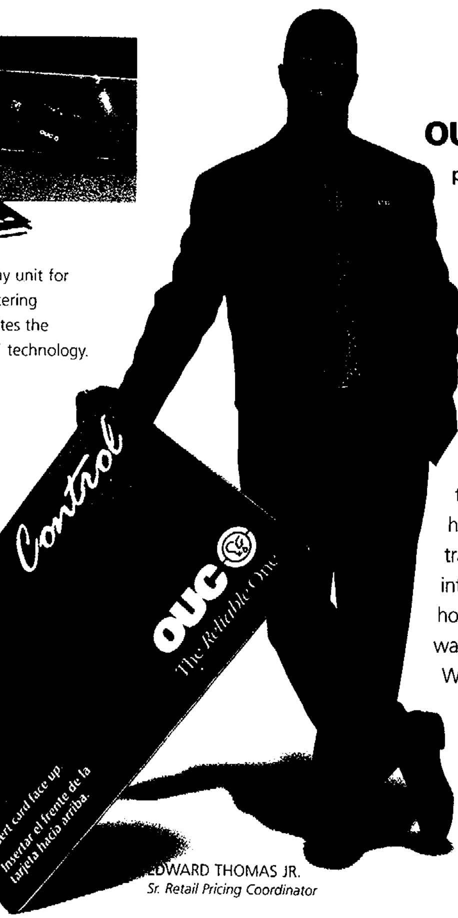


OUC's water professionals also developed new profit centers in 2001. For instance, our water treatment experts took a leading role in re-certifying water plant operators from around the region. Courses taught by OUC personnel have proven successful, not only creating a new revenue stream but also providing a useful networking opportunity for our team of experts.

MICHAEL MALONE
Water Conservation Coordinator

Making a Name for Ourselves

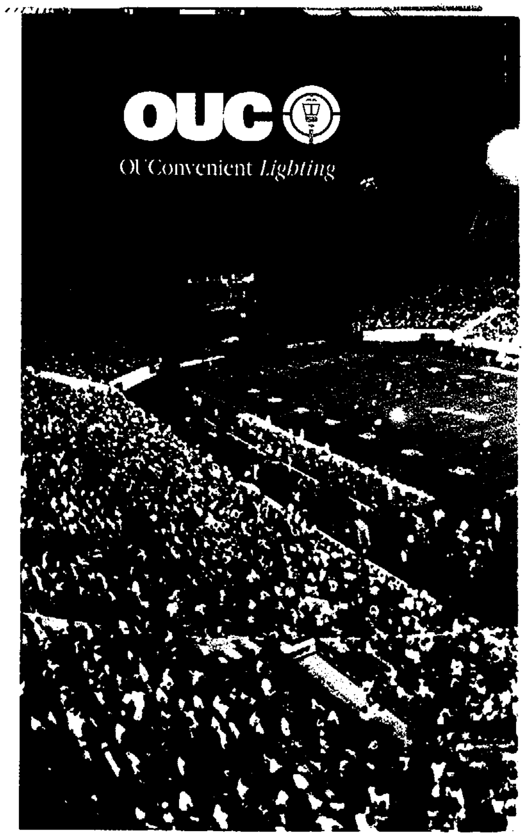
The in-home display unit for OUC's prepaid metering program incorporates the latest "smart card" technology.



EDWARD THOMAS JR.
Sr. Retail Pricing Coordinator

OUC further expanded its product and service offerings to provide more convenience to customers last year. We also implemented new programs to help people save energy, water and money.

On the residential side, we greatly extended the reach of our free home energy audits. OUC traditionally has sent auditors into the field to show residents how to maximize the energy and water efficiency of their homes. While we still provide that service, we now also offer an OUC home energy audit online (www.ouc.com) as well as in videotape and CD-ROM formats.



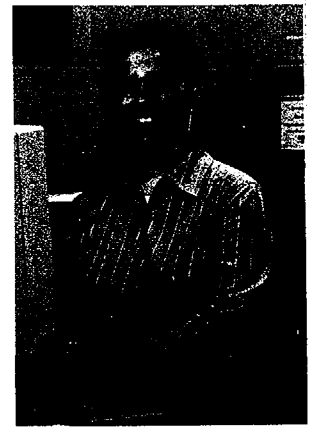
"Customers can simply go to their desktop computers for the same level of information they would get from meeting with one of our auditors," says Doug Spencer, Vice President of the OUCustomer *Connection*.

In the works are other money-saving programs. In fact, a test group of customers is already using the utility's new prepaid electric metering program — branded *OUCash Control*. The system gives customers greater control over their energy consumption and enables them to monitor their usage.

In areas of the country where prepaid metering is common, users have been able to cut their consumption by 10 to 15 percent. We expect to see similar results.

At the Citrus Bowl, OUConvenient *Lighting* has increased the stadium's brightness while reducing its energy costs.

VALERIE AMILIBIA
Customer Service Analyst



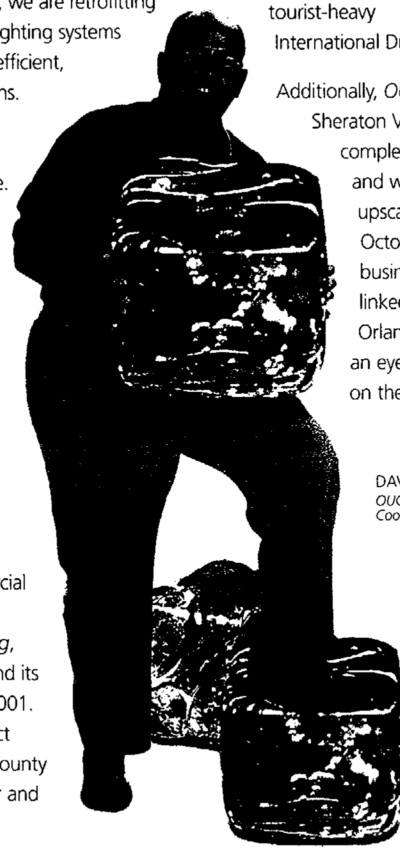
We're also planning to roll out a residential lighting program under the OUConvenient *Lighting* banner. We will offer a variety of decorative and security lighting fixtures and even provide installation — all at competitive prices and with the rock-solid reliability people have come to expect from OUC.

Speaking of OUConvenient *Lighting*, the commercial side of that business attracted considerably more attention last year from office parks, sports complexes and other developments. For instance, under a new 10-year contract with the City of Orlando, the lighting division began providing complete installation and maintenance of the Citrus Bowl's field lighting. We replaced the stadium's old field lights with higher-output, energy-efficient lights. In fact, we installed half as many fixtures as before and still increased the stadium's brightness — while reducing energy costs.

Also last year, OUC inaugurated its Lighting Retrofit Program for commercial customers. Under the program, we are retrofitting customers' indoor lighting systems with more energy-efficient, cost-effective systems. Energy savings are projected in the 65 to 70 percent range.

In return for the new lights, customers are reimbursing OUC with the money they save until the equipment is paid off, which usually takes just three to four years.

Our chilled water service for commercial air-conditioning systems, *OUCooling*, continued to expand its horizons in fiscal 2001. Through its contract with the Orange County Convention Center and a new arrangement with nearby Lockheed Martin, *OUCooling* is poised to offer its low-cost, hassle-free service to a number of hotels and other properties along tourist-heavy International Drive.



Additionally, *OUCooling* is serving the Sheraton Vistana Villages timeshare complex in south Orange County and will begin serving the upscale Mall at Millenia in October 2002. The chilled water business, with nine customers linked to its south downtown Orlando "loop," is also casting an eye toward a similar project on the north side of downtown.

DAVE SAILER
OUCooling Operations Coordinator

OUCooling
A TRIGEN-CINERGY SOLUTIONS Service

You Name It, We Do It

OUC informs its customers through a variety of printed materials, videos and CD-ROMs.

Marketing, Communications & Community Relations

When it comes to community involvement, OUC has energy to burn. Employees at all levels of the company participate in charitable activities, serve on non-profit boards and contribute their time and money to good causes.

In the aftermath of the terror attacks in New York and Washington, D.C., OUC employees donated more than $20,000 to the September 11th Fund. The utility matched employee contributions — plus nearly $2,400 donated by students at downtown Orlando's Passport Charter School — bringing OUC's total contribution to more than $45,000.

OUC's community involvement is one of the many responsibilities of Marketing, Communications & Community Relations (MCCR). Among the department's other duties: advertising, public information, media relations and office services.

While it concentrated on promoting conservation (energy and water) in fiscal 2001, MCCR also spread the word about *OUCooling*, OUConvenient *Lighting* and the utility's many other products and services.

"We create a comprehensive marketing plan for every one of our services," says Roseann Harrington, Vice President of MCCR. "Our strategy is aimed at generating immediate and long-term interest in OUC services while continually strengthening our brand as The *Reliable* One."

SAVE POWER, SAVE MONEY!

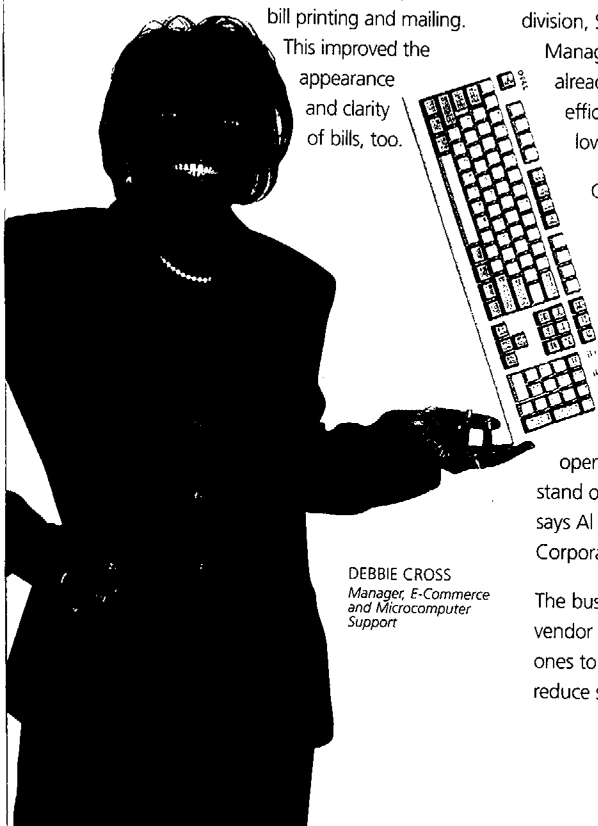
Information Technology

Our newly restructured Information Technology division, under the direction of Chief Information Officer Tom Washburn, had a busy first year. By the end of fiscal 2001, some 40 IT initiatives were under review by our Technical Prioritization Committee, which ensures that projects are developed with an eye toward company-wide integration.

IT is making sure all new systems can exchange data or "talk to" other systems. For instance, power outage information collected by our new Energy Management System soon will be linked to the customer trouble call data collected by our Outage Management System. This will speed the process of restoring power and notifying customers of restoration status.

MIKE CONNER
Maintenance Technician

2001 was a year of system enhancements at OUC. Upgrades were made to STORMS, the project management software used by electric and water engineering departments, as well as to our JD Edwards OneWorld program, which handles business and accounting tasks. We also made improvements to our Customer Information System (CIS), which collects meter readings and processes bills. To achieve more bill processing flexibility, we began sending bill data to ComTech, a vendor that provides bill printing and mailing. This improved the appearance and clarity of bills, too.



DEBBIE CROSS
Manager, E-Commerce and Microcomputer Support

Corporate Services

After a year of intensive evaluation and reorganization, Corporate Services is seeing its efforts pay off. For example, streamlining the Purchasing and Materials Management divisions into a single division, Supply Chain Management, has already led to more efficiencies and lower costs.

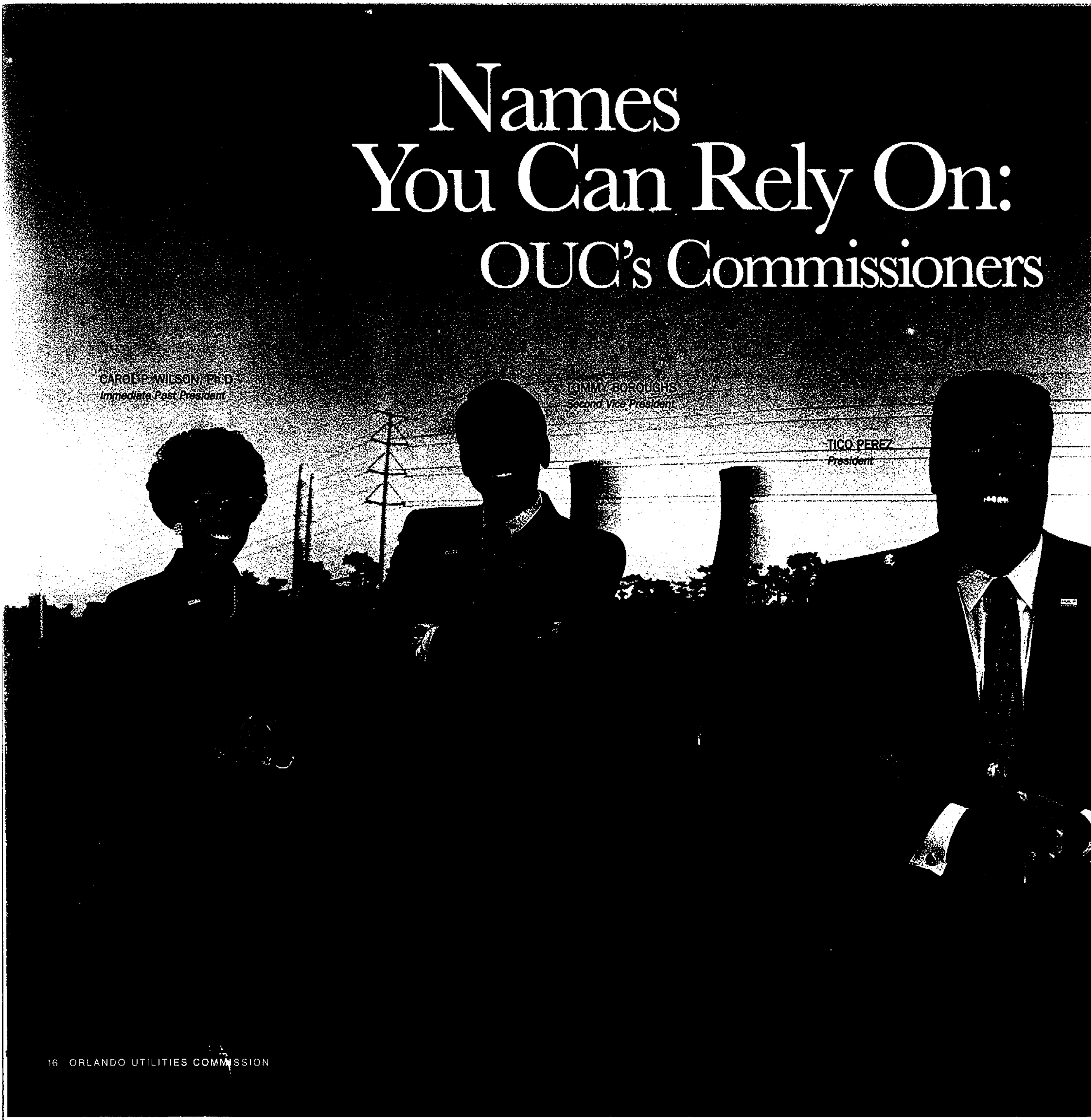
Corporate Services supports all areas of OUC, providing everything from human resources and environmental engineering to safety and security. "As pillars of this organization, our job is to stand behind the scene and make sure the curtain opens and closes properly, not to stand out front and take the bows," says Al Frazier, Vice President of Corporate Services.

The business unit continues to forge new vendor partnerships and expand existing ones to outsource costly functions and reduce standing inventories. Last year alone, OUC's new lease arrangement with Wesco enabled us to remove more than $2 million in standing electric transformer stocks. In another example, our new automotive parts partnership with NAPA reduced operating costs by $220,000 in fiscal 2001.

However, not all savings are created through outsourcing. We brought tool and equipment repair in house, which resulted in savings of nearly 75 percent over the use of outside vendors. Other achievements last year include a 14 percent increase in OUC's utilization of minority- and women-owned business vendors and the installation of new energy conservation lighting at OUC facilities. Perhaps most important of all, OUC reached a major safety milestone, completing more than 1.4 million work hours without an injury requiring time away from the job.

"The success of Corporate Services is measured by how effectively the entire organization performs its job," Frazier says.

Names You Can Rely On: OUC's Commissioners



CAROL P. WILSON, Ph.D.
Immediate Past President

TOMMY BOROUGHS
Second Vice President

TICO PEREZ
President

Behind every successful organization is successful — *and reliable* — leadership.

OUC's five-member governing board, known as the Commission, is responsible for setting the utility's rates and operating policies. Collectively, our current board members have provided more than 30 years of service to OUC.

All Commissioners, with the exception of the Mayor of Orlando (an ex officio member), can serve up to two consecutive four-year terms. They serve without compensation.

RAY D. McCLEESE
First Vice President

THE HONORABLE
GLENDA HOOD
Mayor — Commissioner

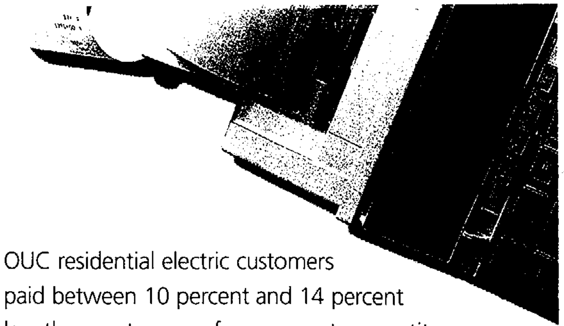
Statistical Highlights

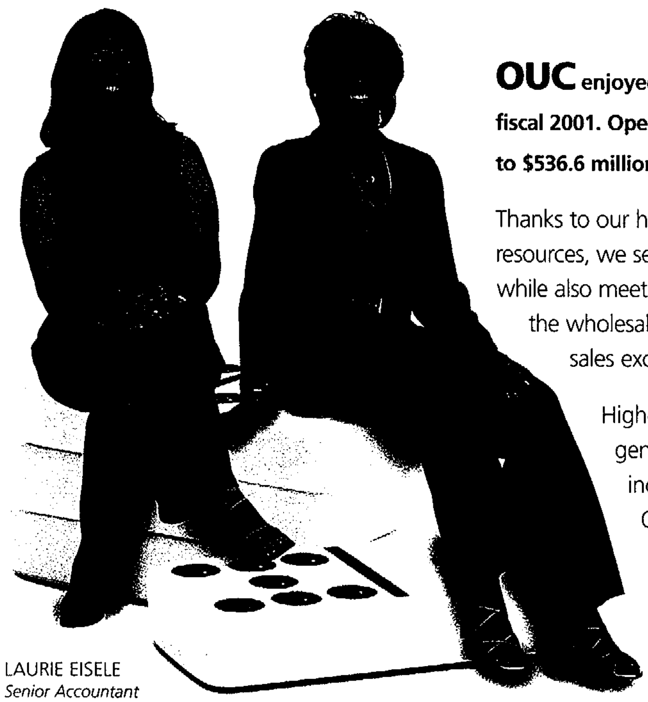
(Dollars in Thousands)

For Years Ended Sept. 30	2001	2000	% Increase (Decrease)	1991
COMBINED OPERATIONS				
Operating Revenues	$ 536,594	$ 501,131	7.1%	$ 309,452
Total Operating Expenses	446,564	407,979	9.5%	226,136
Interest and Other Income	52,223	50,703	3.0%	30,954
Interest and Other Expenses	88,768	92,548	-4.1%	84,181
Net Income	53,485	51,307	4.2%	30,089
Payments to City of Orlando	48,046	45,116	6.5%	28,200
Utility Plant (Net book value)	1,538,156	1,512,663	1.7%	1,024,585
Equity	619,783	598,431	3.6%	360,126
Long-term Debt	1,367,949	1,388,343	-1.5%	1,108,788
Total Assets	2,411,327	2,366,211	1.9%	1,605,308
Debt Service Coverage:				
Senior lien	4.34	4.17	4.1%	2.68
Junior lien	3.84	3.63	5.8%	4.63
Combined debt	2.17	2.07	4.8%	1.88
Senior Bond Ratings (1)	AA,Aa1,AA	AA,Aa1,AA		AAA,Aa1,AA
ELECTRIC BUSINESS UNIT				
Operating Revenues	$ 497,597	$ 454,236	9.5%	$ 289,962
Total Operating Expenses	$ 415,775	$ 377,143	10.2%	$ 209,997
Fuel and Purchased Power	$ 231,128	$ 204,656	12.9%	$ 103,233
Departmental Operations (2)	$ 184,647	$ 172,487	7.0%	$ 106,764
Total Sales (MWH)	7,633,910	7,335,720	4.1%	5,115,557
Total Retail Sales (MWH)	4,846,894	4,666,110	3.9%	3,546,436
Commercial/Industrial Sales	3,199,999	3,094,065	3.4%	2,339,469
Residential Sales	1,646,895	1,572,045	4.8%	1,206,967
Sales for Resales (MWH)	2,787,016	2,669,610	4.4%	1,569,121
Total Active Services (3)	149,735	146,765	2.0%	118,273
Residential	129,342	126,776	2.0%	102,033
Commercial/Industrial	20,393	19,989	2.0%	16,240
Average Annual Residential Use (KWH)	12,860	12,657	1.6%	11,829
Average Revenue per KWH				
Residential Sales	8.14¢	7.84¢	3.8%	7.56¢
Heating Degree Days	706	452	56.2%	304
Cooling Degree Days	3,278	3,389	-3.3%	3,875
Gross Peak Demand (MW)	1,030	1,028	0.2%	779
WATER BUSINESS UNIT				
Operating Revenues	$ 38,997	$ 46,895	-16.8%	$ 19,490
Total Operating Expenses	$ 30,789	$ 30,836	-0.2%	$ 16,139
Sales (In Thousands of Gallons)	29,305,811	33,185,930	-11.7%	24,498,992
Total Active Services	119,197	117,935	1.1%	100,352
Residential	95,254	94,643	0.6%	84,276
Commercial/Industrial	11,351	11,190	1.4%	10,073
Irrigation	12,592	12,102	4.0%	6,003
Average Annual Residential Customer Usage (Gal.)	159,000	180,000	-11.7%	151,000
Average Revenue per 1,000 gallons				
Residential Sales (Dollars Not in Thousands)	$ 1.41	$ 1.49	-5.4%	83.53¢
Rainfall (inches)	52.0	39.6	31.4%	59.6
Peak Pumping (Million Gallons per Day)	111.7	181.1	-38.3%	125.7

1. Bond Rating Agencies: Fitch Investors Service Inc., Moody's Investors Service, and Standard & Poor's, respectively.
2. All expenses less fuel and purchased power.
3. Total Active Services represents all metered services exclusive of St. Cloud, Florida.

