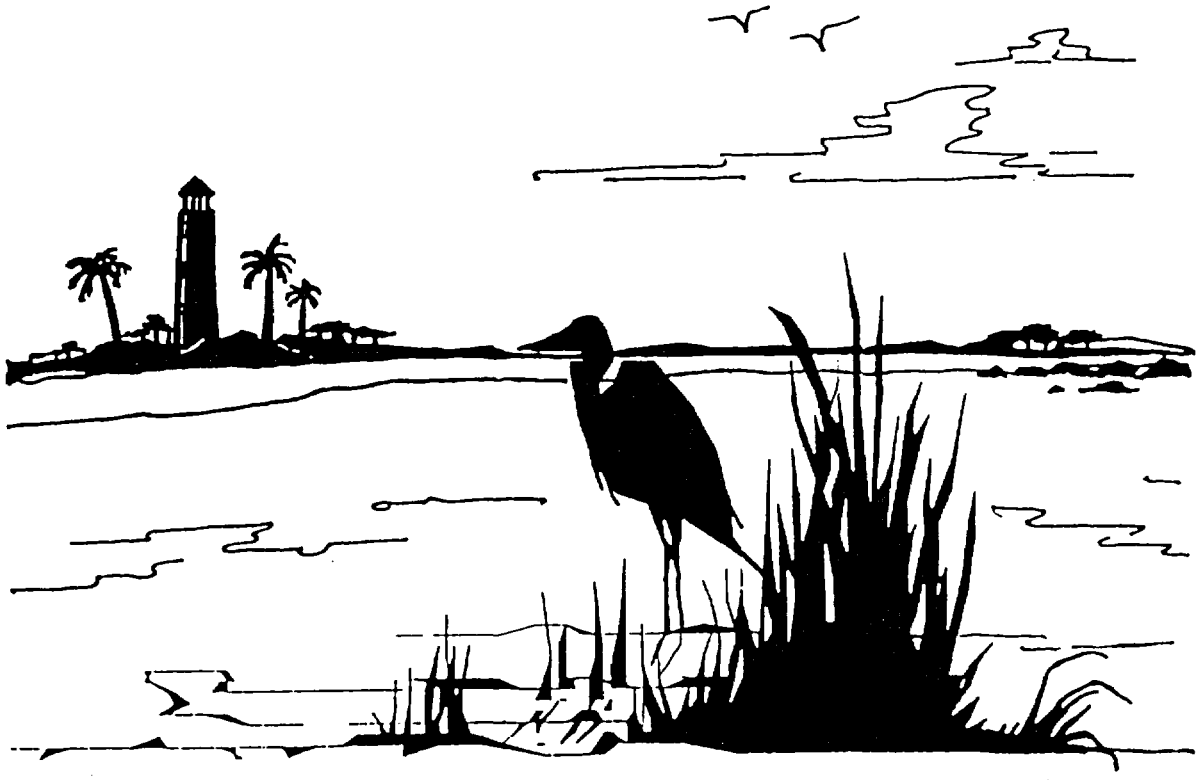
Utilities Commission,
City of New Smyrna Beach, Florida



Comprehensive Annual Financial Report

(A Component Unit of the City of New Smyrna Beach, Florida)

September 30, 2002 and 2001

UTILITIES COMMISSION,
CITY OF NEW SMYRNA BEACH, FLORIDA

(A COMPONENT UNIT OF THE CITY OF NEW SMYRNA BEACH, FLORIDA)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2002 AND 2001

UTILITIES COMMISSIONERS

Robert S. Thurlow, Chairman

Walter H. Glenn, Jr., Vice Chairman
William J. Schneider, Secretary-Treasurer
James U. Martin, Assistant Secretary-Treasurer
Peter E. Mallory, Commissioner

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

Ronald L. Vaden

DIRECTOR OF FINANCE

Roberto O. Montalvo, CPA

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SEPTEMBER 30, 2002 AND 2001
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NEW SMYRNA BEACH, FLORIDA

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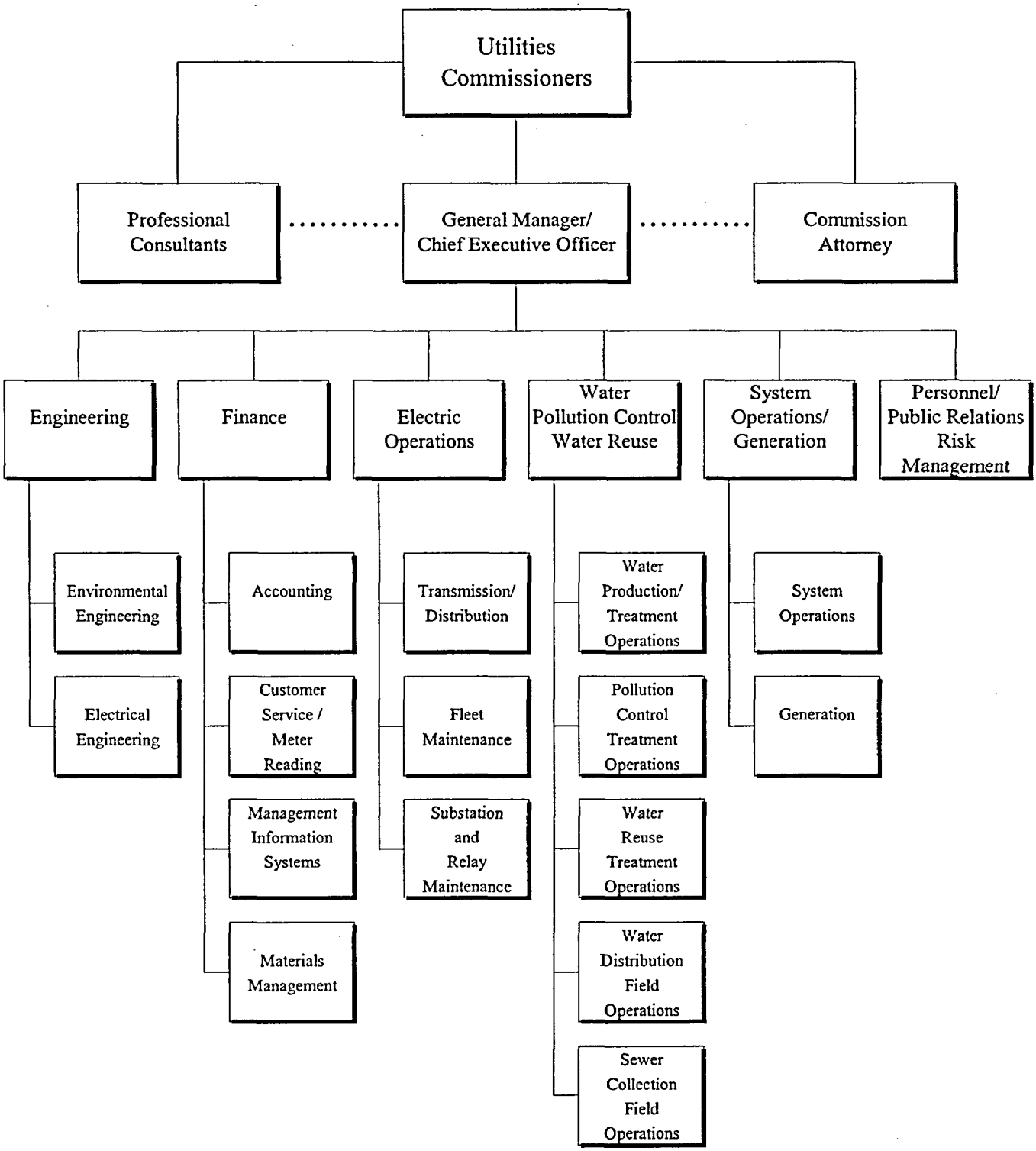
ORGANIZATION CHART