Our Numbers Strengthen Our Name





LAURIE EISELE
Senior Accountant

ANGELA JOHNSON
Senior Accountant

OUC enjoyed another strong financial year in fiscal 2001. Operating revenues rose 7.1 percent to $536.6 million. Net income hit $53.5 million.

Thanks to our highly reliable power generation resources, we served our retail electric customers while also meeting the steady demand for power on the wholesale market. In fact, wholesale electric sales exceeded budget by 32 percent.

Higher prices for the fuel used to generate electricity forced OUC to increase its customer fuel charge in October 2000. A second increase followed in May 2001, the first mid-year fuel increase since 1987. Thanks to the fuel diversity of our power generation mix and support from our fuel stabilization fund, OUC's increases were lower than those of other Florida utilities. Throughout the year, OUC residential electric customers paid between 10 percent and 14 percent less than customers of our nearest competitor.

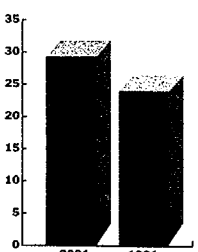
On the water side, consumption dropped 12 percent to 29.3 billion gallons in fiscal 2001. For the first nine months of calendar year 2001, consumption dropped by more than 17 percent. This was the result of several factors, including a strong public relations campaign urging conservation, new OUC water conservation rates and mandatory watering restrictions set by the region's water management districts.

OUC's financial strength allowed us to transfer $32.1 million to the City of Orlando to help pay for police and fire services, parks and playgrounds, and other important community services.

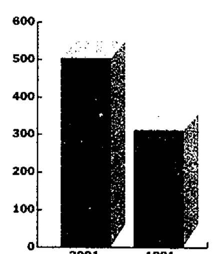
In affirming OUC's AA bond rating, credit agency Fitch cited the utility's "solid financial performance, low-cost generating resources, competitive retail rates and growing service territory." Moody's Investors Service and Standard & Poor's also assigned excellent ratings to OUC bonds — Aa1 and AA, respectively.

"OUC's continued financial strength is our primary objective," Vice President and Chief Financial Officer John Hearn says.

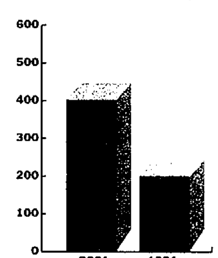
Total Electric Sales
(In Millions of Megawatt Hours)



Total Water Sales
(In Billions of Gallons)



Total Operating Revenues
(In Millions of Dollars)



Total Operating Expenses
(In Millions of Dollars)

Net Income
(In Millions of Dollars)

In a Competitive Game – Every Player Counts

Orlando Utilities Commission

September 30, 2001 and 2000

Audited Financial Statements

Commission Members & Officers

Tico Perez
President

Ray D. McCleese
First Vice President

Tommy Boroughs
Second Vice President

Carol P. Wilson, Ph.D.
Immediate Past President

Glenda E. Hood
Mayor – Commissioner

Robert C. Haven, P.E.
Secretary

John E. Hearn
Betty J. Perrow
Sharon L. Knudsen
Assistant Secretaries

Management

Robert C. Haven, P.E.
General Manager and Chief Executive Officer

Alvin C. Frazier
Vice President Corporate Services

Frederick F. Haddad, Jr.
Vice President Power Resources Business Unit

Roseann E. Harrington
Vice President Marketing, Communications & Community Relations

John E. Hearn
Vice President and Chief Financial Officer Financial Services

Kenneth P. Ksionek
Vice President Energy Delivery Business Unit

Douglas M. Spencer
Vice President OUCustomer Connection

Thomas B. Tart, Esq.
Vice President and General Counsel

Thomas E. Washburn
Vice President Transmission Business Unit and Chief Information Officer

Contents

Balance Sheets

ASSETS

(Dollars in Thousands)	September 30 2001	September 30 2000
Utility Plant		
In Service:		
Electric	$1,681,407	$1,626,201
Water	332,097	311,621
Common	133,535	125,918
Allowances for depreciation and amortization (deduction)	(672,077)	(594,383)
	1,474,962	1,469,357
Donated Utility Plant (Net)	(8,243)	–
Construction work in progress	71,437	43,306
Total Utility Plant (Net)	**1,538,156**	**1,512,663**
Restricted and Internally Designated Assets		
Debt service and related funds	177,379	176,603
Renewal and replacement fund	47,522	47,883
Construction and related funds	24,557	61,898
Customer meter deposits	15,008	13,420
Total restricted assets	264,466	299,804
Liability reduction fund	328,917	307,422
Stabilization funds	73,024	43,757
Self-insurance fund	4,527	4,589
Total internally designated assets	406,468	355,768
Total Restricted and Designated Assets	**670,934**	**655,572**
Current Assets		
Cash and investments	55,294	39,097
Customer accounts receivable, less allowance for doubtful accounts (2001 — $1,518, 2000 — $2,036)	58,243	70,497
Accrued utility revenue	23,668	21,826
Fuel for generation	4,716	3,650
Materials and supplies inventory	26,342	26,603
Accrued interest receivable	2,700	8,271
Miscellaneous receivables and prepaid expenses	19,142	17,167
Total Current Assets	**190,105**	**187,111**
Other Assets		
Deferred interest expense	8,569	8,977
Unamortized debt issuance costs	2,079	1,888
Other deferred costs	1,484	–
Total Other Assets	**12,132**	**10,865**
Total Assets	**$2,411,327**	**$2,366,211**

See notes to the financial statements.

CAPITALIZATION

(Dollars in Thousands)	September 30 2001	2000
Equity		
Retained earnings:		
Reserved for debt service	$114,294	$114,039
Reserved for renewal and replacement	47,522	47,883
Unreserved — invested in or designated for plant and working capital	323,401	297,867
Total Retained Earnings	485,217	459,789
Contributed Capital	134,566	138,642
Total Equity	**619,783**	**598,431**
Long-Term Debt		
Bond and note principal	1,475,100	1,501,385
Unamortized discount and deferred amount on refunding	(107,151)	(113,042)
Total Long-Term Debt (Net)	**1,367,949**	**1,388,343**
Total Capitalization	**1,987,732**	**1,986,774**

LIABILITIES

Current Liabilities — payable from restricted assets		
Accrued interest payable on notes and bonds	34,254	36,520
Current portion of long-term debt	54,190	38,336
Customer meter deposits	15,008	13,420
Total Current Liabilities from Restricted Assets	**103,452**	**88,276**
Current Liabilities — payable from current assets		
Accounts payable and accrued expenses	55,294	45,820
Billings on behalf of state and local governments	9,931	9,937
Accrued payments to the City of Orlando	8,516	8,373
Total Current Liabilities	**73,741**	**64,130**
Other Liabilities and Deferred Credits		
Deferred gain on sale of assets	123,437	135,203
Deferred revenue	121,043	90,089
Water and electric construction deposits and other	1,922	1,739
Total Other Liabilities and Deferred Credits	**246,402**	**227,031**
Total Liabilities	**423,595**	**379,437**
Total Capitalization and Liabilities	**$2,411,327**	**$2,366,211**

See notes to the financial statements.

Statements of Revenues, Expenses and Changes in Retained Earnings

REVENUES AND EXPENSES

(Dollars in Thousands)	Year Ended September 30 2001	2000
Operating Revenues:		
Electric retail	$326,094	$304,321
Electric resale	159,998	138,793
Water revenues	38,997	46,895
Other revenues	11,505	11,122
Total Operating Revenues	**536,594**	**501,131**
Operating Expenses:		
Fuel for generation and purchased power	231,128	204,656
Unit/Department expenses	108,710	107,167
Depreciation and amortization	77,248	68,558
Payments to other governments and taxes	29,478	27,598
Total Operating Expenses	**446,564**	**407,979**
Operating Income	90,030	93,152
Non-Operating Income:		
Interest income	41,045	40,986
Amortization of deferred gain on sale of assets	11,178	9,717
Interest expense and other	(88,768)	(92,548)
Net Income	**53,485**	**51,307**
Retained earnings at beginning of year	459,789	435,528
Dividends to the City of Orlando	(32,091)	(30,784)
Depreciation on donated utility plant and contributed capital	4,034	3,738
Accumulated Retained Earnings at End of Year	**$485,217**	**$459,789**

See notes to the financial statements.

Statements of Cash Flows

CASH FLOWS

(Dollars in Thousands)	Year Ended September 30 2001	2000
Cash Flows from Operating Activities		
Operating Income	$90,030	$93,152
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of plant charged to operations	77,248	68,558
Depreciation and amortization charged to fuel for generation and purchased power	3,299	3,330
Depreciation of vehicles and equipment charged to Unit/Department expenses	1,453	1,090
Changes in Operating Assets and Liabilities:		
Decrease/(Increase) in receivables and accrued revenue	10,412	(11,719)
(Increase)/Decrease in fuel and materials and supplies inventories	(805)	8,174
Increase in accounts payable and accruals	8,930	9,852
(Decrease) in deposits payable and deferred items	(2,608)	(4,389)
Increase in stabilization and deferred revenue accounts	26,057	24,417
Net Cash Provided by Operating Activities	**214,016**	**192,465**
Cash Flows from Non-Capital Financing Activities		
Dividend payment to the City of Orlando	(31,984)	(32,088)
Net Cash Used in Non-capital Financing Activities	**(31,984)**	**(32,088)**
Cash Flows from Capital and Related Financing Activities		
Debt interest payments	(76,198)	(78,486)
Principal payments on long-term debt	(61,735)	(41,088)
Debt issuances	50,290	6,400
Debt issuances expenses paid	(2,795)	(467)
Construction and acquisition of utility plant net of donated utility plant and contributed capital	(103,664)	(76,482)
Proceeds relating to sale of Indian River steam units	–	187,995
Net Cash Used in Capital and Related Financing Activities	**(194,102)**	**(2,128)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investment securities	677,945	323,146
Purchases of investment securities	(607,209)	(603,858)
Investment income	46,065	35,047
Net Cash Provided by (used in) Investing Activities	**116,801**	**(245,665)**
Increase/(Decrease) in Cash and Cash Equivalents	104,731	(87,416)
Cash and Cash Equivalents at Beginning of Year	54,305	141,721
Cash and Cash Equivalents at End of Year	**$159,036**	**$54,305**

See notes to the financial statements.

(Dollars in Thousands)

NOTE A — THE ORGANIZATION

Orlando Utilities Commission (OUC) was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida. The Act confers upon OUC the rights and powers to fix rates and charges for electric and water services. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola Counties.

OUC's governing board consists of five members including the Mayor of the City of Orlando. Members serve without compensation and with the exception of the Mayor, who is an ex-officio member of OUC, may serve no more than two consecutive four-year terms.

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: OUC meets the criteria of an "other stand-alone government" as defined in Statement 14 of the Governmental Standards Board, *The Financial Reporting Entity.* No component unit exists as defined by Statement 14; however, OUC has undivided interests in a number of power plants through participation agreements as described in Note C. Under these arrangements, the title to the property is held in proportion to each party's interest, and each party is obligated for its share of operations. There are no separate entities or organizations associated with the agreements.

Basis of Presentation: The financial statements of OUC are presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB) and where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). The accounting records are maintained substantially in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) except for the depreciation of donated utility plant and contributed capital which is excluded from the determination of net income.

OUC is a regulated enterprise and, as such, applies the accounting principles permitted by Statement of Financial Accounting Standards No. 71 — *Accounting for the Effects of Certain Types of Regulation* (SFAS 71). Under SFAS 71, certain expenses and revenues are deferred and recognized in accordance with rate actions of OUC's governing board.

OUC has elected not to apply FASB statements and interpretations issued after November 30, 1989, as permitted by Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting.*

Certain amounts for 2000 have been reclassified to conform with the 2001 presentation.

Budgets: Revenue and expense budgets are prepared on an annual basis in accordance with OUC's budget policy and bond resolutions and submitted to OUC for approval prior to October 1 of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budgets on a line item basis within departments, and an analysis of variances report is prepared and submitted to OUC each month as required by OUC's budget policy and bond resolutions.

Utility Plant: Utility plant is stated at historical cost. These costs include the costs of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering less development fees received from residential and commercial customers. Depreciation is recorded systematically using the straight line method over the estimated useful life of asset. OUC charges the cost of repairs and minor replacements to maintenance expense. The cost of electric or water utility plant assets retired, together with removal costs less salvage, are charged to accumulated depreciation; however, when utility plant constituting an operating unit or system is sold or disposed of, the gain or loss on the sale or disposal is recorded as a gain (loss) on disposition of property unless regulatory action is taken by the governing board.

(Dollars in Thousands)

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The balances of utility plant in service at September 30 are listed below with a range of depreciable lives for each:

UTILITY PLANT (Net)

	September 30	
	2001	2000
Electric		
Power generation (5-40 years)	$ 1,012,858	$ 997,294
Transmission (5-30 years)	160,817	228,984
Distribution (5-50 years)	498,051	401,110
Water (3-50 years)	339,337	320,237
Chilled water (20-40 years)	27,460	24,504
Shared/customer services (3-50 years)	108,516	91,611
Total utility plant	2,147,039	2,063,740
Accumulated depreciation	(661,481)	(575,099)
Allowance for decommissioning	(10,596)	(19,284)
Net utility plant before donations	1,474,962	1,469,357
Donated utility plant (net)	(8,243)	–
Construction work in progress	71,437	43,306
Total net utility plant	$ 1,538,156	$ 1,512,663

Nuclear Decommissioning Costs: OUC funds nuclear decommissioning costs on an annual basis in accordance with the estimates included in the Florida Public Service Commission (FPSC) dockets # 941352-EI issued in 1995 for both St. Lucie and Crystal River and #991931 issued in 2001 for Crystal River. A trust fund has been established to provide certain financial assurances that funds will be available when needed for required decommissioning activities. The annual funding for each trust fund is calculated based on an estimated earnings rate of 5.75%, expected over the life of the trust. The total obligation, as approved by the FPSC, is not presented on the balance sheet as it is intended to be recognized, based on earnings, over the life of the facility. Estimated costs of decommissioning are periodically adjusted in response to requirements of the FPSC and the Nuclear Regulatory Commission (NRC). The following amounts represent the total obligation, the amount recorded on the balance sheets (the funded amount) and the future funding requirements as of September 30:

	September 30	
	2001	2000
St. Lucie Unit No. 2		
Total obligation	$ 22,495*	$ 22,495*
Funded amount	17,267	14,327
Future funding requirements	5,228	8,168
Crystal River Unit No. 3		
Total obligation	8,260**	6,480*
Funded amount	5,478	4,777
Future funding requirements	$ 2,782	$ 1,703

* In 1995 dollars.
** In 2000 dollars.

Cash, Cash Equivalents & Investments: Cash equivalents include all instruments purchased with an original maturity date of three months or less including all investments in the Surplus Funds Investment Pool Trust Fund and money market funds. These instruments and the money market funds are reported at amortized cost and the Florida Local Government Surplus Funds Trust Fund (SBA), an external 2a-7 investment pool, is presented at the share price.

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments are reported at fair market value with the exception of the funds held in the Debt Service Reserve funds. The Debt Service Reserve funds, in accordance with OUC's ratemaking model, are recorded at amortized cost and at September 30, 2001 and 2000 had a fair market value in excess of amortized costs of $8,021 and $2,852, respectively. This treatment is consistent with OUC's intent and ability to hold these investments to maturity. Other fund realized and unrealized gains and losses are included in interest income in the statements of income. Premiums and discounts on bonds and other investments are amortized using the effective interest method.

OUC is authorized to invest in the Surplus Funds Investment Pool Trust Fund administered by the State Board of Administration of Florida, obligations of the United States Treasury and its various agencies, interest-bearing time certificates of deposit, repurchase agreements, reverse repurchase agreements, state and local government obligations, bankers' acceptances and prime commercial paper.

A repurchase agreement is a secured transaction occurring between OUC and a primary securities dealer. OUC will exchange cash for temporary ownership of specified collateral with an agreed upon rate of interest and maturity. Specified collateral is limited to direct governmental and agency obligations with terms of ten years and under, and held and maintained by a third party trust at a market value of 102% of the value of the repurchase agreement. OUC has determined the risk of default as minimal. If a securities dealer were to default, OUC could experience an economic loss equal to the difference in the market value plus the accrued interest of the underlying securities (collateral) and the repurchase agreement value including accrued interest.

Energy Risk Management and Derivative Instruments: Derivative transactions are executed in accordance with OUC's internally established Energy Risk Management Oversight Committee (ERMOC) of which the primary objective is to minimize exposure to energy price volatility for cash flow and control purposes. The Committee has a defined organizational structure and responsibilities, which include approving all brokerage relationships, counter-party creditworthiness, and overall program compliance. In addition, the Energy Risk Management Program was established with specific volume and financial limits which are 20% of the annual fuel budget and $30,000, respectively.

In accounting for fuel hedge activities, OUC records these derivative instruments on the balance sheet as either an asset or liability measured at fair market value. Related gains and/or losses on transactions are deferred and recognized in the specific period in which the instrument was hedged and are included as a part of fuel and purchase power costs. At September 30, 2001, OUC has derivative instruments (swaps, futures and options) with a net fair market value of $1,700.

Customer Accounts Receivable and Unbilled Revenues: OUC bills customers monthly on a cyclical basis and accrues revenues at the end of the fiscal year for electric and water consumed but not billed. See "Rates and Revenues" below.

The customer accounts receivable balance of $58,243 and $70,497 at September 30, 2001 and 2000, respectively, includes billings on behalf of state and other local governments. The net liability of $9,931 and $9,937 at September 30, 2001 and 2000, respectively, (billings on behalf of state and local governments less expenses) represents the September billings of these governments.

Fuel for Generation and Materials and Supplies Inventory: Fuel oil, coal and materials and supplies inventories are stated at their average cost. Nuclear fuel is included in electric utility plant and amortized to fuel expense as it is used.

Unamortized Debt Issuance Cost: Unamortized debt issuance costs represent issuance costs related to bond issuances which are amortized using the bonds outstanding method and recorded net of accumulated amortization.

Interest Rate Swap Agreements: OUC enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the effect on total interest from those agreements, no fair market value amounts related to these agreements are recorded on the financial statements.

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unamortized Discount and Deferred Amount on Refunding: Unamortized discount on outstanding bonds is amortized using the bonds outstanding method and is recorded net of accumulated amortization. Deferred amounts on refunding represent deferred losses from bond refundings. These amounts are amortized over the shorter of the lives of the refunded debt or refunding debt using the straight-line method and are recorded net of accumulated amortization.

Compensated Absences: OUC records compensation for unused vacation and sick leave as an expense in the year in which the vacation and sick leave is earned in accordance with the GASB Statement No. 16, *Accounting for Compensated Absences.* At September 30, 2001 and 2000, annual vacation leave earned but not taken was $769 and $693; sick leave accumulated but not taken was $2,666 and $2,591, respectively. Such amounts are included in the balance sheets under the caption, Accounts payable and accrued expenses.

Rates and Revenues: Each year, OUC's staff performs a rate adequacy study to determine the electric and water revenue requirements. Based on this study, current cost of service studies, and regulations of the Florida Public Service Commission regarding electric "rate structure," OUC's staff develops its electric and water rate schedules which are presented at a public workshop and then presented for approval at a subsequent meeting of the governing board.

OUC staff makes its determination of revenue requirements using the cost of service rate base method and includes construction work in progress in the rate base. Therefore, in accordance with proper ratemaking theory, OUC does not use an allowance for funds used during construction (AFUDC) in determining revenue requirements. Since OUC's level of revenue requirements and subsequent revenue is determined without regard to AFUDC, OUC does not capitalize interest on construction work in progress for electric and water projects on which rates are based.

Operating revenues are recorded based on actual billings to customers plus an estimate for accrued unbilled electric and water consumption at the end of each fiscal year.

Recent Accounting Pronouncements: The GASB has issued three (3) new pronouncements which are as follows:

- Statement of Governmental Accounting Standards (SGAS) No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions.*

- Statement of Governmental Accounting Standards (SGAS) No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*

- Statement of Governmental Accounting Standards (SGAS) No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues* — an amendment of GASB No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions.*

In conjunction with OUC's adoption of SGAS No. 33 and 36, and the application of SFAS 71, effective October 1, 2000, customer contributions received in fiscal year 2001, have been recorded as donated utility plant. Prior year customer contributions have been reported as a part of equity. This treatment is consistent with OUC's rate-making model and industry standards. There is no material financial impact related to this change.

OUC plans to adopt SGAS No. 34 — a fundamentally new financial reporting model for all state and local governments including management's discussion and analysis of OUC's financial position and result of operations — in 2002 in accordance with the implementation requirements in the accounting standard. OUC does not believe the implementation of SGAS No. 34 will materially impact its financial position or results of operations.

(Dollars in Thousands)

NOTE C — JOINTLY OWNED OPERATIONS

OUC Operated: OUC maintains fiscal, budgetary and operating control of several power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. These agreements and the related ownership interests have remained consistent for the years ending September 30, 2001 and 2000 and are as follows:

Facility Name	Agreement Year	Total Facility Net Megawatt Capacity	FMPA Undivided Ownership Interest	KUA Undivided Ownership Interest	Net OUC Undivided Ownership Interest
Stanton Unit No. 1 (SEC1)	1984 & 1985	440	26.6265%	4.8193%	68.5542%
Stanton Unit No. 2 (SEC2)	1991	440	28.4091%	–	71.5909%
Indian River Combustion Turbines (A&B)	1988	96	39.0000%	12.2000%	48.8000%
Indian River Combustion Turbines (C&D)	1990	236	21.0000%	–	79.0000%

OUC operates a wastewater treatment facility at the SEC1 and SEC2 site through an agreement with Orange County. In the prior year, Orange County shared a portion of these operating costs with OUC resulting in a reduction of operating and maintenance expenses to OUC of $879 in 2000. Effective October 2000, Orange County no longer shared a portion of these operating costs.

Non-OUC Operated: OUC maintains an undivided participant interest with Florida Power & Light at their St. Lucie Unit No. 2 nuclear generation facility, with Florida Power at their Crystal River Unit 3 nuclear generation facility and with the City of Lakeland at their McIntosh Unit 3 coal-fired generation facility. In each of these agreements fiscal, budgetary and operational control is not maintained by OUC.

On March 19, 2001 OUC entered into an agreement with Southern Company to secure an undivided participant interest in the Stanton A combustion turbine generation facility currently being constructed. The total facility is expected to have a net megawatt capacity of 633 of which OUC's undivided share will be 28% or approximately 177 units of net megawatt capacity.

These agreements and the related ownership, with the exception of Stanton A which began construction this year, have remained consistent for the years ending September 30, 2001 and 2000 and are as follows:

Facility Name	Agreement Year	Total Facility Net Megawatt Capacity	OUC Undivided Ownership Interest	Net OUC Megawatt Capacity
St. Lucie Unit 2 (SL2)	1980	853	6.0895%	52
McIntosh Unit 3 (MAC3)	1978	340	40.0000%	136
Crystal River Unit 3 (CR3)	1975	835	1.6020%	13
Stanton A (SECA)	2001	633	28.0000%	177

Plant balances and construction in progress for SEC1, SEC2, SECA, MAC3 and the IRP CT's include the cost of common and/or external facilities. At the other plants, participants pay user charges to the operating entity for the cost of common and/or external facilities. Allowance for depreciation and amortization of utility plant in service is determined by each participant based on their depreciation methods and rates relating to their share of the plant. During fiscal years 2001 and 2000, OUC authorized an additional $10,600 and $2,900, respectively, in depreciation of its interest in the SL2 nuclear generating plant.

(Dollars in Thousands)

NOTE C — JOINTLY OWNED OPERATIONS (continued)

The following is a summary of OUC's recorded net share of each jointly owned plant:

	September 30	
	2001	2000
Stanton Energy Center Unit No. 1	$ 197,221	$ 202,750
Stanton Energy Center Unit No. 2	313,176	320,525
McIntosh Unit No. 3	62,387	65,420
Indian River Combustion Turbines	44,125	38,558
St. Lucie Unit No. 2	22,967	36,619
Stanton Energy Center Unit A	13,613	–
Crystal River Unit No. 3	(1,876)	(1,440)
Total	$ 651,613	$ 662,432

NOTE D — CASH, CASH EQUIVALENTS, AND INVESTMENTS

OUC's cash deposits are held in institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. Governmental securities held in trust by a third party bank in the name of OUC's banking institution. In accordance with OUC's investment policy, the following types of instruments are utilized:

- obligations which are unconditionally guaranteed by the U.S. or its agencies
- repurchase and reverse repurchase agreements
- money market funds
- commercial paper
- certificates of deposit

Investments in commercial paper must be rated "A-1", "P-1", or its equivalent. OUC's investments in money market funds are limited to funds which meet the Securities and Exchange Commission definition of a fund that seeks to maintain a stable net asset value of $1 per share and is rated not less than Aaa, AAAm or an equivalent rating by at least one nationally recognized rating service.

OUC invests funds with the Local Government Surplus Funds Investment Pool Trust Fund (the "Surplus Funds Investment Pool"), an investment pool administered by the State Board of Administration of Florida. Included in these investments are derivative instruments which are comprised of approximately 1.0% and 3.0% of the Surplus Funds Investment Pool portfolio at September 30, 2001 and 2000, respectively. These investments derive their value from certain floating rate notes based on the prime rate and/or one and three month London Interbank Offered Rate rates. Investments in the Surplus Funds Investment Pool are not insured or collateralized; however, due to the stringent investment policies of these funds, the investment committee considers the risk of loss of principal to be remote.

(Dollars in Thousands)

NOTE D — CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

The following are the cash, cash equivalents and investment deposits held by OUC at September 30, 2001 and 2000, respectively:

CASH & CASH EQUIVALENTS	September 30	
	2001	2000
Cash	$114,689	$ 52,361
Investments – Category 1		
(Insured or Registered & Held by OUC or Agent in OUC's Name):		
Repurchase agreements	11,022	7,000
U.S. government securities	167,442	259,592
Other U.S. and agency backed securities	421,101	361,728
Total Category 1 investments	599,565	628,320
Investments – Category 2		
(Uninsured & unregistered and held by banks trust or agent in OUC's name):	–	–
Investments – Category 3		
(Uninsured & unregistered and held by banks trust or agent not in OUC's name):		
Repurchase agreements	10,663	12,094
Total Cash, Cash Equivalents and Investments	**724,917**	**692,775**
Total Cash, Cash Equivalents and Investments:		
Restricted Assets:		
Debt service and related funds:		
Principal and interest funds	63,085	62,564
Debt service reserve funds	114,294	114,039
Total debt service and related funds	177,379	176,603
Construction and related funds:		
Nuclear generation facility decommissioning funds	24,144	19,283
Construction funds	413	42,615
Total construction and related funds	24,557	61,898
Renewal and replacement fund	47,522	47,883
Customer meter deposits	15,008	13,420
Total restricted assets	264,466	299,804
Internally Designated Assets:		
Self-insurance fund	4,527	4,589
Liability reduction fund	328,917	307,422
Stabilization funds	73,024	43,757
Total internally designated assets	406,468	355,768
Other Funds:		
Cash and investments	55,294	39,096
Less:		
Accrued interest receivable from restricted assets	(1,311)	(1,893)
Total Cash, Cash Equivalents and Investments	**$724,917**	**$692,775**

(Dollars in Thousands)

NOTE E — REGULATORY DEFERRALS

Regulatory Assets: Based on regulatory action taken by OUC's governing board, OUC has recorded the following regulatory asset that will be included in the ratemaking process and recovered in future periods:

- *Deferred Interest Expense:* This account represents interest costs on Series 1993 and 1993B bonds which are in excess of interest costs that would have been incurred on short-term debt. OUC elected to defer this additional interest cost for rate-setting purposes until beginning in fiscal year 1996. OUC's total regulatory costs for Deferred Interest Expense are $8,569 and $8,977 in 2001 and 2000, respectively. Deferred interest expense on bonds is currently amortized to interest expense over the life of the Series 1993 and 1993B bonds, amounting to an annual expense of $408 and $408 in 2001 and 2000, respectively.

Regulatory Liabilities: Based on regulatory actions taken by the OUC's governing board, OUC has recorded the following regulatory liabilities that will be included in the ratemaking process and recognized as revenues in future periods:

- *Deferred Gain on Sale of Assets:* On October 5, 1999, OUC sold its steam units at the Indian River Plant (IRP) and received a pre-payment from the buyer for twenty (20) years worth of transmission access (recorded as deferred revenue). At the time of sale, OUC elected to defer the gain on sale of approximately $144,000 and begin systematically recognizing a portion of this amount ($45,000) over a four (4) year period to offset generating facility demand payments (Note J) of $11,178 and $9,717 recognized in 2001 and 2000, respectively.
- *Deferred Wholesale Trading Profits:* This account represents a portion of profits generated from wholesale electric sales.
- *Electric and Water Rate Stabilization:* OUC's governing board established these accounts for costs (revenues) that are to be recovered by (used to reduce) rates in periods other than when incurred (realized).
- *Fuel Stabilization:* This account was established in accordance with guidelines from the Public Utilities Regulatory Policies Act of 1978 and represents the difference between the fuel costs charged to customers and the fuel costs incurred.
- *Customer Retention Stabilization:* This account was established to assist in retaining existing customers and attracting new customers.
- *Health Insurance Reserve:* OUC's governing board established this account to mitigate unexpected increases in medical costs to OUC employees.

In conjunction with the recording of these regulatory liabilities OUC's governing board has internally designated certain cash and investments to fund these deferrals (See Note D). Each of these funds earns the same interest rate as OUC's operating investment portfolio.

OUC's total regulatory liabilities are as follows:

DESCRIPTION	September 30	
	2001	2000
Deferred wholesale trading profits	$ 43,464	$ 25,805
Rate stabilization	39,437	33,841
Fuel stabilization	15,978	8,394
Customer retention stabilization	1,610	1,522
Total regulatory liabilities included in deferred revenue	100,489	69,562
Deferred gain on sale of assets	123,437	135,203
Health insurance reserve	427	427
Total regulatory liabilities	$ 224,353	$ 205,192

(Dollars in Thousands)

NOTE F — SELF-INSURANCE

OUC's self-insurance program covers a portion of its workers' compensation, general liability and automobile liability exposures. A self-insurance cash and investments account is used to pay claims as incurred. The self-insurance program liability is included in the balance sheets under the caption, Accounts payable and accrued expenses. Changes in the balances of the self-insurance program liability during fiscal years 2001 and 2000 were as follows:

	September 30	
	2001	2000
Balance, beginning of year	$ 388	$ 479
Claims and changes in estimates	264	363
Payments of claims	(299)	(454)
Balance, end of year	$ 353	$ 388

Under the self-insurance program OUC is liable for all claims up to certain maximum amounts per occurrence on an annual basis. Claims in excess of the maximum amounts are covered by insurance. Claims have not exceeded these maximum amounts in any of the past several fiscal years. The maximum amounts at September 30 are as follows:

	September 30	
	2001	2000
Workers' compensation	$ 250	$ 250
General liability	1,000	1,000
Automobile liability	1,000	1,000

OUC's transmission and distribution system is not covered by insurance, since such coverage is generally not available.

It is the opinion of general counsel that the Orlando Utilities Commission, as a statutory commission, may enjoy sovereign immunity in the same manner as a municipality, as allowed by Florida Court of Appeals rulings. Under said rulings, Florida Statutes limit liability for claims or judgements by one person for general liability to $100 or a total of $200 for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, any defense of sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations. It is also the opinion of general counsel that OUC, as a municipal utility, is statutorily immune from suit for malicious prosecution.

Liability for accidents at the nuclear power plants for which OUC has a minority interest, are governed by the Price Anderson Act, which limits the liability of nuclear reactor owners to the amount of the insurance available from private sources and under an industry retrospective plan. Both majority owners (Florida Power & Light and Florida Progress Corporation) maintain the maximum amount of private liability insurance ($200,000) and participate in a secondary financial protection system. In addition, both majority owners participate in nuclear mutual companies that provide limited insurance coverage for property damage, decontamination and premature decommissioning risks. Irrespective of the insurance coverage, should a catastrophic loss occur at either of the plants, the amounts of insurance available may not be adequate to cover property damage and other expenses incurred. Uninsured losses, to the extent not recovered through rates, would be borne by each of the owners at their proportionate ownership share and may have an adverse effect on their financial position.

(Dollars in Thousands)

NOTE G — LONG-TERM DEBT

Long-term debt principal outstanding is as follows:

	Issue Date	September 30 2001	2000
SENIOR LIEN:			
Series 1992 and 1993, 2.4% to 6% due serially to 2013 and 5.0% to 5.125% due in term form in years 2019 and 2023	December 1992 and September 1993	$ 449,460	$ 472,275
Series 1996A issued in Term Rate Mode with a mandatory purchase date of 2001 at an interest rate of 4.25%	November 1996	60,000*	60,000
Series 1996B issued as a Fixed Rate Bond due 2011 at a rate of 5.10% or a yield of 5.24%	November 1996	39,995	39,995
		549,455	572,270
JUNIOR LIEN:			
Series 1989D, 1991A and 1992A, 5.00% to 6.75% due in term form in years from 2017 to 2027	December 1989 through August 1992	408,745	443,845
Series 1993A and 1994A, 4.10% to 5.50% due serially 2000 to 2012 and 5.00% to 5.50% in term form in years 2012 to 2023	June 1993 and January 1994	219,650	220,715
Series 1993B, 4.55% to 5.40% due serially 1999 to 2009, 5.25% in term form in year 2023 and Select Auction Variable Rate Securities and Residual Interest Bonds, 5.60% and 5.664% due 2013 and 2017	August 1993	128,435	131,190
Series 2001A, 4.00% to 5.25% due serially 2002 to 2020	July 2001	37,040	–
		793,870	795,750
OTHER DEBT:			
Series 1998A, B and C and 1999A Revenue Bond Anticipation Notes with annual and variable rates from 3.5% to 4.48% due 2003 to 2004	September 1998 and September 1999	160,000	160,000
Line of credit — Note O	September 1998	25,965	11,701
		185,965	171,701
Less current portion		(54,190)	(38,336)
Total Long-Term Debt		$ 1,475,100	$ 1,501,385

*See Note P related to subsequent event.

(Dollars in Thousands)

NOTE G — LONG-TERM DEBT (continued)

Following is a schedule of annual principal and interest sinking fund requirements on the revenue bonds and interest on other notes outstanding at September 30, 2001:

Fiscal Year Ending	Principal	Interest	Total
2002	$ 29,600	$ 76,736	$ 106,336
2003	91,385	75,169	166,554
2004	132,890	71,508	204,398
2005	34,955	66,163	101,118
2006	36,925	64,192	101,117
Thereafter to maturity	1,149,345	665,608	1,814,953
Total	$1,475,100	$1,019,376	$2,494,476

Senior Lien Bonds: The senior lien bonds are payable and secured by a first lien upon and pledge of the net revenues derived by OUC from the operation of the water and electric system and from certain investment income.

OUC has covenanted in the senior lien bond resolution to fix, establish and maintain rates and collect such fees, rentals or other charges for the services and facilities of the water and electric system, which shall be adequate at all times to pay in each fiscal year at least one hundred twenty-five percent (125%) of the annual debt service requirements for the bonds, and that the net revenues shall be sufficient to make all other payments required by the terms of the senior bond resolution.

The senior bond resolution establishes the Revenue Fund Account, Renewal and Replacement Fund Account and Sinking Fund Account, which is comprised of the Interest, Principal, Investment, Bond Redemption, Debt Service Reserve and Demand Charge Component accounts.

In accordance with the senior bond resolution, gross revenues derived from the operation of the water and electric system are to be deposited in the Revenue Fund and shall be applied only in the following manner:

1. Revenues are first to be used to pay the current operating expenses of the water and electric system and then all Sinking Fund and Renewal and Replacement Fund requirements.

2. The balance of any revenues remaining in the Revenue Fund shall, at the option of OUC, be used (A) for any lawful purpose in connection with the water and electric system and (B) to make any payments of funds to the City of Orlando — provided, however, that none of the revenues is ever to be used for the purposes described in (A) and (B) unless all payments required in (1) above, including any deficiencies for prior payments, have been made in full to the date of such use, and OUC shall have fully complied with all covenants and agreements contained in the bond resolution.

Junior Lien Bonds: The junior lien bonds are payable from, and secured by, a lien upon and a pledge of the net revenues derived by OUC from the operation of the water and electric system and certain investment income, subject to the prior lien thereon of OUC's outstanding senior lien bonds. OUC has covenanted in the junior lien bond resolution to fix, establish and maintain such rates and collect such fees, rentals or other charges for the services and facilities provided in each fiscal year, net revenues which will be adequate after the deduction of amounts required to be deposited from net revenues in each fiscal year to provide for the annual debt service requirement for senior lien bonds, to fund any debt service reserve requirement for such senior lien bonds and to make any required deposit to other funds and accounts established under documents evidencing or securing senior lien bonds at all times to pay in each fiscal year the sum of at least (I) one hundred percent (100%) of the annual debt service requirement for the bonds issued pursuant to the resolution and any pari passu additional bonds hereafter issued for the then current fiscal year and (II) one hundred percent (100%) of the amount required to be deposited into the Demand Charge Component Account for the then current fiscal year, and that such net revenues will be sufficient to make all other payments required by the terms of the resolution and that such rates, fees, rentals or other charges shall not be reduced so as to be insufficient to provide adequate revenues for such purposes.

(Dollars in Thousands)

NOTE G — LONG-TERM DEBT (continued)

The junior lien bond resolution establishes the Sinking Fund which includes the Interest, Principal, Bond Redemption and Demand Charge Component Accounts. In accordance with the resolution gross revenues are to be applied in accordance with the senior lien bond resolution and then to be applied to the Junior Lien Sinking Fund accounts.

Defeased Bonds: Refunding proceeds were invested in United States obligations in irrevocable Escrow Deposit Trust Funds. Such United States obligations mature at such time so as to provide sufficient funds for the payment of maturing principal and interest on the Refunded Bonds. All interest earned or accrued on the United States obligations has been pledged and will be used for the payment of the principal and interest on each respective bond series.

In July 2001, OUC issued the Water and Electric Subordinated Revenue Refunding Bonds Series 2001A (Series 2001A Bonds) in the amount of $37,040 to advance refund $35,100 of the Series 1992A Bonds (Refunded Bonds). Sale proceeds were invested in United States obligations in an irrevocable Escrow Deposit Trust Fund. Such United States obligations will mature at such time and in such amounts so as to provide sufficient funds for the payment of maturing principal and interest on the Refunded Bonds. The 1992A Series has a remaining principal balance of $39,420 at September 30, 2001. Present value savings of $2,288 or 6.52% of the Refunded Bonds resulted from the transaction. An economic loss of $2,742 is included in the accounts which comprise unamortized discount and deferred amount on refunding and will be amortized on a straight-line basis over the life of the Series 2001A Bonds.

All Refunded Bonds are treated as extinguished debt for financial reporting purposes and have been removed from the balance sheet.

Defeased debt principal outstanding is as follows:

Refunded Series	Refunding Series	Final Payment	Outstanding as of Refunding	Remaining Principal @ 9/30/01	Remaining Principal @ 9/30/00
1973	1978	2003	$ 13,525	$ 2,000	$ 3,000
1975B	1978	2005	9,730	4,525	4,695
1976	1978	2002	8,500	1,000	2,000
1978 (1)	1978	4/1/2008	94,650	1,100	1,715
1978	1985	4/1/2006	110,330	70,070	72,315
1978A	1985	4/1/2008	40,000	21,780	24,260
1978B	1985	4/1/2003	75,000	18,290	26,840
1982	1985	10/1/2003	110,000	37,100	46,285
1991A (2)	1994A	10/1/2020	120,440	120,440	120,440
1992A (3)	2001A	10/1/2020	35,100	35,100	–
Total			$ 617,275	$ 311,405	$ 301,550

(1) Special Obligation Bonds, Series 1978.

(2) The Series 1994A bonds only refunded a portion of the Series 1991A Bonds.

(3) The Series 2001A bonds only refunded a portion of the 1992A Bonds.

(Dollars in Thousands)

NOTE G — LONG-TERM DEBT (continued)

Related Debt Information: On December 1, 1996, OUC entered into two additional interest rate swap agreements in the notional amounts of $60,000 and $40,000. These agreements provide that OUC receives fixed rates of 4.2843% and 4.976%, respectively, and owes interest calculated at a variable rate based on the BMA (Bond Market Association) Rate. The agreements terminate on October 1, 2001 and October 3, 2011, respectively. The agreement that terminated on October 1, 2001 was not renewed.

Under the swap agreements, only the net difference in interest calculated at fixed and variable rates is actually exchanged with the counter party. The notional amounts are the basis on which interest is calculated; however, the notional amounts are not exchanged. A termination of the swap may result in OUC's making or receiving a termination payment. However, OUC does not anticipate nonperformance by the counter party.

OUC has no material operating or capital leases.

NOTE H — ELECTRIC SUPPLY AGREEMENTS

Power Sales Contracts: The following table provides a summary of OUC's power sales contracts with other companies.

	UNIT SALES		SYSTEM SALES		TOTAL	
Year	No. of Contracts	Amount of Sales MW	No. of Contracts	Amount of Sales MW	No. of Contracts	Amount of Sales MW
2002	3	203	2	110	5	313
2003	3	182	2	113	5	295
2004	3	120	2	103	5	223
2005	1	43	1	103	2	146
2006	1	22	1	117	2	139
2007	1	7	1	139	2	146
2008	0	0	1	142	1	142
2009	0	0	1	144	1	144
2010	0	0	1	146	1	146

NOTE I — PAYMENTS TO THE CITY OF ORLANDO AND ORANGE COUNTY

Two types of payments are made to the City of Orlando pursuant to agreements between OUC and the City of Orlando: a revenue-based payment and an income-based dividend payment. The revenue-based payment is calculated at six percent of gross retail electric and water billings to customers within the City. This payment is made pursuant to a policy established by OUC and classified as an operating expense. The income-based dividend payment, is recorded as a reduction of retained earnings rather than as an operating expense. The dividend is calculated using 60% of net income for all operating units except those operated under the OUC/Trigen Cinergy Solutions agreement (as noted in Note O) less depreciation related to assets contributed by developers and customers. Dividends for operating units under this agreement are calculated based on 50% of net income up to $625 and 60% thereafter. Dividends for fiscal years 2001 and 2000 amounted to $32,091 and $30,784, respectively, including accrued dividends at September 30, 2001 and 2000 of $6,891 and $6,784, respectively.