ORGANIZATION CHART
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA



Certificate Of Achievement

For the year ended September 30, 2001

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utilities Commission, City of New Smyrna Beach, Florida, for its Component Unit Financial Report for the fiscal year ended September 30, 2001.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Management believes that this report continues to conform to Certificate of Achievement Program standards.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Utilities Commission, City of New Smyrna Beach, Florida

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

LETTER OF TRANSMITTAL

UTILITIES COMMISSION

CITY OF NEW SMYRNA BEACH, FLORIDA
ELECTRIC, WATER, POLLUTION CONTROL
WATER REUSE, INTERNET AND TELEPHONE SERVICE
Post Office Box 100 - 200 Canal St.
New Smyrna Beach, Florida 32170-0100
(386) 427-1361

November 8, 2002

To the Chairman and Members
of the Utilities Commission
City of New Smyrna Beach, Florida

The Comprehensive Annual Financial Report of the Utilities Commission, City of New Smyrna Beach, Florida, (the "Utilities Commission") for the fiscal years ended September 30, 2002 and 2001, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Utilities Commission. To the best of our knowledge and belief, the enclosed data are accurate in all material aspects and are reported in a manner designed to present fairly the financial position and results of operations of the Utilities Commission. All disclosures necessary to enable the reader to gain the maximum understanding of the Utilities Commission's financial affairs have been included.

This financial report is presented in four sections: introductory, financial, statistical, and compliance (Auditor General of the State of Florida). The introductory section includes this transmittal letter, the Utilities Commission's organization chart, a list of principal officials, the table of contents and a reproduction of the Certificate of Achievement for Excellence in Financial Reporting for 2001. The financial section includes the independent auditors' report on the financial statements, management's discussion and analysis, the basic financial statements, including notes to the financial statements, and the supplemental financial section. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis, and selected ten-year historical financial information.

The financial statements of the Utilities Commission are audited in accordance with Chapter 10.500, Rules of the Auditor General of the State of Florida. Information related to this audit, findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations, are included in the compliance section of this report.

REPORTING ENTITY AND SERVICES PROVIDED

The Utilities Commission provides a full range of electric, water, wastewater and water reuse services to its customers both inside and outside the city limits. These activities are fully accounted for in this financial report. The funds and entities related to the operation of the Utilities Commission, which are included in these financial statements, are a component unit of the City of New Smyrna Beach, Florida, and an integral part of the City's reporting entity. The Comprehensive Annual Financial Report of the Utilities Commission is issued separately to provide a comprehensive financial reporting summary and presentation to the Utilities Commission and its revenue certificate holders. Audited financial statements of the primary government (City of New Smyrna Beach, Florida), are available upon request from the City of New Smyrna Beach, 210 Sams Avenue, New Smyrna Beach, Florida, 32168.

ECONOMIC CONDITION AND OUTLOOK

The economic condition and outlook of the Utilities Commission have continually improved during the past several years due in large part to the controlled development of residential and commercial properties which in turn has increased the Commission's quality customer base. In addition, substantial increases in the local tourism, light manufacturing, and service related business industries have had a positive effect on the area's employment statistics.

MAJOR INITIATIVES

The Utilities Commission has established a Capital Improvements Plan (Plan) through 2007. It is the Commission's desire to fund the capital expenditures under this Plan through a combination of connection fees, Renewal and Replacement Fund proceeds, and other funding. These proposed capital improvement expenditures are in addition to the annual capital requirements for routine extensions of existing utility facilities to serve new customers.

Significant system improvements contemplated in the Plan consist of the following:

- New power plant and substation modifications to accommodate a 500 MW power plant (scheduled to be on-line by June 2004);
- New 115kV electric transmission line, double circuiting of approximately 13 miles of line;
- New 30 MVA distribution substation, including site acquisition;
- Replacing existing wastewater force main crossing under the Intra-coastal Indian River; and
- Planned expansion of the water reuse system's wet weather storage and extension of the water system to provide service to prospective customers.

Reliant Power Plant Project
On September 12, 2001, the Utilities Commission approved entering into a Participation Agreement with Reliant New Smyrna Beach, LLC for constructing a new 500 MW natural gas fired electric utility plant. Under this agreement, the Commission will receive an entitlement to 30 MW of electric capacity at a significant savings in cost to produce this power. The anticipated savings would be passed on to customers by the Commission by lowering customer electric rates by up to 15%. Reliant has obtained the necessary environmental permits for the plant. In order to proceed with the project, Reliant must secure capacity contracts for approximately 50% of the plant's output. With the recent downturn in the industry, the project is currently on hold with the Florida Department of Environmental Protection granting an extension of time for the environmental permits.

Undergrounding
The Utilities Commission has instituted a program in fiscal year 2002, by which existing subdivisions can convert existing overhead electric facilities to underground. The Commission is also installing a conduit for future fiber optics installation.

Seventy percent of the cost is paid by the property owner who resides within the City limits and eighty-five percent of the cost is paid by customers in the unincorporated area, with the Commission offering financing. There are currently two subdivisions undergoing conversion, Richmond Drive and Venezia (Quay Assisi). There are also three additional areas planned for fiscal year 2003: North Atlantic Avenue, South Riverside Drive and portions of the north beach.

Broadband
The Utilities Commission is in the process of deploying Broadband service to the majority of the customer base. The program uses two technologies to solve the "Lost Mile." The first, fiber optics, is being installed in conjunction with the electric underground program. Conduit for fiber optics is run along with the electric conduit therefore greatly reducing the cost of the program. Second, wireless, is currently in beta testing with Motorola and appears to be very promising.

Telecommunications
The Utilities Commission, through a partnership (agent) with an ALEC, began offering local and long distance telephone service to customers within Volusia County in fiscal year 2002. The program has been very successful with over ten percent of the current electric customer base using the service and an equal amount from outside the electric service area. The Commission has obtained ALEC status and plans to expand the program throughout Florida.

Utilities Commission forecasts for the electric, water, wastewater, and water reuse systems indicate that the existing and planned major facilities will be adequate to accommodate the expected growth during the five year period of the Plan.

FINANCIAL INFORMATION

Management of the Utilities Commission is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Commission are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls

The Utilities Commission maintains an integrated system of budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the approved annual budget. The operating activities of the electric, water, wastewater and water reuse systems are included in the annual budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity within each individual operating system. The Commission also maintains a separate encumbrance accounting system as one technique of accomplishing budgetary control. This system is used exclusively to maintain budgetary control and is not utilized for purposes of presenting financial statements prepared in accordance with generally accepted accounting principles.

As is demonstrated by the financial statements and schedules in the financial section of this report, the Utilities Commission continues to meet its responsibility for sound financial management.