Payment is also made to Orange County, pursuant to a policy established by OUC. This payment is based on one percent of gross retail electric billings within the County but outside the city limits of the City of Orlando.

(Dollars in Thousands)

NOTE J — COMMITMENTS AND CONTINGENT LIABILITIES

1. OUC and the other participants in SEC1 and SEC2 have entered into coal supply contracts which expire in 2005 and 2006, with renewal and/or market price reopeners of five years on both contracts. The contracts require minimum annual purchases as follows:

2002	$38,122
2003	$38,741
2004	$39,371
2005	$40,015
2006	$18,812

2. OUC and the other participants in SEC1 and SEC2 have also agreed to a contract that expires on December 31, 2007 for rail delivery of the units' coal purchases.

3. OUC and the other participants have entered into a contract for the supply of 1,000,000 MMBTU's per year of methane gas for SEC1 and SEC2. The term of contract expires on December 31, 2007.

4. OUC has entered into contracts which expire during fiscal years 2004 and 2014 with ten-year renewal options for natural gas transportation capacity. In addition, OUC has entered into a contract effective fiscal year 2004 with a minimum term of ten years for natural gas transportation capacity for the Stanton Energy Center – Unit A combined cycle plant. The contracts require minimum annual capacity charges. The minimum annual capacity charges are as follows:

2002	$ 4,551
2003	$ 4,551
2004	$ 20,002
2005	$ 20,594
2006	$ 20,700
2007-2014	$ 20,700

5. In connection with the sale of assets described in Note E, OUC has entered into a purchase power agreement with Reliant Energy for generation capacity at the Indian River plant site. This agreement extends through fiscal year 2003 with options to extend the agreement through fiscal year 2007. The contract requires minimum annual capacity charges ranging from $28,000 to $31,000 annually, through fiscal year 2003.

(Dollars in Thousands)

NOTE K — PENSION PLANS

Plan Description: OUC maintains a single-employer, defined benefit pension plan for all employees who regularly work 20 or more hours per week and were hired prior to January 1, 1998. Under provisions of the pension plan, employees who participate receive a pension benefit equal to 2.5% of the highest three consecutive years average base earnings times years of employment. A maximum of 30 years service is credited. Benefits are vested after 5 years of service.

OUC is the administrator of the plan. OUC established the plan and has the authority to make changes thereto. The plan does not issue stand-alone financial reports, but does receive annual actuarial reports.

Funding Policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. The current rate of contribution required by OUC is 8.18% of annual covered payroll. Required participant contribution obligations are 4% of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter. The benefit reduction for early retirement is 1% per year. Since the last valuation, the plan began paying a one-time increase in pension to retirees as of October 1, 2000. The increase generally tracks the change in Consumer Price Index from each person's date of retirement. The provision has raised the annual required contribution by $882 or 2.61% of covered payroll.

Annual Pension Cost and Net Pension Asset: OUC recognizes annual pension cost in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.* GASB Statement No. 27 also requires recognition of a net pension asset or obligation for the cumulative differences between annual pension cost and employer contributions to the plan. Pension cost and the net pension asset have been calculated as follows:

	September 30	
	2001	2000
Annual required contribution	$2,308	$2,152
Interest on net pension asset	(127)	(113)
Adjustment to annual required contribution	136	153
Annual pension cost (per actuary)	2,317	2,192
Contributions made	(2,076)	(2,311)
Increase (decrease) in net pension asset	(241)	119
Net pension asset beginning of year	1,491	1,372
Net pension asset end of year	$1,250	$1,491

The annual required contributions were determined as part of the October 1, 2000 and 1999 actuarial valuations using the aggregate actuarial cost method. The actuarial assumptions included the following:

	Fiscal Year	
	2001	2000
Investment rate of return	8.50%	8.25%
Projected salary increases	5.75%	6.00%
Inflation component	4.00%	4.00%

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The over-funded pension asset is being amortized on a level dollar basis over a closed period of 15 years.

(Dollars in Thousands)

NOTE K — PENSION PLANS (continued)

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of (APC) Contributed	Net Pension Asset
September 30, 2001	$2,308	90%	$1,250
September 30, 2000	$2,152	105%	$1,491
September 30, 1999	$2,391	102%	$1,372

Defined Contribution Plan

All employees who regularly work 20 or more hours per week and were hired on or after January 1, 1998, are required to participate in a defined contribution retirement plan established under section 401(a) of the Internal Revenue Code and administered by OUC. In addition, employees hired prior to January 1, 1998, were offered the option to convert their Defined Benefit Pension Account to this plan. The plan was created by resolution of OUC.

Under the plan, each eligible employee, upon commencement of employment, is required to contribute 4% of their salary, with OUC making a matching contribution of 4%. In addition, OUC will match up to 2% for additional voluntary contributions. Employees are fully vested after one year of employment. Total contributions for the years ending September 30, 2001 and September 30, 2000 were $1,300 ($608 employer and $692 employee) and $1,085 ($491 employer and $594 employee), respectively.

NOTE L — OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note K, OUC has a policy to provide health care benefits and life insurance coverage to all employees who retire on or after attaining age 55 with at least 10 years of service or at any age after completing 25 years of service. Currently 453 retirees meet the eligibility requirements. Retirees may also elect to provide health care insurance for their qualifying dependents by paying 35 percent of the calculated premium. Medical benefits will be available, but not subsidized, for employees who retire under the Defined Contribution Pension Plan. OUC is a secondary provider for those retirees and/or their dependents who are eligible for Medicare benefits.

OUC's health care plan is administered through an insurance company on a self-insurance program with an additional purchased insurance policy to cover those claims over $150. In this plan, the insurance company administers the plan and processes the claims according to benefit specifications, with OUC reimbursing the insurance company for its payouts. Expenses are recorded by OUC when paid to the insurance company. Total post-employment health care costs recognized by OUC for the years ending September 30, 2001 and 2000, were $3,210 and $2,864, respectively. Post-employment life insurance costs during the same periods were $29 and $26.

NOTE M — REGULATION AND COMPETITIVE ENVIRONMENT

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

Prior to implementation of any rate change, OUC notifies customers individually, holds a public workshop, and files the proposed tariff with the FPSC.

Florida Public Service Commission: As noted above, the FPSC has jurisdiction to regulate electric "rate structures" of municipal utilities. In addition, the Florida Electric Power Plant Siting Act and the Transmission Line Siting Act have given the FPSC exclusive authority to approve the need for new power plants and transmission lines. The FPSC also exercises jurisdiction under the Florida Energy Efficiency and Conservation Act as related to electric use conservation programs and prescribes conformance to the Federal Energy Regulatory Commission's Uniform System of Accounts. The FPSC also approves territorial agreements and settles territorial disputes.

Environmental and Other Regulations: Operations of OUC are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. OUC's interconnection agreements with investor-owned utilities are subject to review and approval by the FERC. FERC also exercises jurisdiction over OUC under the Public Utility Regulatory Policies Act of 1978.

In accordance with FERC Order No. 2000 the state of Florida has begun the formation of a Regional Transmission Organization (RTO). The RTO is an independent organization intended to develop market driven congestion management as well as provide one stop shopping for all transmission and eliminate pancake rates (the layering of rates for each time a trade crosses a corporate boundary). OUC is actively participating with the other utilities in the state of Florida to detail the establishment of this organization. Currently several options are under consideration on how the transmission assets owned by each utility will be transferred to the RTO.

Competition: The electric utility industry is facing increasing competitive pressure. OUC currently faces competition from other suppliers of electrical energy to wholesale customers and from alternative energy sources for other customer groups. Various states, other than Florida, have either enacted legislation or are pursuing initiatives designed to deregulate the production and sale of electricity. By allowing customers to choose their electricity supplier, deregulation is expected to result in a shift from cost-based rates to market-based rates for energy production. Similar initiatives are also being pursued on the federal level. Although the legislation and initiatives vary substantially, common areas of focus include when market-based pricing will be available for retail customers, what existing prudently incurred costs in excess of the market-based price will be recoverable and whether generation assets should be separated from transmission, distribution and other assets. Further, other aspects of the business, such as generation assets and long-term purchase power commitments, would need to be reviewed to assess their recoverability in a changed regulatory environment.

(Dollars in Thousands)

NOTE N — BUSINESS SEGMENTS

The following is a summary of the significant information:

	Electric	Water	Total
Year Ending September 30, 2001:			
Operating revenues	$ 497,597	$ 38,997	$ 536,594
Depreciation and amortization	66,859	10,389	77,248
Operating income	81,822	8,208	90,030
Net income (loss)	56,675	(3,190)	53,485
Dividends to the City of Orlando	34,005	(1,914)	32,091
Construction work in progress additions	92,968	18,577	111,545
Net working capital	96,698	19,666	116,364
Total assets	2,051,502	359,825	2,411,327
Long-term debt — net	1,185,055	182,894	1,367,949
Total equity	462,355	157,428	619,783

	Electric	Water	Total
Year Ending September 30, 2000:			
Operating revenues	$ 454,236	$ 46,895	$ 501,131
Depreciation and amortization	56,967	11,591	68,558
Operating income	77,093	16,059	93,152
Net income	47,452	3,855	51,307
Dividends to the City of Orlando	28,471	2,313	30,784
Construction work in progress additions	44,210	23,793	68,003
Net working capital	110,628	12,353	122,981
Total assets	2,007,966	358,245	2,366,211
Long-term debt — net	1,173,020	215,323	1,388,343
Total equity	475,463	122,968	598,431

NOTE O — MAJOR CONTRACTS AND AGREEMENTS

Interlocal Agreement between OUC and the City of St. Cloud: On April 25, 1997, OUC entered into an interlocal agreement with the City of St. Cloud (STC) to assume responsibility for providing retail electric energy services to all STC customers and to assume control and operation of STC's electric transmission and distribution system and certain generation facilities. In return, OUC is obligated to pay STC 9.5% of retail sales provided to STC customers (a minimum of $2,361 annually, unless certain events occur) and to pay STC approximately $2,232 annually, less certain contingent credits, for use of its electric system. The term of the Agreement commenced May 1, 1997 and continues in effect until September 30, 2022. OUC's revenue includes $30,335 and $28,247 for fiscal years 2001 and 2000, respectively, as a result of this agreement.

Agreement between OUC and Trigen Cinergy Solutions: OUC entered into an agreement dated June 23, 1998, with Trigen Cinergy Solutions (TCS), to provide air conditioning cooling systems for buildings in the Orlando metropolitan area. The agreement with TCS also provides for interim funding up to $35,000 and defines OUC as the sole owner of the Chilled Water facilities once construction is complete. OUC has borrowed $25,965 and $11,701 as of September 30, 2001 and 2000, respectively, in funding from TCS for these projects. As of December 31, 2001 this agreement will expire and it is OUC's intention to obtain alternative funding.

OUC shares profits and losses with TCS in accordance with the agreement. OUC also includes profits from the Chilled Water project in its calculation of a transfer of payments to the City of Orlando as described in a separate agreement dated August 17, 1998 (see Note I).

NOTE P — SUBSEQUENT EVENTS

In the month of October, 2001 OUC had two bond transactions. The first transaction related to the remarketing, in a secondary market transaction, of the Water and Electric Revenue Bonds, Series 1996A (Multi-Modal) in the amount of $60,000. The 1996A Bonds were remarketed in the Term Rate Mode with a mandatory purchase date of October 1, 2008. No gain or loss was recognized on this transaction and the 1996A Bonds will bear interest beginning October 1, 2001 at an interest rate of 4.10%.

The second transaction, executed on October 30, 2001, related to the refunding of all or a portion of certain Series of Water and Electric Revenue Bonds and Water and Electric Subordinate Revenue Bonds, in the amount of $258,815. Present value savings of $19,157 or 6.92% of the Refunded bonds resulted from the transaction. An economic loss of $39,481 will be included in the unamortized discount and deferred amount on refunding on the September 30, 2002 balance sheet.

The OUC Water and Electric Revenue Refunding Bonds Series 2001 were issued under OUC's new General Bond Resolution adopted by OUC on October 9, 2001. The terms of this new general bond resolution do not become effective until in excess of 51% of OUC's outstanding Junior and Senior debt obligations have been issued under this resolution. As such it is not anticipated these covenants will become effective within the upcoming year.

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Certified Public Accountants

Deloitte
& Touche

INDEPENDENT AUDITORS' REPORT

To the Commissioners of the
Orlando Utilities Commission:

We have audited the accompanying balance sheets of the Orlando Utilities Commission ("OUC") as of September 30, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of OUC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

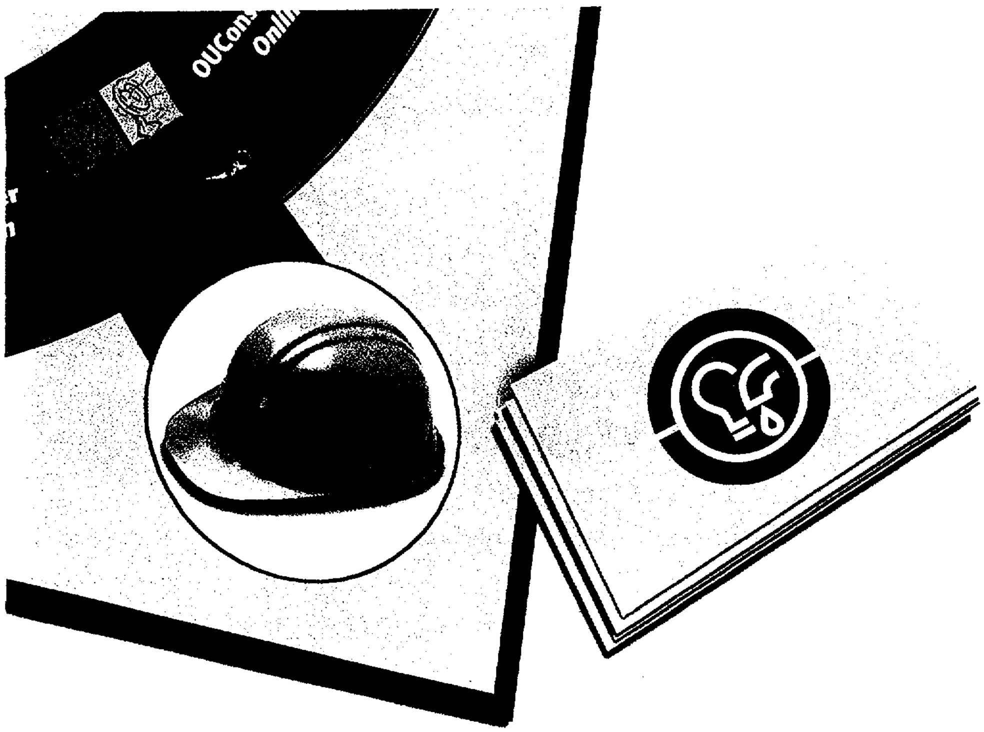
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OUC as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2001 on our consideration of OUC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

November 21, 2001

Deloitte
Touche
Tohmatsu



OUC
The *Reliable* One

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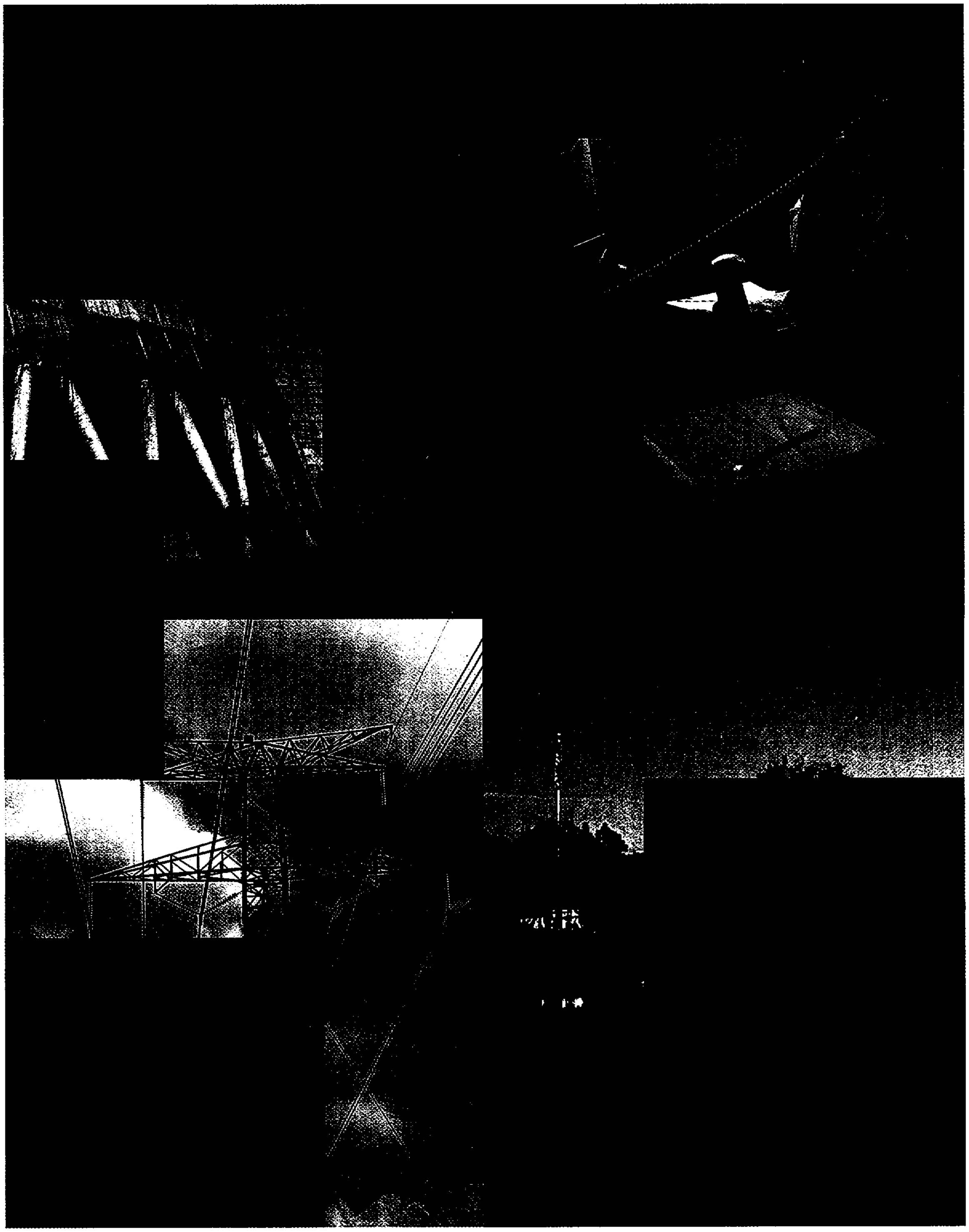
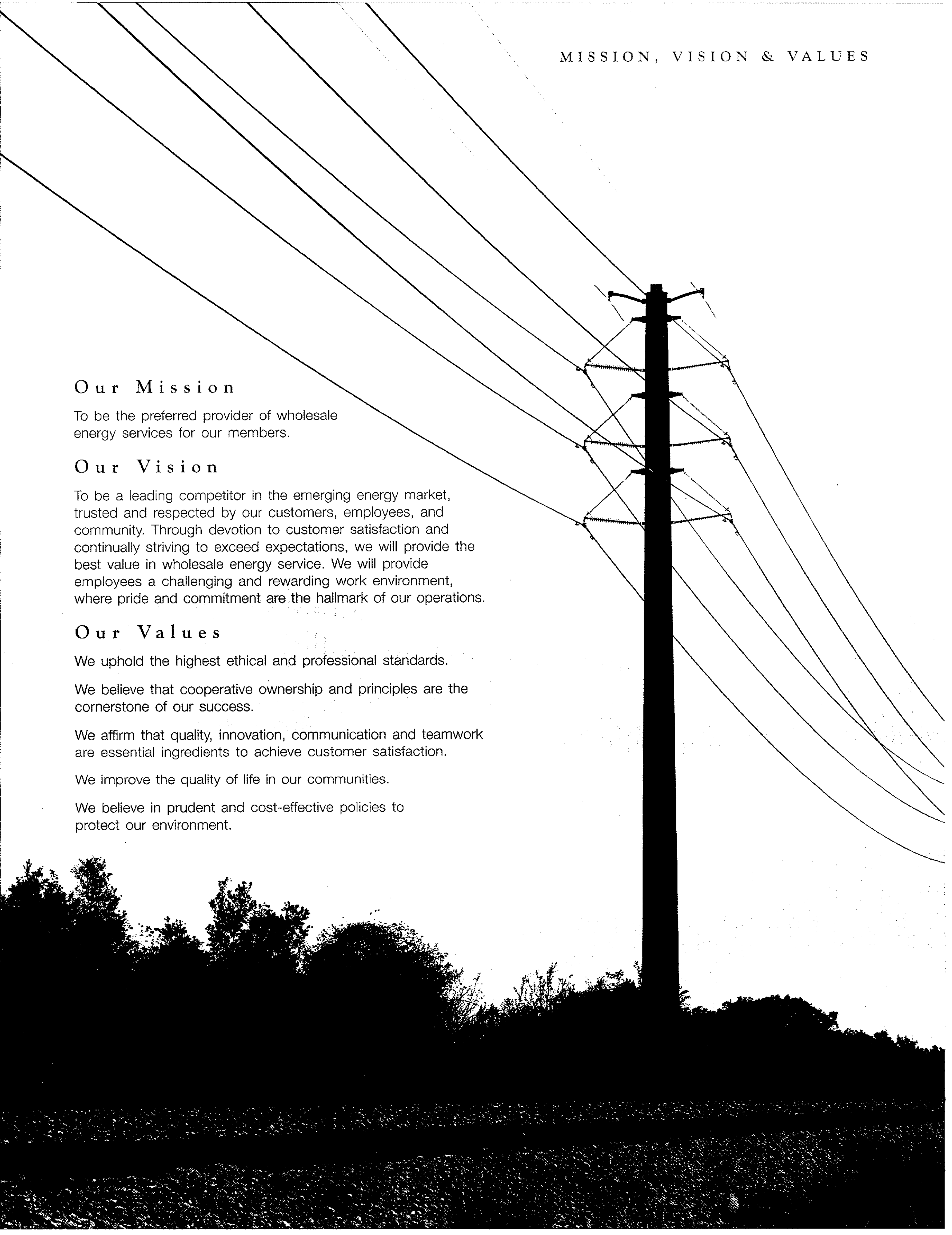
SEMINOLE ELECTRIC COOPERATIVE, INC. 2001 ANNUAL REPORT



The Cooperative Way of Doing Business... What Could be More American?

Contents

Dialogue and collaboration enable Seminole's leadership success. From left, Steve Shearer, Neil Phinney, Steve Wallace, Trudy Novak, Ken Bachor, Garl Zimmerman and Lane Mahaffey participate in a tactical team planning session.



Our Mission

To be the preferred provider of wholesale energy services for our members.

Our Vision

To be a leading competitor in the emerging energy market, trusted and respected by our customers, employees, and community. Through devotion to customer satisfaction and continually striving to exceed expectations, we will provide the best value in wholesale energy service. We will provide employees a challenging and rewarding work environment, where pride and commitment are the hallmark of our operations.

Our Values

We uphold the highest ethical and professional standards.

We believe that cooperative ownership and principles are the cornerstone of our success.

We affirm that quality, innovation, communication and teamwork are essential ingredients to achieve customer satisfaction.

We improve the quality of life in our communities.

We believe in prudent and cost-effective policies to protect our environment.

About Seminole

Seminole Electric is a generation and transmission cooperative. We provide bulk supplies of electricity to 10 member distribution cooperatives that serve electric consumers in 45 Florida counties, from the Georgia border to the Everglades. More than 1.5 million individuals and businesses rely on Seminole and its members for their electric power.

Seminole's primary generating facility, the Seminole Generating Station, consists of two 650 megawatt coal-fired generating units. It is located north of Palatka on the St. Johns River, in Putnam County, about 50 miles south of Jacksonville. A second generating facility went into commercial service on January 1, 2002. Seminole's Payne Creek Generating Station is a 500 megawatt, gas-fired, combined cycle facility. It is located in Hardee County, about 12 miles northwest of Wauchula.

The Cooperative also owns a 14 megawatt share of Florida Power Corporation's Crystal River 3 nuclear plant, 68 miles of double circuit 230 kilovolt (kV) transmission line, 134 miles of single circuit 230 kV line, and 141 miles of 69 kV line.

Seminole has purchased power and interchange agreements with other utilities, and various purchase and sale agreements with independent power producers and power marketers. These agreements allow us to provide our members a diverse and cost-effective mix of power supply resources to supplement our generating facilities.

The Seminole Board of Trustees sets policies that govern the Cooperative's day-to-day operations. It is comprised of two trustees and one alternate from each of our member cooperatives.

SEMINOLE ELECTRIC COOPERATIVE
2001 OPERATING SUMMARY

Total Revenues	$669,077,708
Net Margins	$2,415,440
Total Assets	$1,014,411,269
Energy Sales to Member Cooperatives	12,911 GWH
Seminole System Coincident Peak Demand	3,491 MW

WILSON G. SHEPPARD RICHARD J. MIDULLA

WE BELIEVE there's nothing more American than people banding together, by choice, to help each other and themselves. That's one simple definition of a cooperative. But co-ops weren't born in America. They're immigrants – another uniquely American characteristic.

According to some sources, the first formal business co-op was formed in 1821 in Great Britain. Much more is known about another, successful English co-op, the members of The Rochdale Society of Equitable Pioneers. The Pioneers were formed in 1844. Its members are described by one historian as having had a rare mixture of realism and vision; "their feet on the ground and their head in the clouds." They believed in the possibility of a better way and had faith in both the idea and the ideals of cooperation.

Historian G.J. Holyoake described what Rochdale's member-owners were able to achieve – a successful cooperative business – as a "moral miracle." Rochdale's members, he wrote, had the good sense to "differ without disagreeing; to dissent… without separating; to hate at times, and yet always hold together." The Pioneers created a set of principles to guide their efforts and then worked to advance their principles, wrote Holyoake, "with singleness of purpose."

The Seven Rochdale Principles

Voluntary and open membership
Democratic member control
Members' economic participation
Autonomy and independence
Education, training, and information
Cooperation among cooperatives
Concern for community

A COMMITMENT TO MUTUAL GOOD IS ONE WE ALL CAN MAKE TODAY. None of us is immune from the pain of the attacks that occurred on September 11, 2001, and their aftermath. These tragedies prompted many people to reconsider their priorities, their commitments, and the destructive results of hatred and intolerance. Today more than ever, the principles of cooperation provide a positive framework for building a more successful, collaborative world.

SEMINOLE'S PLANS AND ACTIONS are shaped by our commitment to cooperative ownership, to our members, and to our communities. *We believe in the cooperative form of business*. While today's energy market appears headed toward increasing competition, the real and continuing success of the cooperative model offers a viable alternative. A more collaborative approach to energy supply and distribution may in fact, better benefit America, which relies on an affordable supply of energy to grow its economy.

Many of the activities and achievements that mark 2001 as a year of growth for Seminole are discussed on the following pages. To illustrate this year's report we are proud to feature photos that reflect the patriotism of our members and their consumer-owners. Displaying the American flag honors those who defend America's values and principles, and honors the freedoms we value.

We appreciate your interest in this report and Seminole Electric Cooperative, Inc. We are proud to be an American cooperative, governed by our members, for our members. More than 1.5 million business and residential consumers rely on Seminole for their wholesale energy needs. We will continue to do our best to make their investment in Seminole work as hard as they do, for their benefit.

Cooperative (n)

The *Oxford English Dictionary* (*OED*) is considered one of the most complete resources on the history and use of words in the English language.

We looked there to do a little digging about cooperatives.

The *OED* defines the noun, cooperative, as, "short for co-operative store or co-operative society," or, "an association providing services of various kinds to its members." Cooperative society is further defined as "a society or union of persons (formed) for the production or distribution of goods, in which the profits are shared by all the contributing members."

Richard J. Midulla
Executive Vice President and
General Manager

Wilson G. Sheppard
President, Board of Trustees

January 2001

Seminole members set new record peak demand of 3517 megawatts on January 5. The previous record was 3147 megawatts, set on January 6, 1999.

February 2001

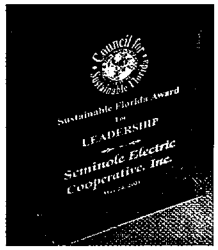
The Florida Public Service Commission unanimously approves a joint application filed by Seminole and Calpine Corporation for Calpine's Osprey Energy Center. Seminole will purchase the majority of the power from this 530 megawatt, combined cycle generating facility for a period of at least five years, beginning in June 2004.

March 2001

Mike Opalinski, director of environmental affairs, speaks to industry executives, government officials and educators at a power production workshop sponsored by the Council for a Sustainable Florida, on the topic of "social responsibility and community partnerships." The focus: Seminole's synthetic gypsum project and the Cooperative's alliance with Lafarge Corp., a wallboard manufacturer.

Seminole's Board increases member levelized fuel rate from 23.53 mills/kWh to 27.58 mills/kWh, due to continued high level of natural gas prices.

April 2001



Seminole receives a leadership award from the Council for Sustainable Florida. Seminole's application features the Seminole Generating Station gypsum conversion program as an example of its sustainable business practices. The award recognizes Seminole's emphasis on environmental stewardship and community service.

May 2001

Rural Electrification's cover highlights the effective supply management practices at various electric cooperatives, including Seminole.

Seminole retires approximately $562,000 in capital credits to its 10 members. Since1987, the Cooperative has refunded more than $15.5 million in capital credits to its members.

June 2001

Florida's power plant siting board (Governor Jeb Bush and his Cabinet) approves the Seminole/ Calpine application for Osprey Energy Center (see February).

July 2001

Synthetic gypsum production continues at Seminole Generating Station. A conveyor system is now in service, automating transfer of the product to Lafarge Corp.

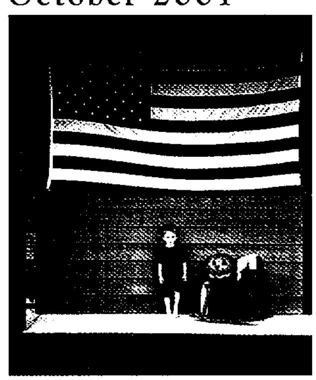
August 2001

"First fire" of Payne Creek Generating Station's combustion turbine #1, marking the start of the unit's transition from construction to start-up mode.

September 2001

Seminole's Board approves a decrease in the levelized fuel rate from 27.58 mills/kWh to 24.12 mills/kWh, effective October 1, thanks to a decrease in natural gas prices. The 27.58 rate had been in effect for only six months.

October 2001



Starting October 30, Seminole hosts regional update meetings in three locations around the state to provide information to member system employees and board members. The meetings cover wholesale power issues and Seminole operations, and are very well received.

Seminole receives a $2.2 million refund from the Florida Power and Light Company, related to FPL rates for transmission service in 1996 and 1997.

November 2001


Contract Re-Energizes Polk Plant

Tim Woodbury, Vice President of Strategic Services, speaks at the groundbreaking ceremony for Calpine Corp.'s Osprey Energy Center in Auburndale. Seminole will purchase power from this facility beginning in June 2004.

December 2001

Seminole begins purchasing power from two combustion turbines (300+ megawatts) from Reliant Energy, a Houston-based energy services company. The generating units are located in Osceola County.

Seminole signs a one year, full requirements natural gas contract with Infinite Energy, Inc. to supply natural gas to the Payne Creek Generating Station, starting January 1, 2002.

< *South Seas Plantation Resort (Captiva Island, FL), a member-consumer of Lee County Electric Cooperative.*

"Competition has been shown to be useful up to a certain point and no further, but cooperation, which is the thing we must strive for today, begins where competition leaves off."

FRANKLIN D. ROOSEVELT

The Veterans Iwo Jima statue is located at the base of the Midpoint Memorial Bridge connecting Cape Coral and Ft. Myers, FL. (Photo courtesy of Lee County Electric Cooperative.)

Seminole and Its Members: Working Together for a Better Cooperative

TO BETTER SERVE OUR 10 MEMBER SYSTEMS, *Seminole's Board of Trustees has adopted a revised Mission, Vision and Values statement (see page 2), initiated accountability standards, and updated Seminole's strategic goals. One key goal is to identify, develop and implement a process for Key Performance Indicators (KPIs) – a critical measure of our performance and our success. Six KPIs have been identified for tracking and reporting to the Board.*

Key Performance Indicators

Competitive Wholesale Rate

One of the most important measures of our performance is the price of wholesale electric service to our members. In 2001, we identified measures of competitive performance to be benchmarked. When measured against our competition in the Florida marketplace, our wholesale rate is competitive.

Power Supply Resource Performance

The performance of our power supply resources – both owned resources and purchased power – is critical to achieving a competitive wholesale rate. We benchmark our plant availability, forced outage rate, and heat rate, against a regional data base of similar plants. Purchased power resources are evaluated using similar criteria.

Transmission Reliability

Transmission reliability is a key issue that supports our service to our members. While it's important to have enough generation to supply member needs, it's equally important for that generation to be delivered reliably to each member.

A major change is taking place in Florida on the transmission side of our business. Due largely to Federal Energy Regulatory Commission (FERC) rulings, transmission facility owners and other electricity suppliers are involved in the formation of a regional transmission organization (RTO). Seminole is working closely with FERC and other Florida utilities to ensure that, whatever form this RTO takes, it will result in comparable treatment for Seminole and its members, regarding transmission access, reliability and pricing.

Financial Performance

Seminole's financial performance is tracked using a family of statistical parameters. We compare our results to a trend analysis annually compiled by the National Rural Utilities Cooperative Finance Corporation (CFC), to ensure we're maintaining a strong financial foundation.

Corporate Productivity

Corporate productivity indicates how well Seminole uses its resources to accomplish its mission. We have developed performance ratios to indicate trends in Seminole productivity. These are benchmarked against the same peer group used for financial comparisons.

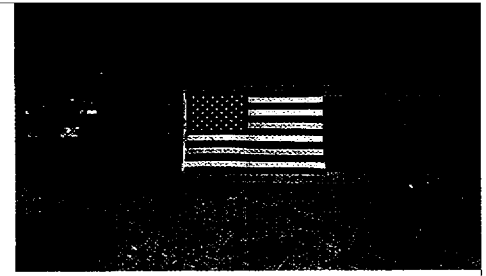
Customer Satisfaction

Satisfaction is viewed as members' contentment with Seminole as their preferred power supplier. We're in the process of developing a survey instrument to measure member satisfaction. Questions will come from the following areas: Relationship Between Seminole and its Members, Rates, Community Reputation, Billing (accuracy, timeliness), Fiscal Responsibility, and Reliability.

< Charlie Wubbena monitors Seminole's transmission system information in the energy management control center, which is located at the headquarters building in Tampa. Background, an electronic display of Seminole's 230 kV transmission system.

"In any moment of decision, the best thing you can do is the right thing. The worst thing you can do is nothing."

THEODORE ROOSEVELT



A Peace River Electric Cooperative member proudly flies the American flag.

Building for the Future

Payne Creek Generating Station – Ready for Commercial Operation

DURING 2001, CONSTRUCTION CONTINUED ON SEMINOLE'S *Payne Creek Generating Station, a 500 megawatt, natural gas-fired combined cycle generating unit, in preparation for its January 1, 2002 commercial operation date. Twenty-five new staffers were hired and trained to work in multi-craft teams.*

Payne Creek is located on a 1300 acre site in Hardee County in south central Florida. It consists of two combustion turbine/generators, two heat recovery steam generators, and a steam turbine/generator. Its output replaces power previously purchased from another Florida utility.

The "first fire" of Payne Creek's combustion turbines took place in August, 2001. First fire is when a unit consumes fuel for the first time, marking the start of the transition from construction to startup mode.

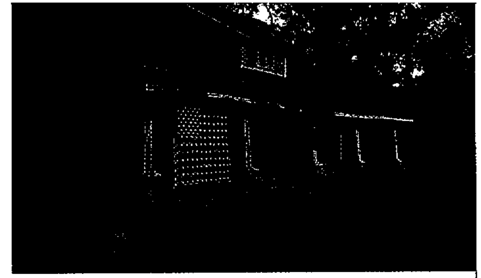
A series of "steam blows" took place in September, another step toward putting the station into service. Buildup can accumulate in the piping during station construction, and must be removed for system operation. Steam blows remove grit, rust and other debris from the inside of steam piping by forcing pressurized steam through the piping and out a temporary exhaust pipeline.

Another milestone took place in December, when Seminole signed a one year, full requirements natural gas contract with Infinite Energy, Inc., for Payne Creek. Infinite Energy manages purchasing, transportation, balancing and billing functions in fulfillment of this agreement.

Commercial operation of Payne Creek enhances Seminole's balanced portfolio of cooperative-owned and purchased power, in addition to adding fuel diversity, to serve our members and their consumers.

The "first fire" of Payne Creek's combustion turbines took place in **August, 2001**.

< *The Seminole Payne Creek Generating Station stacks are painted in the colors of Seminole's corporate logo.*



Another home proudly flies the flag in the service territory of Sumter Electric Cooperative.

"I hope I shall possess firmness and virtue enough to maintain what I consider the most enviable of all titles, the character of an honest man."

GEORGE WASHINGTON

Building for the Future continued

Looking Out for Our Members – New Relationships with Other Utilities

IN ADDITION TO OWNED GENERATION, *Seminole plans to meet a portion of its member demand, now and in the future, through purchased power agreements with other utilities and power marketers.*

On December 1, Seminole began receiving more than 300 megawatts of firm peaking capacity from Reliant Energy, a Houston-based energy services company. The generating units are located in Osceola County (FL).

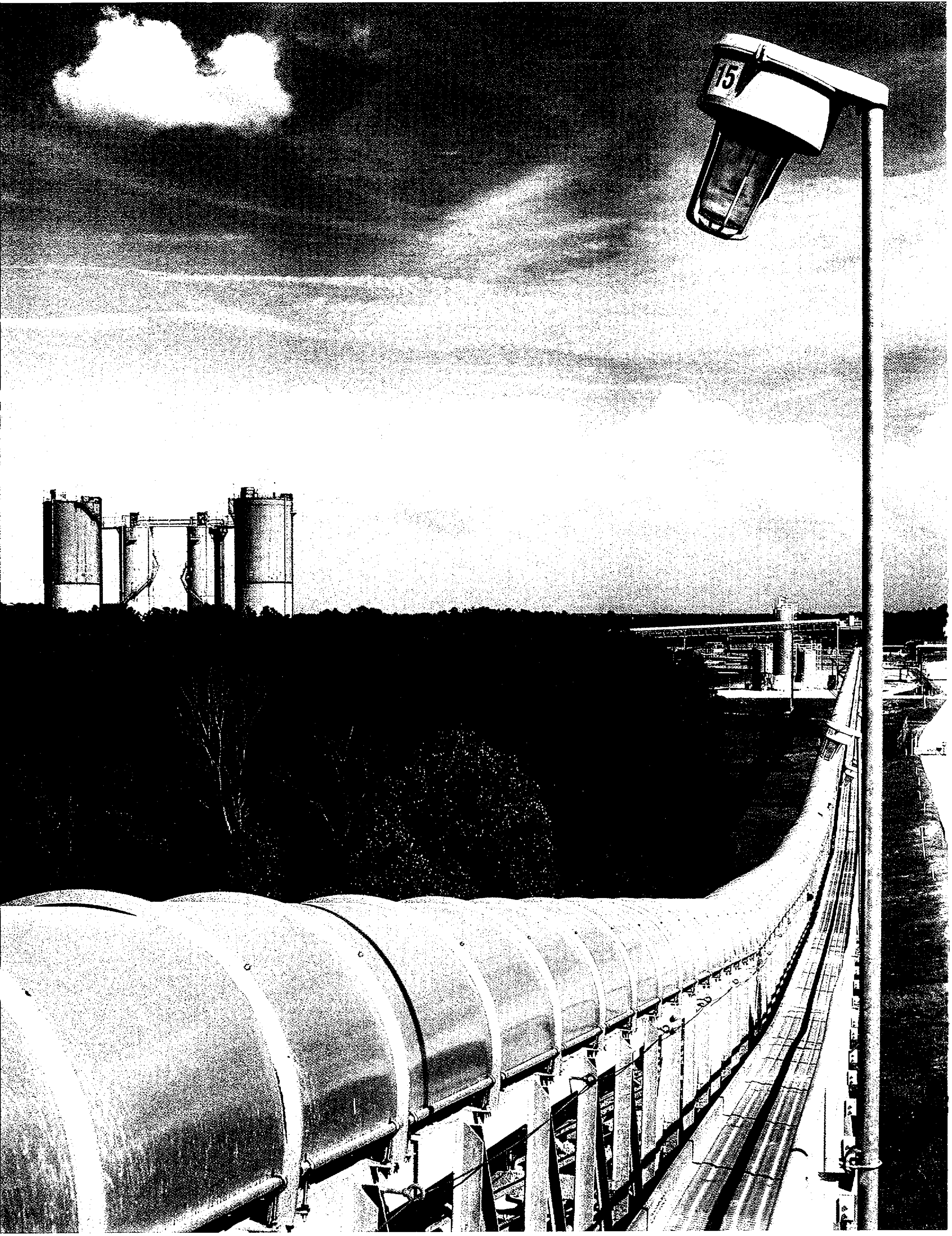
Maryland-based Constellation Energy Group broke ground in 2001 on a gas-fired generating facility in Brevard County. Its Oleander Power Plant is scheduled to be in commercial operation by May, 2002. Constellation has committed to begin delivering the energy from two combustion turbines (approximately 175 megawatts each) from this facility to Seminole, beginning December 1, 2002. Output from a third combustion turbine will be made available beginning May 1, 2003. This agreement continues through 2009.

In November, Calpine Corporation had a ground-breaking/flag raising ceremony for its 530 megawatt Osprey Energy Center in Auburndale (FL). Florida's Power Plant Siting Board approved a joint Seminole/Calpine application in June for this facility. Seminole will purchase the majority of the power from the Osprey facility beginning in June, 2004, for a period of at least five years.

We think it's good policy, and good business practice, to encourage partnerships between independent power producers such as Reliant, Constellation and Calpine, and incumbent utilities. Relationships such as these add to our diverse energy portfolio, helping to ensure reliable service to our members at competitive rates.

We also are working to help shape the future marketplace for wholesale energy here in Florida.

< *The Seminole Generating Station in Putnam County, FL.*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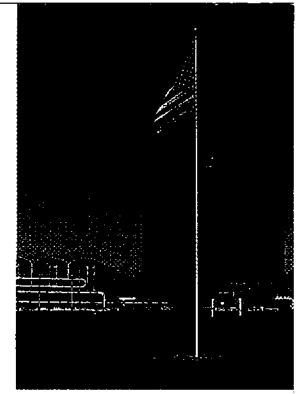
"I'm a great believer in luck,
and I find the harder I work, the more I have of it."

THOMAS JEFFERSON



The flag flies at Seminole's Payne Creek Generating Station.

Our Commitment to the Community

SEMINOLE'S MISSION VISION VALUES STATEMENT *includes a commitment to "improve the quality of life in our communities." Community Service is an important aspect of that commitment. We define community service as both environmental stewardship and the support of community programs and interests.*

The Council for Sustainable Florida named Seminole a "leadership" award winner in 2001. Seminole's application featured the Seminole Generating Station's gypsum conversion program as an example of our sustainable business practices. It also discusses how our business practices, programs and policies reflect an emphasis on environmental care taking, and support the interests of our employees and our local communities.