Utility Operations

In compliance with Resolution No. 16-75, the electric, water and wastewater systems are accounted for as a single enterprise fund. As of September 30, 2002, the Utilities Commission served 21,734 electric customers, 19,507 water customers, 16,066 wastewater customers, and 385 reclaimed water customers. Service totals for the last five years are summarized below:

Fiscal Year	Electric Accounts	Water Accounts	Wastewater Accounts	Reclaimed Water Accounts
1998	20,644	16,988	14,355	248
1999	20,920	17,516	14,600	286
2000	21,134	17,937	14,940	306
2001	21,330	18,569	15,423	346
2002	21,734	19,507	16,066	385

The current year's operating revenue from the combined utilities systems totaled $40.61 million, a decrease of 4.9% over last year's $42.71 million. This decrease is primarily the result of a decrease in the amount of billings for under-recovered fuel costs. In prior years the Utilities Commission had reduced electric utility rates, implemented in conjunction with the Utilities Commission's planned expense reduction program, in an effort to become more competitive in providing electric services. With a downturn in the electric industry, renewal of several power supply contracts in recent years and due to changes in the manner in which electric supply is now provided, the cost of providing electrical services has decreased, which has allowed the Commission to pass this savings on to customers with a reduction in the fuel adjustment, which is recovered through a cost adjustment clause billed to the customers. The amount of revenue from various sources and the increases and decreases over/under last year are shown in the following tabulation:

	(000's)		
Operating Revenue by Source	2002 Amount	Percent of Total	Increase (Decrease)
Electric system	$ 29,997	73.86%	$ (3,118)
Water system	4,983	12.27%	246
Wastewater system	5,113	12.59%	735
Water reuse system	519	1.28%	32
Totals	$ 40,612	100.00%	$ (2,103)

The current year's operating expenses from the combined utilities system totaled $35.1 million, a decrease of 5.3% over last year's amount of $37.1 million. As mentioned above, the cost of purchased power decreased significantly due to recent trends in the industry. Increases and (decreases) in the levels of expenses for the individual systems over the preceding year are shown in the following tabulation:

Operating Expenses by Function	(000's) 2002 Amount	Percent of Total	Increase (Decrease)
Electric system	$ 26,777	76.31%	$ (2,544)
Water system	3,822	10.89%	254
Wastewater system	4,167	11.87%	303
Water reuse system	324	0.93%	27
Totals	$ 35,090	100.00%	$ (1,960)

Net income (loss) before capital contributions during 2002 is consistent with past results in each of the Commission's utility operating divisions. The decrease in interest rates reduced the amount of earnings on cash invested, which was a large part of the decrease in net income before capital contributions for the year. The increases (decreases) in net income or loss before capital contributions are shown in the following tabulation:

Net Income (Loss) before Capital Contributions by System	(000's) 2002 Amount	Percent of Total	Increase (Decrease)
Electric system	$ 1,970	83.87%	$ (843)
Water system	386	16.43%	(205)
Wastewater system	77	3.28%	434
Water reuse system	(84)	(3.58)%	44
Totals	$ 2,349	100.00%	$ (570)

Debt Administration

On August 7, 2002, the Commission issued $39,035,000 in Utilities System Refunding Revenue Certificates, Series 2002, with an average interest rate of 3.78% to advance refund: (1) all of the outstanding Series 1992 Certificates maturing on October 1, 2003 through October 1, 2017, which will be called for redemption on October 1, 2002 in the principal amount of $12,995,000 with an average interest rate of 5.86%, (2) a portion of the outstanding Series 1993 Certificates maturing on October 1, 2003 through October 2017 and which will be called for redemption on October 1, 2002 in the principal amount of $15,605,000 with an average interest rate of 5.07%, and (3) a portion of the outstanding 1996 Series Certificates maturing on April 1, 2005 through October 1, 2011 and which will be called for redemption on October 1, 2004 in the principal amount of $9,665,000 with an average interest rate of 5.07.

Although the advance refunding resulted in the recognition of a deferred loss on advance refunding in the amount of $2,780,798 (which will be amortized over the life of the refunding certificates) for the year ended September 30, 2002, the Commission in effect reduced its aggregate debt service payments by almost $3.0 million over the next 15 years and obtained an economic gain (difference between the present values of the old and new debt service payments, adjusted for old and new sinking funds on hand) of $2.5 million.

The revenue certificate debt coverage ratio is a useful indicator of the Utilities Commission's debt position. The Commission's debt coverage ratio has continued to remain strong over the past three years even in years of debt issuance, as is summarized in the following three-year tabulation:

	2002	2001	2000
Operating revenues	$ 40,612,225	42,715,387	41,419,907
Interest and other income	894,508	1,345,251	1,471,189
Capacity and other fees	960,595	1,185,634	773,198
Revenues per certificate resolution	42,467,328	45,246,272	43,664,294
Cost of Operation and Maintenance, net of depreciation and required payments to City of New Smyrna Beach	27,842,554	30,064,279	30,376,437
Net revenues per certificate resolution	14,624,774	15,181,993	13,287,857
Annual debt service requirement	$ 5,220,209	5,307,236	5,317,214
Debt service coverage ratio (times)	2.80	2.86	2.50

As of September 30, 2002 the Utilities Commission had outstanding $50,450,000 of revenue certificates payable. All of these obligations are secured by a first lien on and a pledge of the net revenues of the system.

The Utilities Commission's outstanding revenue certificates ratings from Moody's, Standard & Poor's, and Fitch's as follows:

	Moody's	Standard & Poor's	Fitch's
Utilities System Refunding Revenue Certificates, Series 1993	Aaa	AAA (FGIC Insured)	n/r
Utilities System Refunding Revenue Certificates, Series 1996	n/r	AAA (AMBAC Insured)	AAA
Utilities System Refunding Revenue Certificates, Series 2002	n/r	AAA (AMBAC Insured)	AAA

The debt service requirements on these obligations are detailed in the notes to the financial statements and in Schedule 11 of the supplementary section of the financial statements.

In addition to the revenue certificates payable the Utilities Commission had outstanding notes payable to the Florida Department of Environmental Protection, State Revolving Fund Loan in the aggregate amount of $16,704,331, which are secured by a lien and pledge on the net revenues of the system, but subordinate to the first lien and pledge securing the revenue certificates payable. The Commission also had outstanding notes

payable to the Florida Municipal Power Agency (FMPA) Pooled Loans amounting to $23,502,000, which are secured by a lien and pledge on the net revenues of the system, but subordinate to the first lien and pledge securing the revenue certificates payable and on a parity with the State Revolving Fund Loan.

The debt service requirements on these obligations are detailed in the notes to the financial statements. The future debt service requirements for the Florida Department of Environmental Protection, State Revolving Fund Loan are in Schedule 12 of the supplementary section of the financial statements. The future debt service requirements for the FMPA Pooled Loans are in Schedule 13 of the supplementary section of the financial statements and are based on the prevailing interest rate charged as of September 30, 2002. The interest rate on the FMPA Pooled Loans varies and is determined on a monthly basis. Accordingly, the representation of the future debt service requirements in Schedule 13 may not agree with the actual amounts to be paid and the difference may be material.

Cash Management

Cash temporarily idle during the year was invested through the use of a competitive bid procedure in short-term time deposits and medium short-term investments. Shorter investment periods were utilized by the Utilities Commission due to the rapid changes and uncertainties of interest rates experienced during the fiscal year. The amount of interest earned during the years ended September 30, 2002 and 2001 totaled $461,153 and 1,055,154, respectively. These amounts were further reduced by $ -0- and $149,910 during the years ended September 30, 2002 and 2001, respectively, for interest credits used to reduce capitalized interest expense for the respective years.