Seminole sells wallboard-grade synthetic gypsum to Virginia-based Lafarge Corporation. Lafarge uses that gypsum to make commercial grade wallboard at its newest manufacturing facility, adjacent to the Seminole Generating Station. Synthetic gypsum is produced from the byproduct of the Station's flue gas desulfurization system. The Lafarge plant created 100 new jobs and increased the tax base for Putnam County.

Revenue from gypsum sales and savings from not having to treat and landfill the byproduct make this project a major coup for Seminole, its members, and the community. Net savings from the sale of gypsum, increased fly ash sales and reduced landfill costs total more than $6 million annually.

As a corporate citizen, Seminole supports United Way campaigns at its three locations (Hardee, Hillsborough, and Putnam counties). In 2001 we raised more than $50,000 for United Way funded programs.

In Hillsborough County, the Cooperative is a corporate sponsor of Hands on Tampa (HOT), a service organization that promotes and facilitates volunteer service. In 2001, Seminole's HOT corporate team members worked more than 200 hours to help meet community needs. Additional employee-led teams supported such programs as the All-American Soap Box Derby (Seminole-sponsored car), the American Cancer Society's Relay for Life, and a holiday party for residents of Rodeheaver Boy's Ranch in Putnam County.

In Putnam and Hardee Counties, Seminole sponsors Newspapers in Education, putting local newspapers in middle and high school classrooms. Also in Putnam County, we're the largest sponsor of the Water Works Museum and Environmental Education Center, which will begin its programs for fourth grade students in spring, 2002.

Seminole is proud to be the leading corporate sponsor of the Palatka Water Works Museum and Environmental Education Center, which will offer its first programs for teachers and students in spring, 2002.

< *The 2,311 foot conveyor belt that delivers synthetic gypsum, produced at the Seminole Generating Station, to the adjacent Lafarge Gypsum wallboard plant.*

"There are many ways of going forward,
but only one way of standing still."

FRANKLIN D. ROOSEVELT

Another flag proudly displayed at a home in the Central Florida Electric Cooperative, Inc. service territory.

Looking Ahead

IN CONJUNCTION WITH THE FLORIDA *Electric Cooperatives Association and the National Rural Electric Cooperative Association, we're working to stay on top of state and federal legislation that could impact our members.*

Federal legislation related to electric utility restructuring was delayed in 2001, primarily due to the meltdown of the California energy market, brought on by, among other things, a poorly designed market structure reflected in the state's deregulation plan. The December bankruptcy filing of Enron Corporation, a major voice in the restructuring movement, also contributed to legislators proceeding with caution regarding a national restructuring bill.

Right now, it appears that further deregulation of Florida's wholesale energy market has lost momentum. Governor Jeb Bush, who continues to back change in the electric utility industry, is reluctant to move too quickly, saying that "...a measured and well-thought-out approach is key to our success." We agree with the Governor, and think it's important that Florida learn from others' mistakes before crafting its own restructuring legislation.

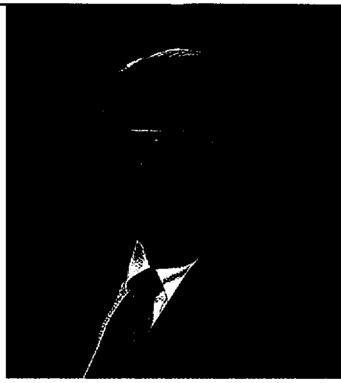
Governor Bush appointed the Florida Energy 2020 Commission in 2000 to examine Florida's energy needs. The Commission submitted its final report in December, 2001. It remains to be seen if any of their recommendations will be acted upon. We believe it's doubtful restructuring will be addressed in the Florida legislature in 2002, for many of the same reasons federal initiatives are being re-examined.

"...There is more to the business-consumer relationship than price. Suppliers who stress value, relationships, and service communications can stand out and prosper in a more competitive marketplace."

DAVID REICHMAN, PRESIDENT

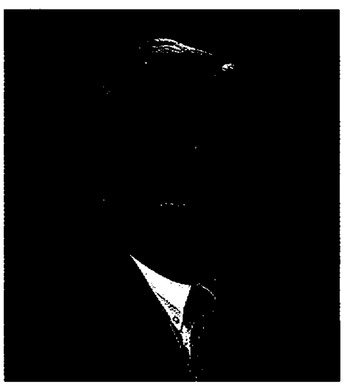
RKS Research and Consulting, N. Salem, NY, discussing RKS's November 2001 national survey of business consumers on electric deregulation.

< *The Florida Capitol Building, Tallahassee.*

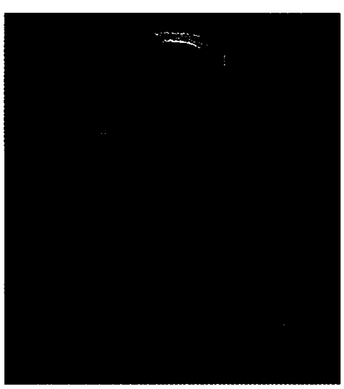


WILSON G. SHEPPARD
PRESIDENT

JOHN W. DRAKE
VICE PRESIDENT



WILLIAM T. MULCAY, JR.
SECRETARY/TREASURER



WILLIAM C. PHILLIPS
ASSISTANT
SECRETARY/TREASURER

The Seminole Board of Trustees

THE SEMINOLE ELECTRIC COOPERATIVE BOARD OF TRUSTEES *consists of two voting members and one alternate trustee from each member system. The manager of each member cooperative serves as a voting member.*

In January, Amos Sumner, Talquin Electric Cooperative, was named an alternate trustee, replacing Colin English, Jr.

Wilson G. Sheppard, from Sumter Electric Cooperative, was elected to his second term as board president in April, 2001. Sheppard is a retired certified public accountant and also serves as president of the Sumter board of trustees.

In July, Gary Stallons was elected manager trustee from Talquin Electric, replacing William E. Laughlin, who retired.

The Seminole board sets policy and carries out its responsibilities through five committees: Executive, Administrative, Engineering and Operations, Finance, and Rate.

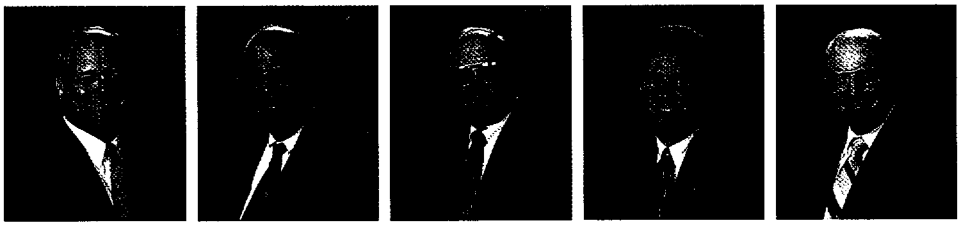
The Administrative, Engineering and Operations, and Finance committees are made up of one trustee from each member system.

The Rate committee consists of the member system managers. In 2001, Jerry L. Martin, Suwannee Valley Electric Cooperative, served as chairman of this committee.

The Executive committee consists of the board officers and the immediate past president. The board president serves as chairman of this committee.

The Seminole board sets policy and carries out its responsibilities through five committees.

ADMINISTRATIVE COMMITTEE

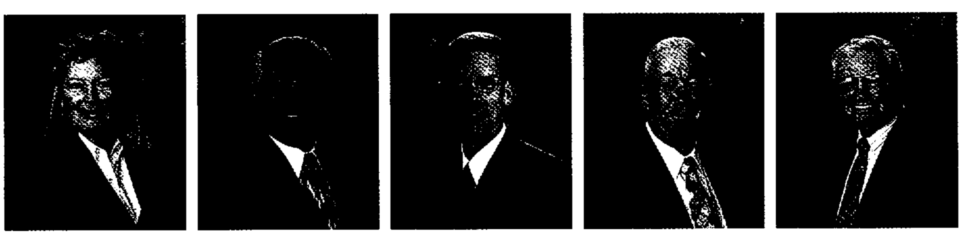


L.T. Todd, Glades EC, Chairman
Billy E. Brown, Withlacoochee River EC, Vice Chairman
Neal Brown, Tri-County EC
James P. Duncan, Sumter EC
Floyd I. Gnann, Clay EC

David E. Gomer, Lee County EC
Mal Green, Talquin EC
W.F. Hart, Suwannee Valley EC
Maurice Henderson, Peace River EC
Edward I. Ricketson, Central Florida EC

ENGINEERING AND OPERATIONS COMMITTEE

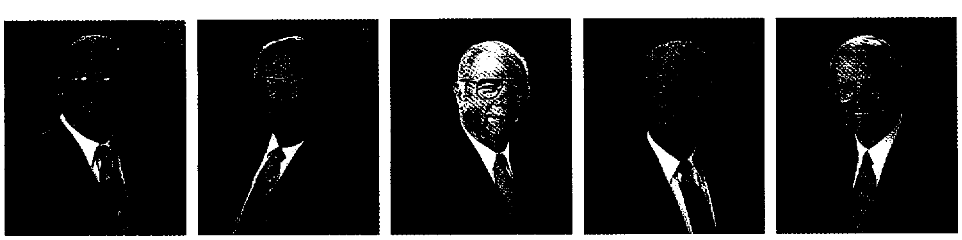
William C. Phillips, Clay EC, Chairman
James E. Hines, Withlacoochee River EC, Vice Chairman
James Aul, Glades EC
Evans Brown, Tri-County EC
Glen O. Douglas, Peace River EC



Pamela M. May, Lee County EC
Earl Muffett, Sumter EC
Gary Stallons, Talquin EC
Clyde Townsend, Central Florida EC
J.C. Walker, Suwannee Valley EC

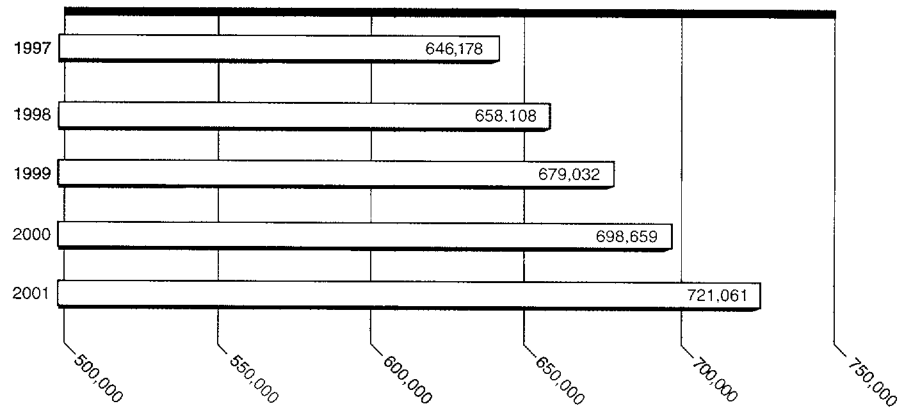
FINANCE COMMITTEE

William T. Mulcay, Jr., Peace River EC, Chairman
Jerry L. Martin, Suwannee Valley EC, Vice Chairman
Ronald Bass, Tri-County EC
General James Dozier (Ret.), Lee County EC
John W. Drake, Glades EC

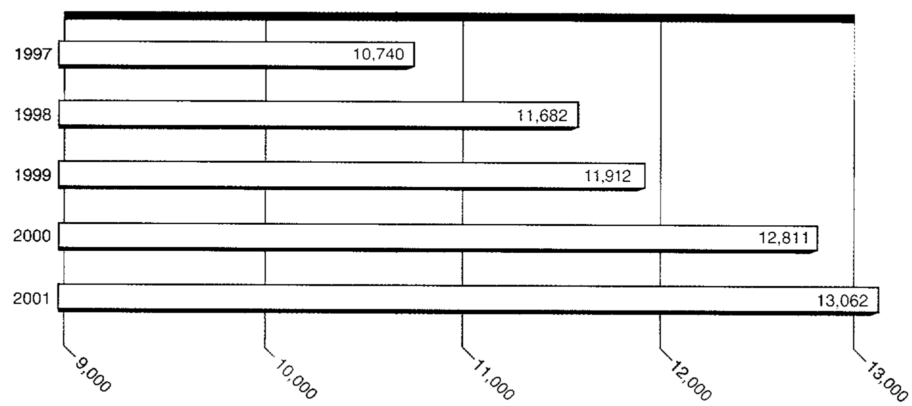


Bennie M. Rivenbark, Withlacoochee River EC
Wilson G. Sheppard, Sumter EC
C.M. Smith, Jr., Clay EC
George A. Stephens, Central Florida EC
Amos Sumner, Talquin EC

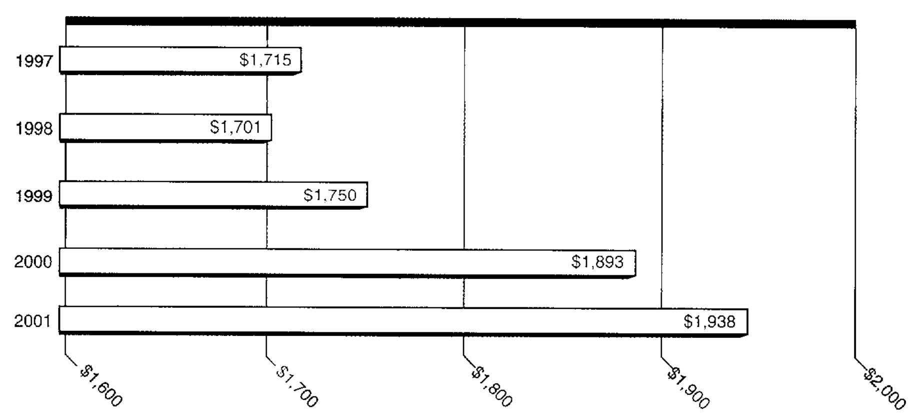
TOTAL CONSUMERS
(year end)



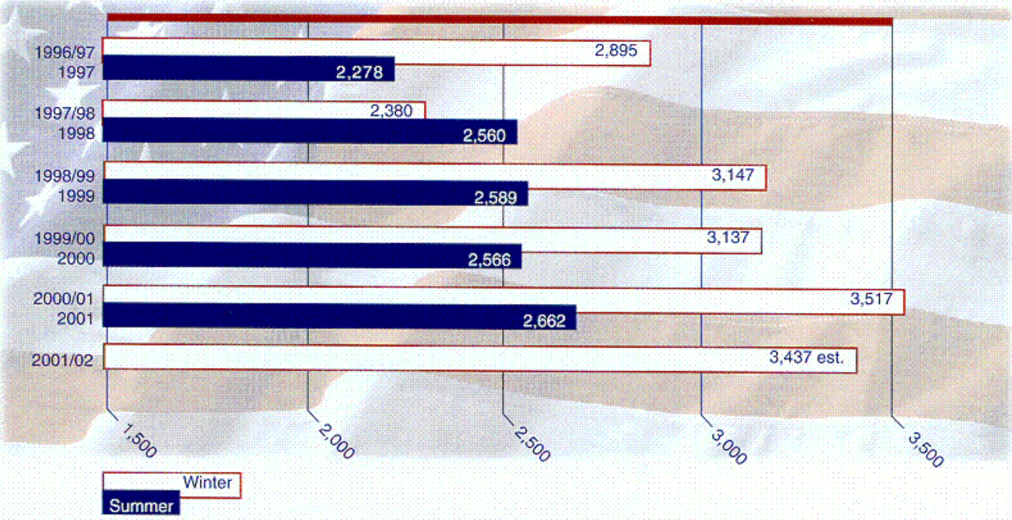
TOTAL ENERGY REQUIREMENTS*
(millions of KWHs)



TOTAL MEMBER SYSTEM ASSETS
(millions of dollars)

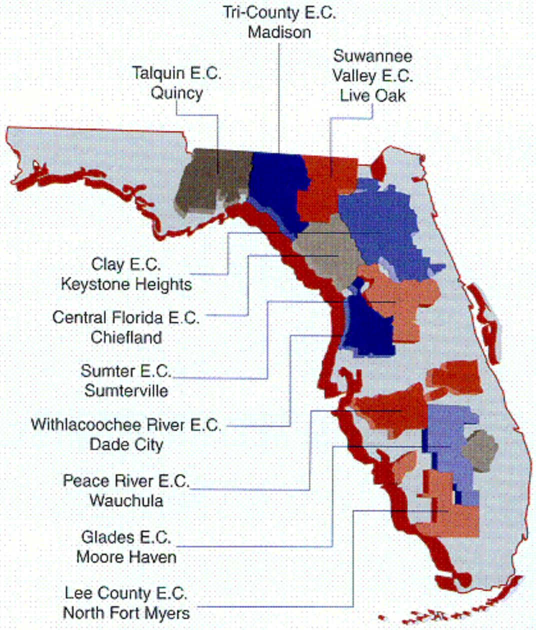


AGGREGATE COINCIDENT PEAK DEMAND*
(megawatts MW)



PERCENTAGE OF TOTAL RETAIL SALES BY CLASS

TEN MEMBER DISTRIBUTION COOPERATIVES



*INCLUDES POWER RECEIVED FROM THE SOUTHEASTERN POWER ADMINISTRATION

C01

In Partnership with Those We Serve.

RICHARD J. MIDULLA STEVEN R. SHEARER JAMES R. DUREN

SEMINOLE ELECTRIC ANNUAL MEETING

Seminole Electric trustees are elected to a one-year term at the Cooperative's annual meeting. Board officers are elected at a regular board meeting held later that day.

HEADQUARTERS OFFICE

Seminole Electric Cooperative, Inc.
16313 North Dale Mabry Highway
P.O. Box 272000
Tampa, Florida 33688-2000

GENERAL COUNSEL

ROBERT A. MORA
Allen, Dell, Frank and Trinkle
P.O. Box 2111
Tampa, Florida 33601

2001 BOARD OFFICERS

WILSON G. SHEPPARD, President

JOHN W. DRAKE, Vice President

WILLIAM T. MULCAY, JR., Secretary/Treasurer

WILLIAM C. PHILLIPS, Assistant Secretary/Treasurer

EXECUTIVE OFFICER

RICHARD J. MIDULLA
Executive Vice President and
General Manager

EXECUTIVE STAFF

STEVEN R. SHEARER
Senior Vice President and
Assistant General Manager,
and Assistant Secretary

JAMES R. DUREN
Vice President, Energy Production

JOHN W. GEERAERTS
Vice President, Financial Services,
and Assistant Treasurer

FLOYD J. WELBORN
Vice President, Energy Delivery

TIMOTHY S. WOODBURY
Vice President, Strategic Services

JEANETTE L. FLETCHER
Executive Assistant
to the General Manager

JOHN W. GEERAERTS FLOYD J. WELBORN TIMOTHY S. WOODBURY JEANETTE L. FLETCHER

STAFF DIRECTORS

WILLIAM C. CROSS
Director, Information Systems

LANE T. MAHAFFEY
Director, Corporate Planning

TRUDY S. NOVAK
Director, Pricing and Bulk Power Contracts

MICHAEL P. OPALINSKI
Director, Environmental and Engineering Services

JAMES G. PITTMAN
Director, Plant Operations
(Payne Creek Generating Station)

W. JACK REID
Director, Fuel Supply

RICHARD D. RICH
Director, Supply Management

W. PAUL SHIPSKIE
Director, Plant Operations
(Seminole Generating Station)

THOMAS H. TURKE
Director, Internal Audit

STEVEN R. WALLACE
Director, Operations

Annual Report

Inquiries regarding the contents of this annual report should be directed to Seminole's Human Resources and Public Relations department, or by e-mail to info@seminole-electric.com. Selected portions of this report may be viewed on our web site at www.seminole-electric.com.

Seminole Electric
COOPERATIVE, INC.
IN PARTNERSHIP WITH THOSE WE SERVE

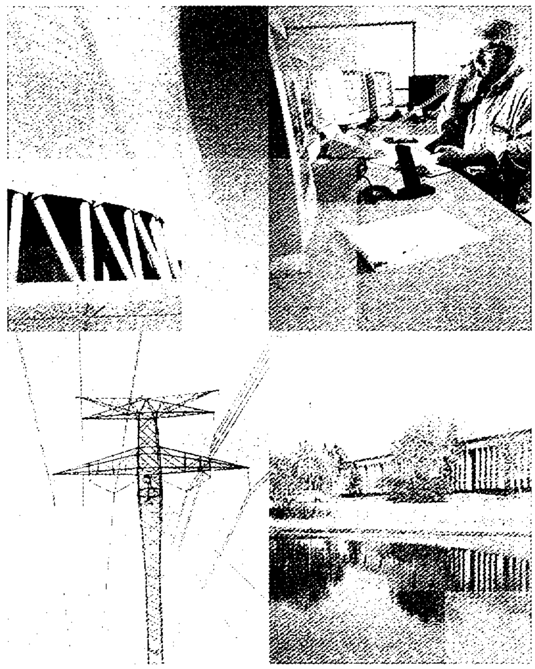
16313 N. Dale Mabry Hwy. P.O. Box 272000
Tampa, Florida 33688-2000

(813) 963-0994

www.seminole-electric.com

Seminole Electric
COOPERATIVE, INC.
IN PARTNERSHIP WITH THOSE WE SERVE

2001 FINANCIAL STATEMENTS



(dollars in thousands)	2001	2000	1999	1998	1997
Operating revenues:					
Sales to members	$ 650,328	$ 566,858	$ 549,217	$ 543,251	$ 525,118
Sales to non-members	12,128	13,490	7,026	5,380	11,072
Other	6,622	2,308	1,497	11,307	1,746
Total operating revenues	669,078	582,656	557,740	559,938	537,936
Operating expenses:					
Fuel and other production expenses	234,200	213,468	215,590	220,479	219,861
Purchased power and transmission	330,611	273,428	238,898	230,335	205,846
Depreciation and amortization	26,034	25,043	25,046	24,964	27,143
Lease of coal-fired plant	28,056	28,515	28,747	29,250	29,090
Other operating expenses	21,184	17,249	22,415	25,182	21,100
Total operating expenses	640,085	557,703	530,696	530,210	503,040
Operating margins	28,993	24,953	27,044	29,728	34,896
Net interest expense	32,653	35,343	35,720	38,745	39,647
Nonoperating income, net	6,077	12,637	11,198	11,512	7,457
Net margins	$ 2,417	$ 2,247	$ 2,522	$ 2,495	$ 2,706
Assets:					
Utility plant, net	$ 682,856	$ 643,003	520,602	$ 526,466	$ 539,492
Investments	71,314	62,248	61,327	99,361	99,774
Current assets	145,454	195,017	219,451	154,409	152,909
Deferred charges	114,787	116,251	112,315	56,896	62,946
	$ 1,014,411	$ 1,016,519	$ 913,695	$ 837,132	$ 855,121
Equity and liabilities:					
Equity	$ 72,395	$ 71,532	$ 69,915	$ 68,016	$ 66,198
Long-term liabilities	785,393	777,183	712,547	658,592	678,969
Current liabilities	130,122	140,799	105,376	78,929	77,534
Deferred gain/other deferred credits	26,501	27,005	25,857	31,595	32,420
	$ 1,014,411	$ 1,016,519	$ 913,695	$ 837,132	$ 855,121
Utility plant additions	$ 66,318	$ 147,819	$ 36,223	$ 14,252	$ 5,936
Working capital	$ 15,332	$ 54,218	$ 114,075	$ 75,480	$ 75,375
Megawatt hours sold - members	12,946,637	12,727,333	11,849,011	11,619,034	10,686,941
Megawatt hours sold - non-members	358,307	380,547	214,752	166,936	469,044
Wholesale member cost - mills/kWh	50.23	44.54	46.35	46.76	49.14
Total sales - mills/kWh	49.79	44.27	46.11	46.55	48.06

RESULTS OF OPERATIONS

Revenues from sales to members increased approximately 14.7% in 2001 compared to 2000. Fuel revenues increased 8.7% in 2001, reflecting a 1.5% increase in MWhs sold and a 7.1% increase in the rate per MWh charged to members. Non-fuel revenues were 21.6% higher than in 2000. The increase is primarily due to 2000 non-fuel revenues including the effects of a one time rate rebate of $53.8 million issued to Seminole's members as a result of a refund Seminole received under a settlement agreement with Florida Power and Light (FPL). Overall demand (MW) sold to members decreased 3.1% as a result of milder weather conditions and a slowing economy experienced during 2001. To recover the revenue shortfall created by lower demands, Seminole billed its member systems approximately $12.6 million under an Interim Rate Rider during the months of October through December 2001. Excluding the effects of the one time rate rebate in 2000, non-fuel revenues increased 0.5% in 2001. Additionally, if the effects of the one time rate rebate in 2000 are excluded, member wholesale cost per kilowatt hour (kWh) increased from 48.8 mills in 2000 to 50.3 mills in 2001. Megawatt hours sold to non-members decreased by approximately 5.8% in 2001 compared to 2000, and prices per kWh decreased by approximately 4.5%. The reduced energy sales to non-members were due to decreasing quantities of power available due to increased member load requirements. The average non-member revenue per kWh decreased in 2001 to 33.9 mills compared to 35.5 mills in 2000. The increase in other revenues during 2001 of approximately $4.5 million is primarily due to the sales of synthetic gypsum.

Fuel and other production expenses increased by 9.7% in 2001 compared to 2000. The increase in fuel expense is primarily due to a 2.6% increase in the quantity of fuel consumed as well as a 7.2% increase in the average cost per ton of fuel purchased in 2001. The rise in the average cost per ton is attributed to purchases of significantly higher priced spot coal and petcoke in 2001. Other production expenses increased due to longer outage periods in 2001 compared to 2000. Purchased power including transmission increased 20.9% primarily due to the recording of the FPL settlement refund as a credit to purchased power expense in the year 2000. Excluding the effect of the refund, purchased power and transmission expenses increased 2.1%, reflecting an increase in quantities of power purchased for resale to members and nonmembers. Administrative and General expenses increased due to the amortization of the Walker County judgment and higher legal and consulting charges.

The decrease in net interest expense is due to increased interest charged to construction, primarily associated with the Payne Creek Generating Station (PCGS) project, a 500 megawatt, gas-fired combined cycle generating facility, and decreased variable interest rates, offset by increased interest on the addition of $40.2 million of Rural Utilities Services (RUS) guaranteed long-term debt to reimburse general funds for PCGS construction costs. Non-operating income, net, principally interest income, decreased from 2000 due to lower interest rates on short term investments, and $3.3 million of interest related to the FPL settlement in 2000. Also included in non-operating income is $.9 million from the sale of excess SO_2 allowances in December 2001. The excess allowances resulted from the efficient operation of the Seminole Generating Station (SGS) and its flue gas desulfurization (FGD) system during 2000 and 2001.

Seminole achieved a net margin of $2.4 million in 2001, which resulted in a Times Interest Earned Ratio (TIER) of 1.05 and a Debt Service Coverage Ratio (DSC) of 1.07. This marks the nineteenth straight year that Seminole has achieved or exceeded both TIER and DSC objectives.

FINANCIAL CONDITION

Utility plant, net increased by $39.9 million due to utility plant additions net of retirements of $66.3 million, offset by depreciation of $ 26.4 million. Utility plant additions consisted primarily of construction costs of $61.1 million for the PCGS and other capital improvements to the SGS.

Current assets decreased approximately $49.6 million or 25 percent from 2000. The cash and cash equivalents balance at the end of the current period of $33.0 million reflects a $13.6 million decrease from the balance at the end of December 2000. Accounts receivable decreased $35.4 million, primarily due to decreased unrecovered fuel adjustment true-up costs. Fuel inventory at the end of 2001 decreased by $1.8 million compared to year end 2000.

The decrease in deferred charges is associated with amortization of approximately $14.9 million for 2001, relating to the termination of certain coal transportation contracts in December 1998, and $ 6.5 million proceeds from sales of marine equipment, offset by an increase due to the Walker County judgment deferral.

Total equity increased $0.9 million, reflecting current year's net margins of $2.4 million, partially offset by patronage capital credit retirements in 2001, and Other Comprehensive Income (OCI) of $1.0 million. Seminole retired $.5 million in members' patronage capital in 2001, bringing the total-to-date of patronage capital retired to approximately $15.6 million. OCI occurs in 2001 as a result of adopting Statement of Financial Accounting Standards No. 133 (SFAS 133.) Pursuant to SFAS 133, unrealized gains and losses related to changes in the fair value of hedges are recorded in OCI.

Long-term liabilities increased in 2001 from the addition of $40.2 million of RUS guaranteed long-term debt to reimburse general funds for PCGS construction costs, offset by scheduled principal payments of long-term debt and capital leases and capital lease terminations.

Current liabilities decreased in 2001 as a result of a decrease in accounts payable due to the timing of payments at each period end, offset by increases in purchased power invoices for December purchases outstanding at year-end. Other decreases were the payment of the coal transportation contract termination obligation in January 2001, offset by the Walker County judgment liability, an increase in accrued fuel true-up payable, and the current portion of long-term debt.

Deferred credits decreased by $0.5 million in 2001 primarily due to the normal amortization of previously deferred credits, offset by the difference between cash payments and expense recognized related to the operating lease of certain generating facilities.

Working capital at year-end 2001 of $15.3 million was $38.9 million lower than the previous year-end. This decrease in working capital was due to decreases in cash and cash equivalents, accounts receivable and fuel inventory, as well as lower accounts payable, offset by an increase in other accrued liabilities, and the current portion of long-term debt. Seminole had a current ratio to 1.1 at the end of 2001, and 1.4 at the end of 2000.

Seminole had available uncommitted lines of credit totaling $75 million of which none were drawn at December 31, 2001.

OTHER

The PCGS, a 500 megawatt (MW) combined cycle generating facility, began commercial operation on January 1, 2002. Under construction since early 2000, PCGS is located in Hardee County in south central Florida on a site leased from Acuera Corp., a wholly owned subsidiary of Seminole.

December 31,	2001	2000
ASSETS		
Utility plant:		
Plant in service	$ 838,601,652	$ 832,917,419
Construction work in progress	235,010,818	175,429,951
	1,073,612,470	1,008,347,370
Less accumulated depreciation and amortization	(390,756,617)	(365,344,771)
Utility plant, net	682,855,853	643,002,599
Investments:		
Investments in associated organizations	3,918,762	4,515,036
Funds held by trustees and special funds	67,395,086	57,732,797
Total investments	71,313,848	62,247,833
Current assets:		
Cash and cash equivalents	33,030,974	46,586,838
Receivables, principally for sale of electricity	67,490,466	102,893,051
Inventories, at average cost:		
Materials and supplies	17,639,968	17,057,179
Fuel	26,021,004	27,775,174
Prepayments and other	1,272,484	704,834
Total current assets	145,454,896	195,017,076
Deferred charges	114,786,672	116,251,272
Total assets	$ 1,014,411,269	$ 1,016,518,780

December 31,	2001	2000
EQUITIES AND LIABILITIES		
Equities:		
Memberships	$ 1,000	$ 1,000
Patronage capital	73,352,675	71,499,037
Donated capital	31,715	31,715
Other margins and equities	(990,383)	0
Total equities	72,395,007	71,531,752
Long-term liabilities:		
Long-term debt	778,006,110	770,148,017
Obligations under capital leases	548,634	790,155
Other	6,838,260	6,245,030
Total long-term liabilities	785,393,004	777,183,202
Current liabilities:		
Current portion of:		
Long-term debt	29,649,554	23,306,406
Obligations under capital leases	241,521	221,997
Accounts payable	35,569,235	63,608,155
Other accrued liabilities	64,661,533	53,662,243
Total current liabilities	130,121,843	140,798,801
Deferred gain on sale-leaseback of plant	11,267,160	12,682,929
Other deferred credits	15,234,255	14,322,096
Commitments and contingencies (Notes 10 and 11)		
Total equities and liabilities	$ 1,014,411,269	$ 1,016,518,780

For the years ended December 31,	2001	2000
Operating revenues	$ 669,077,708	$ 582,655,459
Operating expenses:		
Operation:		
Fuel	174,205,344	158,854,364
Other production expenses	59,994,900	54,613,238
Purchased power	299,071,251	239,751,383
Transmission	31,540,428	33,677,095
Administration and general	21,184,305	17,248,783
Depreciation and amortization - non-fuel	26,033,548	25,043,340
Lease of coal-fired plant	28,056,160	28,514,746
Total operating expenses	640,085,936	557,702,949
Operating margins before interest expense	28,991,772	24,952,510
Interest expense net of amounts capitalized	32,653,451	35,342,519
Operating deficits	(3,661,679)	(10,390,009)
Patronage capital credits	74,194	104,101
Net operating deficits after interest expense	(3,587,485)	(10,285,908)
Non-operating income:		
Interest income	5,682,927	12,130,746
Other income, net	319,998	402,371
Net margins	2,415,440	2,247,209
Patronage capital, beginning of year	71,499,037	69,882,439
Patronage capital retirements	(561,802)	(630,611)
Patronage capital, end of year	$ 73,352,675	$ 71,499,037

December 31,	2001	2000
Net margins	$ 2,415,440	$ 2,247,209
Other comprehensive loss:		
Cash flow hedges:		
Net loss on derivatives	(1,872,970)	0
Less: reclassification adjustment for derivative losses included in net margins	882,587	0
Other comprehensive loss	(990,383)	0
Comprehensive income	$ 1,425,057	$ 2,247,209

For the years ended December 31,	2001	2000
Cash flows from operating activities:		
Net margins	$ 2,415,440	$ 2,247,209
Adjustments to reconcile to cash:		
Depreciation and amortization	45,033,747	38,904,608
Gain on lease/leaseback	(1,168,024)	(1,168,023)
Lease expense/lease payment difference	1,051,594	2,158,951
Change in assets and liabilities:		
Receivables	35,402,585	(73,144,843)
Inventories	1,171,381	(5,715,313)
Prepayments and other	(567,650)	(89,614)
Deferred charges	4,830,580	(17,254,026)
Other long-term liabilities	(157,665)	(32,087)
Accounts payable	(28,038,920)	32,811,606
Other accrued liabilities	(11,750,142)	4,214,399
Total adjustments	45,807,486	(19,314,342)
Net cash provided by/(used in) operating activities	48,222,926	(17,067,133)
Cash flows from investing activities:		
Utility plant additions, net of retirements	(66,317,682)	(147,818,674)
(Purchases of)/proceeds from investments, net	(6,810,740)	48,686,583
Net cash used in investing activities	(73,128,422)	(99,132,091)
Cash flows from financing activities:		
Proceeds from long-term borrowings	40,205,000	100,000,000
Payments of long-term debt	(28,071,569)	(21,336,679)
Payments of capital lease obligations	(221,997)	(17,569,648)
Payments of patronage capital credits	(561,802)	(630,611)
Net cash provided by financing activities	11,349,632	60,463,062
Net decrease in cash and cash equivalents	(13,555,864)	(55,736,162)
Cash and cash equivalents, beginning of year	46,586,838	102,323,000
Cash and cash equivalents, end of year	$ 33,030,974	$ 46,586,838
Supplemental disclosure: Interest paid	$ 46,849,683	$ 35,746,181

NOTE 1 THE COOPERATIVE:

Seminole Electric Cooperative, Inc. (Seminole) is a generation and transmission cooperative (G & T). It is responsible for meeting the electric power and energy needs of its distribution cooperative members operating within the State of Florida. Seminole's rates are established by its Board of Trustees, which is composed of representatives from each member cooperative.

Seminole constructed and operates Seminole Generating Station (SGS) comprised of two coal fired generating facilities (Seminole Unit No. 1 and Unit No. 2) near Palatka, Florida with approximately 650 megawatts of net output per unit. These units are connected to the Florida bulk power supply grid through Seminole's 230 kV transmission lines and associated facilities. Both units commenced commercial operation in 1984.

On January 1, 2002, the Payne Creek Generating Station (PCGS) commenced commercial operation. The PCGS is a 500 megawatt, gas-fired combined cycle generating facility constructed by Seminole on an existing 1,300 acre site leased from Acuera Corp. (Acuera).

At December 31, 2001, 175 employees or approximately 38% of the total workforce were covered by a four year collective bargaining agreement with Utility Workers Union of America expiring on June 30, 2003.

Seminole holds a 1.6994% undivided ownership interest in the Crystal River Unit No. 3 (CR3) nuclear power plant operated by Florida Power Corporation (FPC). Seminole also owns various transmission facilities connecting Seminole to an Independent Power Producer (IPP) as well as individual members to the Florida bulk power grid.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Seminole complies with the Uniform System of Accounts as prescribed by the Rural Utilities Service (RUS). The accounting policies and practices applied by Seminole in the determination of rates are also employed for financial reporting purposes. These policies and practices require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation", Seminole's Board of Trustees prescribes rate-making recovery for certain transactions.

The consolidated financial statements include the results of operations and financial position of Seminole, Acuera, Putnam Leasing Company A, Inc., Putnam Leasing Company B, Inc., and Putnam Leasing Company C, Inc., each wholly owned subsidiaries of Seminole. Acuera owns a 1,300 acre site in Hardee County and Polk County, Florida, a portion of which is leased on a nonexclusive basis to an IPP for its use associated with certain generating facilities constructed and owned by the IPP. The three leasing subsidiaries were established to facilitate the completion of the lease/leaseback transactions relating to one of Seminole's coal-fired generating facilities. All significant intercompany transactions have been eliminated.

Operating Revenue

Seminole has wholesale power contracts with each of its members, whereby the members must purchase all electric power and energy which the member shall require for the operation of its system within the State of Florida from Seminole to the extent that Seminole shall have such power, energy and facilities available. The only exception relates to contracts between several members and the Southeastern Power Administration, which provides less than 1% of the total energy required by all members.

Operating revenue consists primarily of sales of electric power and energy by Seminole and a facilities use charge for Seminole's transmission lines serving a single member cooperative. Member revenues include amounts resulting from a fuel and purchased power adjustment clause which provides for billings to reflect increases or decreases in fuel and fuel related purchased power costs. The levelized adjustment factor is based on costs projected by Seminole for a twelve month period. Any over-recovery or under-recovery of costs plus an interest factor are to be refunded or billed to the members semi annually. At the members' option, refunds of over-recoveries may be deferred with interest every six months until such time as the member elects to have the over-recovery including accumulated interest refunded. Over-recoveries of approximately $8.9 million and under-recoveries of approximately $35.0 million at December 31, 2001, and 2000, respectively, are recorded in accrued liabilities or accounts receivable until refunded or billed.

Included in operating revenue are approximately $651 million and $568 million of revenue from members for the years ended December 31, 2001 and 2000, respectively, of which approximately $64 million and $63 million primarily related to December sales are included in receivables at December 31, 2001 and 2000, respectively. During 2000, as a result of a settlement agreement with a power supplier, Seminole received a refund of $50.5 million plus interest from January 1, 2000 (see Note 11). A rate rebate in an amount equal to this refund including interest received was distributed to Seminole's members pursuant to a rate rider adopted by Seminole's Board of Trustees, and is reflected as a reduction to revenue from members, for the year ended December 31, 2000.

Utility Plant

Utility plant owned by Seminole is stated at original cost. Such cost includes applicable supervisory and overhead cost, plus net interest charged during construction. The amounts of interest capitalized during 2001 and 2000 were approximately $10.8 million and $5.6 million, respectively. The cost of maintenance and repairs, including renewals and replacements of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Certain leased transportation equipment is valued at the total net present value of minimum lease payments.

Depreciation and Amortization of Utility Plant

Seminole provides for depreciation on owned utility plant using composite rates applied annually on a straight line basis that will amortize the original cost of depreciable property over its estimated useful life. The average rates for 2001 and 2000 were as follows:

	2001	2000
Coal-fired production plant	3.10%	3.10%
Transmission plant	2.75%	2.75%
General plant	8.05%	7.53%
Nuclear production plant	4.51%	4.51%

Depreciation expense amounted to approximately $24.3 million and $23.9 million for 2001 and 2000, respectively.

Improvements to the leased coal-fired production plant are amortized over the remaining life of the base lease term. The related composite amortization rates were 7.07% and 7.0% for 2001 and 2000, respectively.

Amortization of leased assets under capital leases amounted to approximately $0.2 million and $0.7 million in 2001 and in 2000, respectively. Of these amounts, $0.5 million in 2000 relating to certain marine transportation equipment capital leases terminated in 2000, was recorded in deferred charges (see Note 11).

Amortization of Deferred Gain

Deferred gain on sale leaseback of coal-fired production plant is being amortized on a straight-line basis over the base lease term of twenty-five years commencing in 1985 and is reflected as a reduction of operating expenses. Amortization expense for 2001 and 2000 was $1.4 million and $1.5 million respectively.

Gain on Lease/Leaseback

In December 1997, Seminole entered into three long-term lease/leaseback transactions for a portion of its Palatka generating station. These transactions are characterized as sales and leasebacks for income tax purposes, but are reflected as financing transactions for financial reporting purposes. Beginning in 1998, the net cash benefit to Seminole totaling approximately $26.9 million is being recognized on a straight-line basis over the twenty-three year leaseback period in the amount of approximately $1.2 million annually pursuant to SFAS No. 71 and as authorized by the Board of Trustees.

Deferred Charges

At December 31, 2001 and 2000, deferred charges included unamortized debt costs and related refinancing premiums of approximately $39.0 million and $41.4 million, respectively. These deferred charges will be recovered through rates over the remaining lives of the related debt ranging up to nineteen years. In 2001,the

Seminole Board of Trustees authorized the implementation of an expense deferral plan pursuant to the provisions of SFAS No. 71, relating to the Walker County judgment (see Note 11). The amount of the judgment, including post judgment interest has been deferred and is being amortized and recovered through rates charged to members over a 60 month period, starting in July 2001. In December 1998 the Seminole Board of Trustees authorized the implementation of an expense deferral plan pursuant to the provisions of SFAS No. 71 relating to costs to be incurred associated with the coal transportation contract terminations (see Note 11). Anticipated marine equipment lease termination costs, operating costs of the leased marine equipment subsequent to coal transportation contract terminations, and certain other costs aggregating approximately $85.0 million have been deferred pursuant to this plan. Included in these costs is the net book value of approximately $6.5 million and $8.2 million in 2001 and 2000, respectively, relating to marine transportation equipment under capital leases terminated during 2000. The deferred costs associated with the coal transportation contract terminations are being amortized to fuel expense on a cost per ton basis through 2004, reflecting the shortest remaining term of the contracts terminated. Amortization of deferred costs associated with the coal transportation contract terminations was approximately $14.9 million and $11.9 million in 2001 and 2000, respectively. Amortization of other deferred charges amounted to approximately $2.6 million in 2001 and 2000.

Long-Lived Assets

Seminole evaluates, on a regular basis, whether events and circumstances have occurred that indicate the carrying amounts of utility plant and deferred charges may warrant revision or may not be recoverable. Seminole measures impairment of these long-lived assets based on estimated future undiscounted cash flows from operations. At December 31, 2001, the net utility plant and net unamortized deferred charges balances are not considered to be impaired.

Deferred Credits

At December 31, 2001 and 2000, deferred credits primarily included deferred lease expense which represents the difference between cash payments and expense recognized on a straight-line basis related to the operating lease of certain generating facilities, and a reserve for CR3 decommissioning costs. These deferred credits have been authorized by the Board of Trustees.

Accounting for Derivatives and Hedging Activities

Seminole adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133", an amendment of FASB Statement No. 133, and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment of FASB Statement No. 133 (referred to hereafter as "SFAS 133"), on January 1, 2001. Seminole did not have any derivatives as defined in the standard on January 1, 2001 and accordingly did not record a transition adjustment.