The Utilities Commission's cash and investments on hand at September 30, 2002 and 2001, totaled $22.2 million and $20.9 million, respectively. The individual components are as follows:

	2002	2001
Current assets:		
Operating cash and cash equivalents	$ 0	0
Restricted assets:		
Debt service funds	3,625,980	4,049,742
Renewal and replacement funds	11,056,151	11,519,981
Customer deposits	1,431,890	1,269,476
CR-3 decommissioning fund	2,422,153	2,260,683
	18,536,174	19,099,882
Other assets:		
Internally designated stabilization funds	$ 3,668,390	1,826,764
Total cash and investments	$22,204,564	20,926,646

The Utilities Commission's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized in accordance with the Florida Security for Public Deposits Act (the "Act"). All collateral on deposits was held either by the Commission, or by the State of Florida in accordance with the applicable provisions of the Act. All of the Commission's investments held at year-end are classified in the category of lowest credit risk (backed exclusively by the full faith and credit of the U. S. government) as defined by the Governmental Accounting Standards Board.

The average yield from interest earnings on cash and investments that was earned each month during the fiscal year ended September 30, 2002 is as follows:

	Average Yield
October	2.80%
November	2.37%
December	2.05%
January	1.97%
February	1.89%
March	1.84%
April	1.78%
May	1.74%
June	1.74%
July	1.64%
August	1.63%
September	1.65%

Risk Management

The Utilities Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

OTHER INFORMATION

Independent Audit

Resolution Number 28-78 and other local and state statutes require an annual audit of the books of account, financial records and transactions of all administrative departments of the Utilities Commission by an independent certified public accountant selected by the Utilities Commission. The certified public accounting firm of Brent Millikan & Company, P.A. was selected by the Commission to satisfy this requirement. Their independent auditors' report on the financial statements and schedules of the Commission has been included in the financial section of this report.

Awards - Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utilities Commission, City of New Smyrna Beach, Florida, for its component unit financial report for the fiscal year ended September 30, 2001. We are also quite proud of the fact that we have been awarded with this Certificate for the twenty-second consecutive year.

In order to be awarded a Certificate of Achievement, the Commission must publish an easily readable and efficiently organized component unit annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We would also like to thank the individual members of the Utilities Commission for their interest, support, and leadership in planning and conducting the financial operations of the Utilities Commission in a most responsible and progressive manner.

Respectfully submitted,

Ronald L. Vaden
General Manager/CEO

Roberto O. Montalvo, CPA
Director of Finance

Financial Section

This section is composed of the following:

Independent Auditors' Report

Management's Discussion and Analysis

Financial Statements

Supplemental Financial Information

INDEPENDENT AUDITORS' REPORT

BRENT MILLIKAN & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida

We have audited the accompanying basic financial statements of the Utilities Commission, City of New Smyrna Beach, Florida (the "Utilities Commission"), a component unit of City of New Smyrna Beach, Florida, as of and for the fiscal years ended September 30, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Utilities Commission'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 the Utilities Commission as of September 30, 2002 and 2001, 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 8, 2002, on our consideration of the Utilities Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

205 MAGNOLIA ST. • NEW SMYRNA BEACH, FL 32168-7125 • (386) 427-1333 • FAX (386) 427-5823 • www.bmcpa.com
MEMBER: American Institute of Certified Public Accountants and AICPA Private Companies Practice Section

The management's discussion and analysis on pages 3-12 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information identified in the table of contents as supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of Utilities Commission, City of New Smyrna Beach, Florida. Such information, except for the statistical data, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Brent Millikan & Co., P.A.

November 8, 2002

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Utilities Commission, City of New Smyrna Beach, Florida's (the "Utilities Commission") annual financial report presents our discussion and analysis of the Commission's financial performance during the fiscal year that ended September 30, 2002. Please read it in conjunction with the transmittal letter at the front of this report and the financial statements, which follow this section.

Financial Highlights

- The Utilities Commission's demand for electrical energy remained relatively constant in 2002 at 342.8 million kWh sales compared to 344.8 million kWh sales in 2001. The sales revenue generated from those sales decreased by 9.4% to $30.0 million in 2002.

- The volume of treated potable water sold in 2002 decreased by 6.4% and the volume of wastewater treated in 2002 decreased by 3.3%. However, water and wastewater revenues increased to $5.0 million and $5.1 million, respectively. This decrease in the demand for potable water was anticipated by management in view of the heightened emphasis placed on the conservation of Central Florida water resources in 2001 and 2002. Rates were adjusted by the Commission to accommodate the anticipated decline in treated water sold and the amount of wastewater to be treated.

- Utilities Commission's assets exceeded its liabilities (*net assets*) at the end of September 30, 2002 by more than $59.2 million. Of this amount, approximately $8.4 million was unrestricted and available to be used to meet the Commission's ongoing obligations to its customers and creditors. Of the remaining $50.8 million, approximately $39.2 million was invested in utility plant assets and assets held for future use, while the remainder was restricted for utility plant expansion ($11,047,978) and debt service ($539,839).

- During the year, the Utilities Commission's net assets increased by $3.3 million; however, when compared to the prior year the change in net assets decreased by 19.4% over the preceding year. Net assets totaled $59.2 million in 2002 compared to approximately $55.9 million at the end of 2001.

- During 2002, the Commission's operating revenue decreased by approximately $2.1 million to over $40.6 million, which was 4.9% less than last years operating revenue of $42.7 million. Likewise, the Commission's operating expenses decreased by $2.0 million to $35.0 million, which was 5.3% less than last year's $37.0 million.

- Capital contributions received by the Commission decreased from $1.2 million in 2001 to almost $1.0 million in 2002, which was 19.0% less than last year.

- The Commission's long-term debt decreased to $84.1 million in 2002, which was down $4.0 million over last year's $88.1 million. The Utilities Commission issued $39.0 million in Utilities System Refunding Revenue Certificates, Series 2002, to advance refund: all of the outstanding Series 1992 Certificates, a portion of the outstanding Series 1993 and a portion of the outstanding 1996 Series Certificates.

Overview of Financial Statements

The Utilities Commission's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, and 3) an optional section that presents detailed summaries and schedules of selected financial data.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Utilities Commission's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The basic financial statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the Utilities Commission's financial activities, all of which are operated like commercial enterprises. These statements report information about the Utilities Commission using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Commission's assets and liabilities, both financial and capital, and short-term and long-term are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The basic financial statements of the Utilities Commission include a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements, which are described as follows:

- The balance sheet presents the financial position of the Utilities Commission on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations at year-end.

- The statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Utilities Commission's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

- The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

- The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utilities Commission's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information presented by the Utilities Commission includes comparisons of budget to actual revenue and expenses, schedules that focus on the individual divisions of the Utilities Commission

where more detailed financial data is desirable, and schedules presenting the Commission's future debt service requirements and other data required to be presented in accordance with certain of the Commission's debt covenants.

Entity-Wide Financial Analysis

The Utilities Commission's entity-wide financial statements report its net assets and how they have changed over the reporting period. Net assets - the difference between assets and liabilities- may serve as a useful indicator of the Commission's financial position. Over time, increases or decreases in the Commission's net assets are a useful indicator of whether its financial health is improving or deteriorating, respectively. However, one also needs to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed governmental legislation to adequately assess its overall health.