All derivatives are recognized on the balance sheet at their fair value and changes in fair value of those instruments are recognized as either a component of comprehensive income or in net income, depending on the types of those instruments. On the date that Seminole enters into a derivative contract, Seminole determines whether the derivative is subject to the requirements of SFAS 133 or meets the criteria for exclusion. All contracts requiring SFAS 133 accounting are designated as cash flow hedges, fair value hedges, or as a trading instrument, and formal documentation of relationships between hedging instruments and the hedged items, hedging objective and strategy, and methods for assessing hedge effectiveness both at the hedge's inception and on an ongoing basis is completed. All components of each derivative's gain or loss have been included in the assessment of hedge effectiveness.

To reduce the exposure to natural gas price fluctuation risks, Seminole entered into natural gas hedging transactions in 2001. These transactions are designated as cash flow hedges and are deemed to be highly effective, and therefore no ineffective losses were recognized in earnings for 2001. For the year ended December 31, 2001, net losses of $0.9 million were reclassified into earnings and are included in "Other income, net" in the Consolidated Statement of Revenue and Expenses and Patronage Capital. Other Comprehensive Income reflects a $0.6 million loss related to these transactions in 2001 which will be reclassified into earnings each month in 2002, when the gas is purchased. The entire $0.6 million is expected to be reclassified into earnings within the next twelve months.

On December 13, 2001, Seminole entered into a two-year agreement to swap the variable interest rate on a portion of the pollution control revenue bonds, on which the interest rate varies weekly, for a fixed interest rate of 2.99%. The transaction is designated as a cash flow hedge. At December 31, 2001, this interest rate swap was deemed highly effective, and therefore no ineffective losses were recognized in earnings for 2001. On January 8, 2002, the lowering of the credit rating of National Rural Utilities Cooperative Finance Corporation (CFC), the Guarantor of the bonds resulted in an alternative index rate being used prospectively to derive the variable interest rate in the swap. This will result in an ineffective portion of the swap to occur prospectively. The $0.4 million loss reported in Other Comprehensive Income will be reclassified into earnings each month for the next two years, when the pollution control revenue bond interest is incurred.

Cash Equivalents

Seminole considers all short term, highly liquid investments with an original maturity of three months or less to be cash equivalents.

NOTE 3 UTILITY PLANT:

	December 31, 2001	December 31, 2000
Owned property:		
Coal fired production plant	$ 610,358,709	$610,441,048
Transmission plant	156,564,596	156,548,208
General plant	22,307,224	21,241,107
Nuclear plant, including fuel	23,085,213	22,273,734
	812,315,742	810,504,097
Transportation equipment under capital leases	2,538,591	2,538,591
Leasehold improvements of coal-fired production plant	23,747,319	19,874,731
	838,601,652	832,917,419
Construction work in progress	235,010,818	175,429,951
	1,073,612,470	1,008,347,370
Accumulated depreciation and amortization:		
Owned property	(378,602,331)	(355,115,962)
Leased transportation equipment	(1,846,950)	(1,616,989)
Leasehold improvements	(10,307,336)	(8,611,820)
	(390,756,617)	(365,344,771)
	$ 682,855,853	$ 643,002,599

NOTE 4 INVESTMENTS:

	December 31, 2001	December 31, 2000
Investments in associated organizations:		
CFC:		
Membership	$ 1,000	$ 1,000
Capital term certificates	1,448,731	1,451,561
Subordinated term certificates	1,912,375	2,498,473
Patronage capital certificates	547,048	552,394
Other	9,608	11,608
	$ 3,918,762	$ 4,515,036
Funds held by trustees and special funds:		
Pollution control bond funds	$ 15,088,417	$ 14,889,550
Nuclear decommissioning trust fund	4,708,916	4,556,500
Lease termination fund	40,621,734	38,286,747
Walker County judgment escrow fund	6,976,019	0
	$ 67,395,086	$ 57,732,797

Investments in capital and subordinated term certificates and patronage capital certificates are considered to be held-to-maturity investments due to their nature and are carried at cost determined by specific identification.

It is not practical to estimate the fair value of CFC capital term certificates due to the nature and maturity of these investments. Of these investments, $1,448,731 are required as a condition of membership and of loans provided to Seminole by CFC. Of the approximately $1.4 million and $1.5 million carrying amounts at December 31, 2001 and 2000, respectively, $63,307 matures in 2075 and $918,124 matures in 2080. Both of these amounts pay 5% annual interest. Additionally, $364,283 matures in 2030 and pays 3% annual interest, and $103,017 in 2001 and $105,847 in 2000, bears no interest and amortizes through 2019.

Investments in CFC subordinated term certificates are required as a condition of guarantees provided to others by CFC on behalf of Seminole and are generally priced at market rates at the time of issuance. These investments bear interest at various rates with a combined average of approximately 6.1% and 6.3% at December 31, 2001 and 2000, respectively. At December 31, 2001 and 2000, the estimated fair values of these investments of approximately $1.9 million and $2.4 million, respectively, are based on the current rates offered by CFC for this type of required investment.

Funds held by trustees for pollution control bond funds are recorded at amortized cost and are considered to be held-to-maturity investments. The investments in the nuclear decommissioning trust fund (NDTF) are also considered held-to-maturity except for certain investments held by the NDTF which are invested in equity mutual funds and are valued at market prices for rate-making purposes. At December 31, 2001 and 2000, the estimated fair values of these funds of approximately $20.1 million and $19.4 million, respectively, are based on quoted market prices for the securities held by the trustees.

The lease termination fund, which has been invested in zero coupon government securities with a yield of 6.1% will be held to maturity (2020) and is not marketable; therefore, the fair market value is not determinable.

The Walker County judgment escrow fund, which has been invested in a United States short-term Treasury bill with a yield of 1.522%, will be held to maturity. At December 31, 2001, the estimated fair value of this fund of approximately $6,975,623 is based on quoted market prices for the securities held by the escrow agent.

NOTE 5 LONG-TERM LIABILITIES:

Long-Term Debt	December 31, 2001	2000
First mortgage notes payable to Federal Financing Bank (FFB), guaranteed by RUS, principal due in various installments through 2020, interest at fixed rates, from 4.634% to 7.295%	$ 597,509,978	$ 580,250,090
First mortgage notes payable to RUS, principal due in various installments through 2019, interest at 5.00%	6,802,599	7,093,927
Pollution control revenue bonds payable to the Putnam County Development Authority, guaranteed by CFC, principal due in various installments through 2014, interest at adjustable rates, currently 2.99% and 2.40%	125,300,000	129,850,000
First mortgage notes payable to CFC, principal due in various installments through 2019, interest at adjustable rates, currently 4.70%	8,104,998	8,390,127
Lease termination obligation payable to State Street Bank and Trust at maturity in 2020, interest imputed at a fixed rate of 3.05%	69,938,089	67,870,279
	807,655,664	793,454,423
Less current portion	(29,649,554)	(23,306,406)
	$ 778,006,110	$ 770,148,017

The estimated maturities and annual sinking fund requirements of all long term debt, at interest rates as of December 31, 2001 for the four years subsequent to December 31, 2002, are presented below:

Year ending December 31,	Annual Maturities and Sinking Fund Requirements
2003	$ 31,547,511
2004	$ 33,330,753
2005	$ 35,735,452
2006	$ 38,100,634

During November and December, 2000, FFB debt in the amount of $100 million was advanced to Seminole at a weighted average interest rate of 5.66%. During 2001, FFB debt in the amount of $40,205,000 was advanced to Seminole at a weighted average interest rate of 5.14%. At December 31, 2001, approximately $39.8 million of RUS approved loan funds remained available for Seminole to draw pending Seminole meeting RUS requirements for receiving the funds.

Substantially all owned assets and leasehold interests other than the lease termination fund are pledged as collateral for the above mentioned debt to the United States of America (RUS and FFB) and CFC. The lease termination fund is pledged as collateral for the lease termination obligation to State Street Bank and Trust.

At December 31, 2001 and 2000, the estimated fair value of long-term debt including current portion but excluding the lease termination obligation, is approximately $775 million and $747 million, respectively. For Seminole's long-term debt with interest rates substantially fixed to final maturity, and for that portion that is subject to interest rate adjustment more than six months from year end, fair value is estimated based on the present value of the underlying cashflows. For that portion of long-term debt that reprices to market rates at intervals of six months or less, the carrying amount has been used as a reasonable estimate of fair value.

The fair value of the lease termination obligation is not determinable since it is not marketable.

Obligations Under Capital Leases

At December 31, 2001, Seminole was obligated under a capital lease of rail transportation equipment which base lease term expires in 2004. The following is a schedule of future lease payments under the lease together with the present value of the net minimum lease payments as of December 31, 2001:

Year ending December 31,		
2002	$	304,461
2003		304,461
2004		304,460
2005		0
2006		0
Thereafter		0
Total minimum lease payments		913,382
Less amount representing interest		(123,227)
Present value of minimum lease payments		790,155
Less current principal portion		(241,521)
	$	548,634

This transportation equipment lease provides for renewal and option to purchase the equipment at fair market value at various dates or upon expiration. During 2001 and 2000, payments under the rail transportation equipment lease in the amount of approximately $0.3 million were included as a cost of fuel inventory and expensed based on the tons of coal burned throughout the year.

NOTE 6 NET MARGINS AND EQUITY RESTRICTIONS:

Under provisions of the RUS mortgage, until total equity equals or exceeds forty percent of total assets, the distribution of capital contributed by members is limited generally to twenty five percent of patronage capital and margins of the next preceding year where, after giving effect to such distribution, the total equity will equal or exceed twenty percent of total assets. Distributions may be made, however, in such amounts as may be approved by RUS through waiver of the aforementioned restrictions. Such distributions to members totaled $561,802 and $630,611 in 2001 and 2000, respectively, representing amounts equal to 25% of 2000 and 1999 net margins, respectively. The RUS mortgage requires Seminole to design its wholesale rates with a view towards maintaining, on a calendar year basis, a Times Interest Earned Ratio (as defined in the agreement) of not less than 1.0 and a Debt Service Coverage Ratio (as defined in the agreement) of not less than 1.0. An RUS stipulation arising from the sale of tax benefits requires Seminole to design its wholesale rates to provide an annual Times Interest Earned Ratio of not less than 1.05.

In 2001 and 2000, Seminole achieved a Times Interest Earned Ratio of 1.05, and a Debt Service Coverage Ratio of 1.07 and 1.08, respectively.

NOTE 7 LINES OF CREDIT:

Seminole has available uncommitted lines of credit totaling $75 million of which none were drawn at December 31, 2001 and 2000. RUS policy governs use of these funds.

NOTE 8 INCOME TAXES:

Seminole is a non-exempt cooperative subject to federal and state income taxes and files a consolidated tax return. As a cooperative, Seminole is entitled to exclude patronage dividends from taxable income. Seminole's bylaws require it to declare patronage dividends in an aggregate amount equal to Seminole's federal taxable income from its furnishing of electric energy and other services to its member-patrons. Accordingly, such income will not be subject to income taxes.

Seminole's rate-making methods provide that any income taxes related to current operations are recognized as expense and are recovered through rates when currently payable. In addition, income tax credits are accounted for as a reduction of taxes currently payable in the period utilized. In 2001 and 2000, net operating losses of approximately $0.7 million and $3.0 million, respectively, were generated from non-patronage activity. At December 31, 2001, net operating losses and investment tax credits of approximately $97.7 million and $73,000 are available to offset future taxable income and tax liabilities, respectively, expiring in years through 2021. Furthermore, alternative minimum tax (AMT) credits of approximately $2.5 million, which do not expire, are available to offset regular income tax liabilities.

Temporary differences in certain items of income and expense for tax and financial reporting purposes result primarily from depreciation, amortization and sale-leaseback of plant. Seminole has recorded the following noncurrent deferred tax asset, valuation allowance and noncurrent deferred tax liability in 2001 and 2000:

	2001	2000
Noncurrent deferred tax asset	$ 39,300,000	$ 53,900,000
Less valuation allowance	(39,300,000)	(47,500,000)
Net noncurrent deferred tax asset	-0-	6,400,000
Noncurrent deferred tax liability	-0-	6,400,000
Net noncurrent deferred tax asset/liability	$ -0-	$ -0-

Seminole excludes from its taxable income amounts derived from patronage activity. The deferred tax asset, valuation allowance and deferred tax liability are calculated solely based on non-patronage activity.

The noncurrent deferred tax asset reflects deductible temporary differences and net operating loss carryforwards at statutory rates plus investment tax credits and AMT credits. Based on Seminole's historical transactions and the exclusion of patronage dividends from taxable income, it is not anticipated that Seminole will have future taxable income sufficient to fully realize the benefit of the existing tax credits and net operating loss carryforwards at December 31, 2001. A valuation allowance has been recorded to reduce deferred tax assets relating to tax credits and net operating loss carryforwards. The valuation allowance decreased from 2000 to 2001 due to the expiration of net operating loss carryforwards and investment tax credits. The noncurrent deferred tax liability reflects taxable temporary differences at statutory rates.

NOTE 9 EMPLOYEE BENEFITS:

Substantially all Seminole employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program (the Program), a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. Seminole's contributions amounted to approximately $3.0 million in 2001 and $2.6 million in 2000. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Seminole also has a retirement savings plan for all employees that is qualified under Section 401(k) of the Internal Revenue Code. Seminole's contributions under the savings plan are based upon specified percentages of employee contributions and were approximately $636,000 and $631,000 for the years ended December 31, 2001 and 2000, respectively.

All employees are eligible to participate in the group health care coverage plan. Under this plan most employees have an option to choose either the Preferred Provider Plan or the Health Maintenance Organization Plan. Employees retiring on or after age 55 receive the benefit of being allowed to continue, at their expense, health care coverage under Seminole's group plan. In addition, these retirees may use a portion of their accumulated unused sick pay to apply toward these medical insurance premiums.

The following sets forth the plan's status reconciled with amounts reported in Seminole's consolidated balance sheets at December 31, 2001 and 2000. The plan is funded on a pay-as-you-go basis.

Accumulated postretirement benefit obligation (APBO):

	2001	2000
Active plan participants not yet fully eligible	$ 2,889,000	$ 3,707,500
Fully eligible active plan participants	1,195,800	540,700
Retirees and dependents	374,800	324,000
Other plan participants	44,400	33,000
Total APBO	4,504,000	4,605,200
Unrecognized gain/(loss) from past experience	1,116,000	940,300
Unrecognized prior service cost	358,600	0
Accrued postretirement benefit liability	$ 5,978,600	$ 5,545,500
Net periodic postretirement benefit cost included the following components:		
Service cost	$ 299,600	$ 315,700
Interest cost on accumulated benefit obligation	309,400	311,600
Amortization of actuarial gain	(48,400)	(38,100)
Amortization of prior service cost	(6,800)	0
Net periodic postretirement benefit cost	$ 553,800	$ 589,200

A 9.0% increase in the cost of covered health care benefits was assumed for 2001. This rate is assumed to decrease incrementally to 5.5% in 2008 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation by $290,100 or 6.4% at year-end 2001 and net periodic cost by $40,300 or 7.1% for the year. The weighted average discount rate and rate of compensation increase used in determining the accumulated post-retirement benefit obligation for 2001 were 7.25% and 4.5%, respectively. The net effect of changes in assumptions for health care cost trend rates,and weighted average discount rate caused a decrease in the APBO at December 31, 2001. The unrecognized net gain in excess of ten percent of the APBO is being amortized over the fifteen remaining service years of active plan participants, in the amount of $48,400 per year.

NOTE 10 OPERATING LEASES:

At December 31, 2001, Seminole was obligated under certain leases of generating facilities and rail transportation equipment for which base lease terms expire on various dates through 2009. The lease of the generating facilities contains a variable interest rate component that could affect future lease payments. Base rental obligations under these leases are payable as follows:

Year ending December 31,	
2002	$ 36,280,609
2003	$ 36,972,745
2004	$ 37,656,481
2005	$ 38,334,217
2006	$ 38,522,028
Thereafter	$ 113,306,962

These leases generally provide for renewals and options to purchase facilities and/or equipment at fair market value at various dates or upon expiration.

Lease payments for the rail transportation equipment leases totaled approximately $1.8 million and $0.7 million in 2001 and 2000, respectively. These payments were included as a cost of fuel inventory and expensed based on the tons of coal burned throughout the year. Marine transportation equipment lease payments of approximately $2.6 million in 2000, were recorded to deferred charges (see Notes 2 and 11).

NOTE 11 COMMITMENTS AND CONTINGENCIES:

Seminole is purchasing a significant portion of the coal for Seminole Units No. 1 and No. 2 under a long term contract expiring in 2010. Contract terms specify minimum annual purchase commitments of 2.25 million tons, subject to force majeure conditions, and prices which are subject to adjustment for changes in costs. Total purchases under this long-term coal contract were approximately $51.0 million and $58.7 million in 2001 and 2000, respectively.

In 1999 and 2000 Seminole entered into settlement agreements with each of three coal transportation contract suppliers which provide for the termination of all contractual relationships between the parties as of the respective date of discontinuance of services. Under the terms of these agreements Seminole made settlement payments to each of the parties, the amounts of which are subject to confidentiality agreements. These amounts have been included in deferred charges pursuant to the SFAS No. 71 expense deferral plan (see Note 2). These settlement agreements also provide for the dismissal of all litigation between the parties with prejudice. During 1999 Seminole gave notice to the lessors of certain leased marine transportation equipment of its intent to terminate these leases under the provisions of the lease agreements for economic reasons. Such terminations were completed during 2000 and the costs of termination have been deferred pursuant to the SFAS No. 71 expense deferral plan.

On January 4, 1999, Seminole began coal shipments utilizing lower cost all-rail transportation under a new agreement with CSX, having a minimum term of six years. Seminole is required to transport a significant portion of its coal and petcoke to be received at Seminole Unit No. 1 and Unit No. 2 under this agreement. Total charges under this contract were approximately $62.9 million and $53.1 million in 2001 and 2000, respectively.

Seminole has established an external NDTF in compliance with regulations prescribed by the Nuclear Regulatory Commission. The trust fund balance of approximately $4.7 million represents Seminole's cumulative share at December 31, 2001 of the estimated sinking fund reserve required to decommission CR3. Annual cash deposits will continue to be made to the NDTF representing Seminole's annual share of the projected sinking fund requirements. These amounts will be recovered from members through rates annually. Based upon a site specific study completed in 2000, Seminole's total share of the projected cost of decommissioning is approximately $8.8 million stated in 2000 dollars, and decommissioning expenditures are expected to occur over a twenty-six year period ending in the year 2041.

Seminole has long term contracts for the transportation of natural gas for the PCGS beginning in 2002 and terminating in 2020. These contracts require annual minimum take-or-pay capacity payments for the next five years of $10.4 million in 2002 and $13.2 million in each of 2003 through 2006.

Seminole has various firm contracts with suppliers for purchased power with remaining terms ranging from one to fourteen years. These contracts require annual minimum take-or-pay capacity payments for the next five years as follows:

Year ending December 31,		
2002	$	79.9 million
2003	$	76.3 million
2004	$	96.0 million
2005	$	107.3 million
2006	$	108.0 million

Total charges, including capacity payments, under these contracts were approximately $226.4 million and $226.6 million for 2001 and 2000, respectively.

On June 26, 2001, the Circuit Court of Walker County, Alabama entered a judgment against Seminole in the amount of $22.2 million as a result of the jury's verdict in litigation filed in 1998 regarding a dispute under a certain spot coal contract. Post judgment interest on this amount accrues at 12% simple interest. Post trial motions to set aside or reduce the judgment were filed on behalf of Seminole. On October 24, 2001, the trial judge entered an order denying all of the post trial motions. Seminole filed its Notice of Appeal with the Alabama Supreme Court on October 25, 2001. Seminole has posted a supersedeas bond with the court which will stay execution of the judgment during the appeal process. Seminole believes that this dispute will ultimately be resolved in its favor. In the interim, pursuant to an expense deferral plan developed in accordance with the provisions of SFAS No. 71 and adopted by Seminole's Board of Trustees, the amount of the judgment, including accrued post judgment interest, has been deferred and is being amortized and recovered through rates charged to members over a 60-month period starting in July 2001. As a consideration of obtaining the supersedeas bond, Seminole established an escrow account with an initial deposit of $5 million, to which monthly deposits will be made equal to the amounts collected through rates pursuant to the SFAS No. 71 expense deferral plan. The amount of the judgment, including accrued post judgment interest, has been reflected in "Other accrued liabilities." "Deferred charges" reflects the deferral of this amount, net of accumulated amortization charged to expense.

In the normal course of business Seminole has ongoing disputes with some of its power suppliers. Additionally, some of the billings received by Seminole for purchased power are subject to adjustment based on the actual costs of the seller. During 2001 and 2000, several disputes were settled resulting in refunds relating to purchased power costs recorded in prior periods totaling approximately $0.4 million and $51.9 million, respectively, not including interest. Also during 2001 and 2000, refunds were received in the aggregate amounts of approximately $1.6 million and $1.9 million, respectively, not including interest, for adjustments to reflect actual costs related to power billings from prior periods. These amounts were recorded in both years as reductions to purchased power expenses.

Seminole is a party to litigation involving various other claims arising in the normal course of business. In the opinion of management the ultimate resolution of these matters will not significantly affect Seminole's financial statements.

PRICEWATERHOUSECOOPERS

To the Board of Trustees
Seminole Electric Cooperative, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenue and expenses and patronage capital, of comprehensive income and of cash flows present fairly, in all material respects, the financial position of Seminole Electric Cooperative, Inc. and its subsidiaries ("Seminole") at December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Seminole's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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. These 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, Seminole adopted the provisions of Financial Accounting Standards Statement No. 133, *Accounting for Derivative Instruments and Hedging*, on January 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2002, on our consideration of Seminole's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

February 22, 2002

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The Cooperative Way of Doing Business... What Could be More American?

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