The material portion of the Utilities Commission's net assets (66%) reflects its investment in utility plant assets (e.g., land, buildings, utility plant, and equipment), less that portion of related debt used to acquire those assets that is still outstanding. These utility plant assets are used to provide utility services to our customers; consequently, these assets are not available for future spending. Although the Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (the sale of utility services), since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Balance Sheets
($000's)

	FY 2002	FY2001	Dollar Change	Percent Change
Current and other assets	$ 12,113	12,179	(66)	(0.6)
Restricted assets	18,536	19,100	(564)	(2.9)
Capital assets:				
Productive assets in service (net)	110,160	108,871	1,289	1.2
Held for future use	9,174	9,174	0	--
Construction in progress	3,005	5,296	(2,291)	(43.3)
Total assets	152,988	154,620	(1,633)	(1.1)
Long-term debt outstanding	84,075	88,055	(3,980)	(4.5)
Other liabilities	9,699	10,662	(963)	(9.0)
Total liabilities	93,774	98,717	(4,943)	(5.0)
Net assets:				
Invested in plant, net of related debt	39,242	35,711	3,531	9.9
Restricted	11,588	12,048	(460)	(3.8)
Unrestricted	8,384	8,144	240	2.9
Total net assets	$ 59,214	55,903	3,311	5.9

The Utilities Commission's net assets increased $3.3 million to $59.2 million in 2002, which is up from $55.9 million in 2001. Looking more carefully at the data, the most significant change in net asset position was from amounts invested in utility plant, net of related debt, which increased $3.5 million. This increase reflects the Commission's current policy of investing surplus internal resources, capital contributions and earnings and profits in productive capital assets in lieu of issuing additional debt during the year. This is further evidenced by the $0.6 million reduction in restricted assets during 2002, which

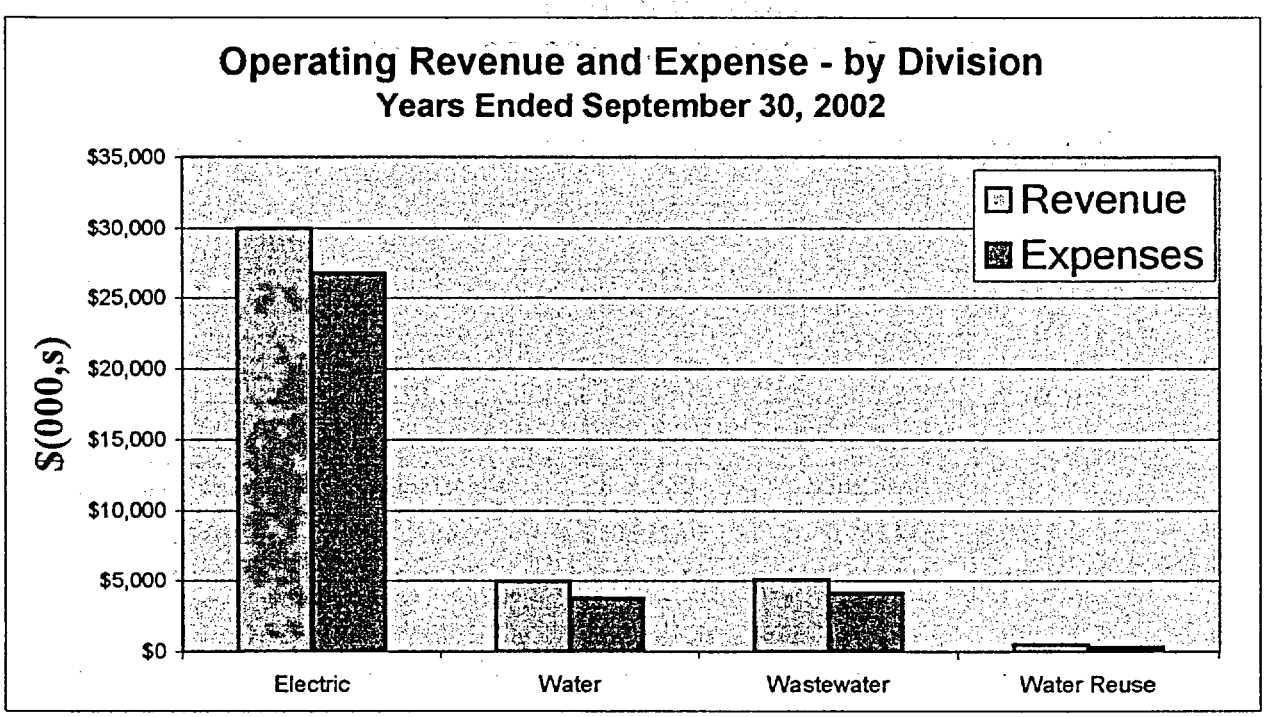
include the Commission's renewal and replacement funds that were used to finance a significant portion of the capital expansion program this year.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets ($000's)

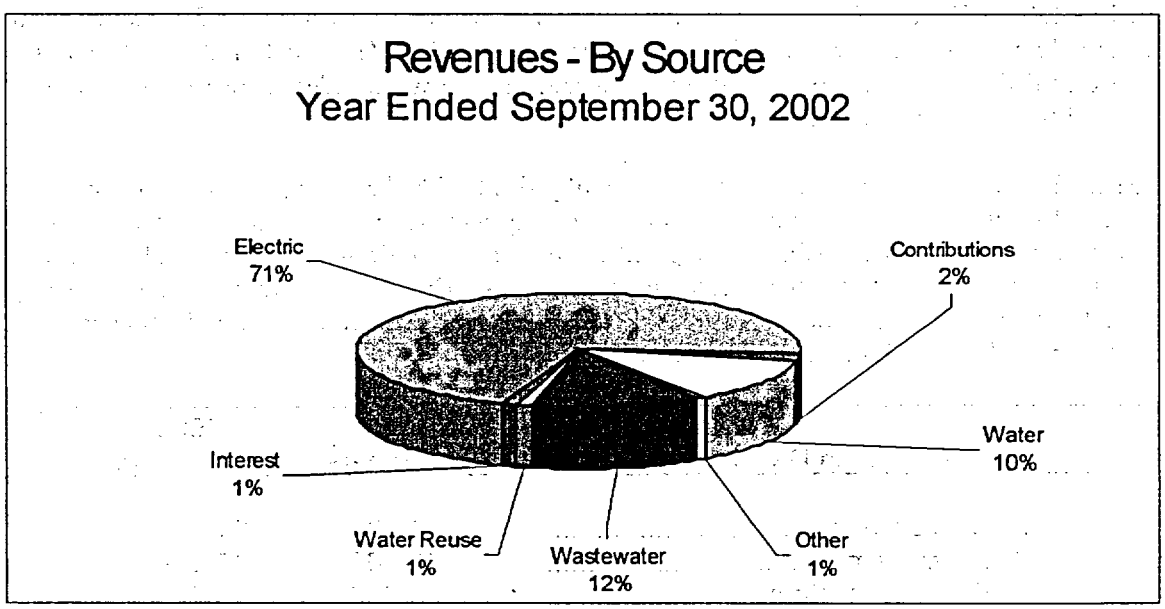
	FY 2002	FY2001	Dollar Change	Percent Change
Revenues:				
Charges for services:				
Electric system	$ 29,997	33,115	(3,118)	(9.4)
Water system	4,983	4,737	246	5.2
Wastewater system	5,113	4,377	736	16.8
Water reuse system	519	486	33	6.4
Total charges for services	40,612	42,715	(2,103)	(4.9)
Interest earnings	461	905	(444)	(49.1)
Other	433	440	(7)	(1.6)
Total revenues	41,506	44,060	(2,554)	(5.8)
Expenses:				
Division operating expenses:				
Electric system	26,777	29,321	(2,544)	(8.7)
Water system	3,822	3,568	254	7.1
Wastewater system	4,167	3,864	303	7.8
Water reuse system	324	297	27	9.1
Total division operating expenses	35,090	37,050	(1,960)	(5.3)
Interest and debt expense	3,953	3,977	(24)	(0.6)
Asset disposal losses	58	99	(41)	(41.4)
Other	56	15	41	73.2
Total expenses	39,157	41,141	(1,984)	(4.8)
Income (loss) before contributions	2,349	2,919	(570)	
Capital contributions	961	1,186	(225)	
Increase (decrease) in net assets	$ 3,310	4,105	(795)	

While the balance sheet shows a snapshot of the Commission's financial position at the beginning and ending of the fiscal years, the above statement of revenues, expenses, and changes in net assets provides answers as to the nature and source of these changes. As can be seen above, income before contributions of $2.3 million and capital contributions of just under $1.0 million were the two sources of the increase in 2002. A comparison of the operating expenses shows that the Commission's operating expenses decreased by $2.0 million, or 4.8% in 2002, while system revenues in 2002 also decreased by $2.6 million or 5.8% over 2001. The combination of the decrease in interest earned on cash and investments and the decrease in capital contributions from service capacity fees makes up the majority of the net decrease in net assets in 2002 as compared to 2001. Otherwise, the Commission continues produce positive net income in 2002 from its utility system operations.

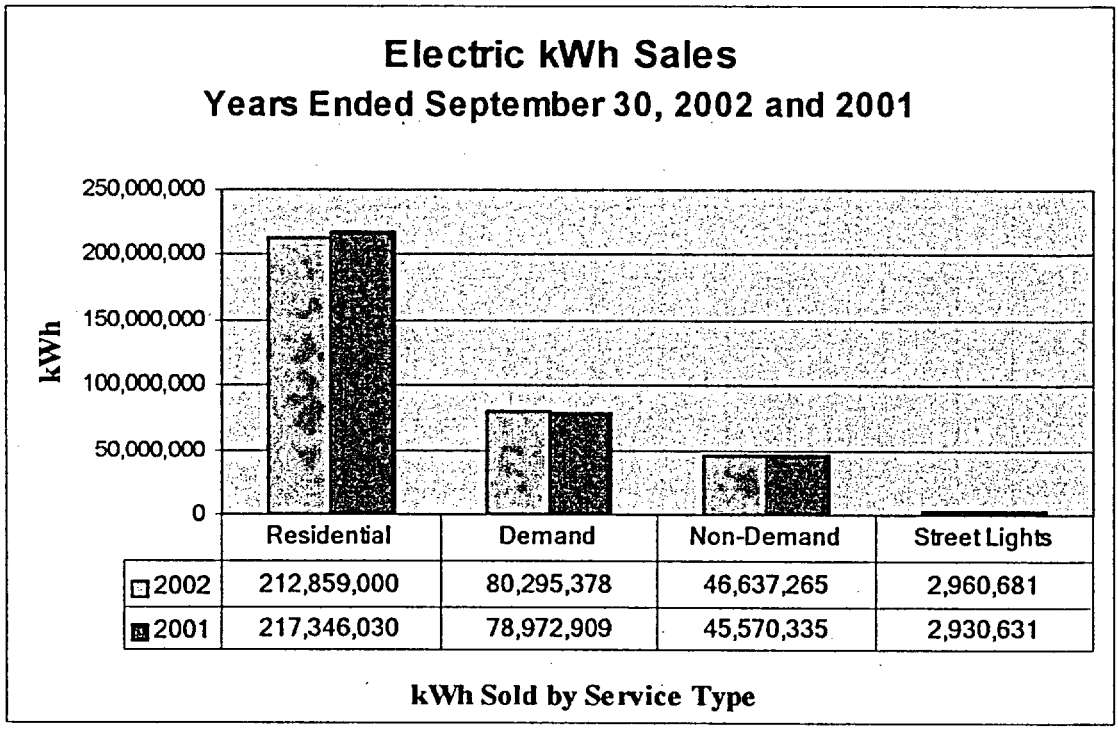
The following is a summary of the operating revenue and expense for each of the Commission's operating divisions:



The following is a summary of the composition of 2002 utility system revenues by source:



During 2002, the overall demand for electricity, water and wastewater treatment services remained relatively constant. Total electric kWh sales decreased from 345 million kWh in 2001 to 343 million kWh in 2002, or 0.6% less than that of the prior year. The number of electric customers increased by 1.9% in 2002 to 21,734 compared to 21,330 in 2001. The following is a summary of the individual components of the Commission's electrical energy sales for the past two years from residential, commercial demand, commercial non-demand, and street lighting service customers.



Similar events were experienced within the Commission's other operating divisions during 2002. While the actual number of customers increased in all divisions, the Commission's significant water resource conservation efforts were rewarded with a reduction in customer water production and wastewater treatment demand. The volume of potable water sold during 2002 decreased 6.4% to 1,403 MG compared to 1,498 MG in 2001. Likewise, the wastewater system experienced a 3.3% reduction to 862 MG in the volume of wastewater treated in 2001 compared to 891 MG treated in 2001. The volume of water reuse sold during 2002 stayed relatively constant. Reuse water sales increased slightly, 0.8% in 2002 to 264 MG, up from 262 MG in 2001.

Management believes that the Commission successfully dealt with the anticipated decrease in customer utility demand from the voluntary implementation of energy and water conservation measures during the 2002 fiscal year and they successfully anticipated these trends as reflected in the rate adjustments made over a year ago to compensate for the decline in consumption. This does not by itself indicate a negative future trend for our utility operations. In reality, the actual number of residential and commercial utility customers increased during 2002 in all operating divisions as follows:

Utility Operating Division	2002 Customers	2001 Customers
Electric system	21,734	21,330
Water system	19,507	18,569
Wastewater system	16,066	15,423
Water reuse system	385	346

The net results of operations for the electric and water divisions show that the Commission was successful in recovering its costs for these utility divisions. However, the water reuse utility system continued to generate a net loss before capital contributions of $0.08 million in 2002. While it is easy to conclude that operating subsidies have been in place to support this system, it continues to be the Commission's desire to explore alternatives to make this system fully self-supporting in the future.

Budgetary Highlights

An annual revenue and expense budget is prepared for the combined electric, water, wastewater and water reuse utility systems and, after Commission approval, is submitted to the City of New Smyrna Beach prior to June 1 of each fiscal year for subsequent City Commission approval. The budget remains in effect the entire year and can only be amended with the approval of the Utilities Commission. No supplemental appropriations were made in 2002.

Schedule of Revenue, Receipts, Expenses and Disbursements - Budget -vs- Actual
$(000's)

	Budget	Actual	Variance
Revenue and Receipts:			
Electric system	$ 38,823	30,557	(8,266)
Water system	5,241	5,008	(233)
Wastewater system	5,544	5,210	(334)
Water reuse system	559	519	(40)
Capital contributions	818	961	143
	50,985	42,255	(8,730)
Operating Expenses:			
Purchased power and fuel	20,831	13,653	7,178
Other production	6,050	6,039	11
Transmission, distribution, sewage collection and treatment	3,592	3,783	(191)
Customer accounting	821	821	0
Administrative and general	3,526	3,386	140
Required payments to City	2,907	2,510	397
Nuclear generation facility decommissioning	115	161	(46)
	37,842	30,353	7,490
Net revenue and receipts	13,143	11,902	(1,241)
Operating transfers (net)	(13,143)	(11,996)	1,147
Budgeted net cash receipts	0	(94)	(94)
Reconciliation of budget to change in net assets:			
Unbilled service revenue		156	
Principal portion of sinking fund transfers		4,192	
Internal funds transfers (net)		4,217	
Depreciation and amortization		(5,103)	
Other		(58)	
Change in net assets		$ 3,310	

The Commission's operating budget is prepared on a basis consistent with generally accepted accounting principles (GAAP). Other cash receipts and payments are treated as budgetary items to maintain effective fiscal and budgetary control over the collection and disposition of all Utilities Commission resources. However, all capital expenditures are included in a separate five-year Capital Plan. During 2002, the Commission's actual revenues were less than anticipated amounts by over $8.7 million. This was due primarily to the unanticipated decrease in purchased power and fuel costs, the recovery of which was passed on to our electric customers in the form of an energy cost adjustment. Due to the recent trend in the electric industry, having secured long-term power contracts and by acquiring two gas operated turbine generators to produce cheaper electric power we were able to reduce the fuel and purchased power cost adjustment from $28.47 per 1,000 kWh to $8.82 per 1,000 kWh as of March 1, 2002. In addition to the

stated decrease in utility production expenses and related payments to the City (all of which are directly related to the above described fuel adjustment), the Commission's other operating expenses were slightly less than the budgeted amounts as a result of close monitoring of operating expenses.

Capital Assets

At the end of 2002, the Utilities Commission's investment in capital assets amounted to $119.2 million, which is stated net of $61.7 million of accumulated depreciation. This investment in capital assets includes:

- Land and land improvements,
- Electric (fossil fuel and nuclear) generation, transmission and distribution facilities,
- Water supply, production, treatment and distribution facilities,
- Wastewater collection, treatment and reuse distribution facilities, and
- Machinery and equipment.

During 2002, the total increase in the Commission's investment in capital assets was $6.4 million, compared to $14.6 million invested in 2001. Major capital asset events during 2002 included the following:

- Acquisition of Sugar Mill water and wastewater treatment plant and related costs to place these assets into service of $3.9 million,
- Line transformers, poles and fixtures amounting to $0.8 million
- Transmission and distribution mains totaling $0.5 million, and
- Other plant expansion items totaling $1.2 million.

Utility Plant, Net of Accumulated Depreciation
$(000's)

	September 30, 2002	September 30, 2001
Land and land rights	$ 3,281,904	3,281,904
Structures and improvements	19,909,131	19,897,831
Production and treatment plant	44,427,909	44,320,613
Transmission, distribution, and collection and treatment plant	95,962,840	90,305,203
Other general plant and equipment	8,127,752	7,715,237
	171,709,536	165,520,788
Accumulated depreciation	(59,229,142)	(54,612,781)
Allowance for decommissioning	(2,422,153)	(2,260,683)
	110,058,241	108,647,324
Construction in progress	3,001,496	5,296,544
Plant held for future use	9,173,992	9,173,992
Nuclear fuel, net of amortization	102,970	223,722
Utility plant, net	$ 122,336,699	123,341,582

Long-Term Debt and Debt Administration

At the end of the fiscal year, the Utilities Commission had $84.1 million in long-term debt outstanding, which was down $4.0 million over the prior year's $88.1 million. During the fiscal year we had issued

new Refunding Revenue Certificates, Series 2002 to defease all of the Series 1992 Certificates, a portion of the Series 1993 Certificates, and a portion of the 1996 Certificates, which in effect reduced our aggregate debt service payments by almost $3.0 million. The Commission's revenue certificates payable ($45.8 million) are secured by a first lien upon and pledge of the net revenues derived from the operation of the system. The Commission's promissory notes payable ($38.3 million) are also secured by pledged revenues. However, the lien on the pledged revenues is subordinate to the right of payment and security to the revenue certificates payable and is on a parity with all other notes payable. None of these debt obligations constitute general indebtedness of the Commission or of the City of New Smyrna Beach, Florida, which is not obligated to levy any taxes for the payment thereof.

During 2002, the Commission's long-term debt decreased by $4.0 million from payments of principal on long-term debt obligations.

At the present time, the Commission has no formal plans to pursue the issuance of any additional long-term debt. However, management continues to review and monitor current bond market conditions for evaluating the feasibility of restructuring any and all outstanding debt obligations if, and when, the opportunity presents itself and only after it is conclusively determined that it makes significant financial "sense" to pursue.

The Utilities Commission's maintains a "Aaa" rating from Moody's and a "AAA" rating from Standard & Poor's for the remaining portion of the Utilities System Refunding Revenue Certificates, Series 1993, which is fully insured by FGIC and the Commission maintains a "AAA" rating from Standard & Poors and Fitch for the remaining portion of the Utilities System Refunding Revenue Certificates, Series 1996 outstanding and for the Utilities System Refunding Revenue Certificates, Series 2002, which issues are both fully insured by AMBAC.

One area that demonstrates the Commission's financial strength and future borrowing capability is seen in its debt coverage ratio, which is currently a very strong 2.80 times. Under its current debt agreements, the Commission has covenanted to maintain several coverage ratios, all of which approximate 1.25 times in the aggregate. In order to issue additional debt obligations, the Commission must demonstrate that it has successfully maintained a coverage ratio of 1.40 times its maximum annual debt service requirements in its immediately preceding fiscal year. Based on this data, the Commission has the ability and the capacity to obtain additional financing, at current market conditions, of approximately $40 million.

Economic Factors and Next Year's Budget and Rates

Many factors are considered each year by the Utilities Commission in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform electric, water, wastewater and other utility fees that are reasonable and, more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Database (FRED). This agency estimates a countywide unemployment rate of 4.3% at the end of September 2002, which is identical to the 4.3% rate experienced one year earlier. These estimates are considerably better than the state's 5.3% and 5.0% unemployment rates at September 2002 and 2001, respectively.

- Inflationary trends for Volusia County compare favorably with those trends experienced at the state and national levels.

Another factor influencing the Commission's 2003 operating budget includes the decision to create a new telecommunications division in the 2002-2003 fiscal year. This division will include all financial operations associated with the providing of new local and long-distance telephone services along with existing local dial-up internet services, high-speed broadband asymmetrical digital subscriber line (ADSL) services, and symmetrical digital subscriber line (SDSL) services. The 2003 budget includes combined projected revenues of $2.2 million and budget appropriations of $2.2 million for these new services.

The water reuse system is being absorbed into the wastewater system for future reporting and the telecommunications system will now be reported separately, effective with the fiscal year 2003.

A summary of the enacted 2003 budget follows:

FY 2003 Operating Budget
With Comparison to FY 2002 Actual
$(000's)

	FY 2003 Budget	FY 2002 Actual	Dollar Change
Revenue and Receipts:			
Electric system	$ 30,922	30,557	365
Water system	5,146	5,008	138
Wastewater system	6,059	5,729	330
Telecommunications system	2,152	0	2,152
Capital contributions	839	961	(122)
	45,118	42,255	2,863
Operating Expenses:			
Purchased power and fuel	13,760	16,653	2,893
Operation and maintenance	15,027	11,190	(3,837)
Required payments to City	2,605	2,510	(95)
	31,392	30,353	(1,039)
Net revenue and receipts	13,726	11,902	1,824
Debt service	(8,457)	(7,779)	(678)
Operating transfers (net)	(5,269)	(4,217)	(1,052)
Budgeted net cash receipts	0	(94)	94

The Utilities Commission's electric, water, and wastewater rates for the 2002 fiscal year remained the same as the prior year with the exception of a slight modification in the water and wastewater rate schedule for minimum consumption levels for billing, which produced negligible increases in all customer classes. These changes were necessary to increase the costs for high-consumption users and to encourage these customers to consider additional water conservation measures.

Requests for Information

This financial report is designed to provide a general overview of the Utilities Commission, City of New Smyrna Beach, Florida's finances for all those who have expressed an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the office of the Director of Finance, Post Office Box 100, New Smyrna Beach, Florida 32170-0100.

BASIC FINANCIAL STATEMENTS

BALANCE SHEET
September 30, 2002 and 2001
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

		2002	2001
Assets:			
Utility Plant:			
Electric utility plant in service	$	76,675,018	75,542,082
Water utility plant in service		35,817,251	33,275,166
Wastewater utility plant in service		44,767,865	42,342,587
Water reuse utility plant in service		7,138,553	7,121,217
General utility plant in service		7,310,849	7,239,736
		171,709,536	165,520,788
Less: accumulated depreciation and amortization		(61,651,295)	(56,873,464)
		110,058,241	108,647,324
Construction work in progress		3,004,496	5,296,544
Plant held for future use		9,173,992	9,173,992
Nuclear fuel, net of amortization		102,970	223,722
Total utility plant, net		122,339,699	123,341,582
Restricted Assets:			
Cash and cash equivalents		13,934,480	18,811,848
Investments, at cost		4,592,800	130,100
Accrued interest		8,894	157,934
Total restricted assets		18,536,174	19,099,882
Current Assets:			
Cash and cash equivalents		0	0
Accounts receivable, net of allowance for doubtful accounts ($121,660 - 2002 and $121,660 - 2001)		2,272,707	2,552,251
Unbilled accounts receivable		3,349,033	5,116,431
Inventories		1,680,424	1,642,739
Prepaid expenses and other assets		274,584	52,808
Total current assets		7,576,748	9,364,229
Deferred Charges and Other Assets:			
Stabilization funds		3,668,390	1,826,764
Unamortized debt expense		866,870	987,969
Total deferred charges and other assets		4,535,260	2,814,733
Total assets	$	152,987,881	154,620,426

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

	2002	2001
Net Assets:		
Invested in utility plant, net of related debt	$ 39,241,910	35,711,172
Restricted for debt service	539,839	560,100
Restricted for renewal and replacement	11,047,978	11,488,378
Unrestricted	8,384,049	8,144,046
Total net assets	59,213,776	55,903,696
Liabilities:		
Long-Term Debt:		
Revenue certificates payable (net)	45,754,090	48,209,487
Notes payable (net)	38,321,355	39,845,331
Total long-term debt	84,075,445	88,054,818
Restricted Fund Liabilities:		
Revenue certificates payable	2,730,000	2,595,000
Notes payable	1,434,976	1,297,064
Accrued interest payable	365,662	1,433,853
Accounts payable	8,172	31,603
Customers' deposits	1,431,890	1,269,476
Total restricted fund liabilities	5,970,700	6,626,996
Current Liabilities:		
Accounts payable	2,001,779	2,305,418
Accrued liabilities	476,242	486,485
Due to other governments	763,706	786,690
Total current liabilities	3,241,727	3,578,593
Other Noncurrent Liabilities:		
Deferred compensated absences	337,565	345,502
Deferred credits - other	148,668	110,821
Total other noncurrent liabilities	486,233	456,323
Total liabilities	93,774,105	98,716,730
Total liabilities and net assets	$ 152,987,881	154,620,426

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS **Statement 2**

For the Fiscal Years Ended September 30, 2002 and 2001
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

		2002	2001
Operating Revenue:			
Sales	$	39,966,040	42,177,716
Other revenue		646,185	537,671
Total operating revenue		40,612,225	42,715,387
Operating Expenses:			
Purchased power and fuel expenses		13,652,608	16,385,996
Other production expenses		6,038,839	5,844,715
Transmission, distribution, and sewage collection and treatment		3,782,641	3,348,147
Customer accounting		821,128	745,380
Administrative and general		3,385,868	3,519,275
Required payments to the City of New Smyrna Beach		2,509,729	2,625,008
Depreciation and decommissioning		4,899,416	4,581,217
Total operating expenses		35,090,229	37,049,738
Operating income		5,521,996	5,665,649
Nonoperating Revenue (Expense):			
Interest earnings		461,153	905,244
Other income		433,355	440,007
Interest and debt expense		(3,952,841)	(3,976,825)
Other expenses		(56,064)	(15,466)
Loss on disposal of assets		(58,114)	(99,267)
Total nonoperating (expense)		(3,172,511)	(2,746,307)
Income before contributions		2,349,485	2,919,342
Capital contributions		960,595	1,185,634
Change in net assets		3,310,080	4,104,976
Net assets, beginning of year		55,903,696	51,798,720
Net assets, end of year	$	59,213,776	55,903,696

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

STATEMENTS OF CASH FLOWS **Statement 3**

For the Fiscal Years Ended September 30, 2002 and 2001

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

		2002	2001
Cash Flows From Operating Activities:			
Cash received from customers	$	43,192,639	44,050,049
Cash paid to suppliers		(22,834,384)	(28,334,267)
Cash paid to employees		(5,285,654)	(4,969,659)
Other receipts (payments)		(2,532,713)	(2,973,667)
Net cash provided by operating activities		12,539,888	7,772,456
Cash Flows From Capital and Related Financing Activities:			
Debt reduction outlays		(3,981,064)	(3,742,471)
Contributed capital		960,595	1,185,634
Proceeds from issuance of debt		30,216	9,614,253
Proceeds from sale of property and equipment		878	4,672
Acquisition and construction of capital assets		(4,078,202)	(14,570,212)
Interest paid		(4,655,546)	(4,321,971)
Net cash (used in) capital and related financing activities		(11,723,123)	(11,830,095)
Cash Flows From Investing Activities:			
Proceeds from sale and maturities of investment securities		37,300	50,900
Acquistion of investment securities		(4,500,000)	0
Interest received		610,193	897,220
Net cash provided by investing activities		(3,852,507)	948,120
Net increase (decrease) in cash and cash equivalents		(3,035,742)	(3,109,519)
Cash and cash equivalents, beginning of year		20,638,612	23,748,131
Cash and cash equivalents, end of year	$	17,602,870	20,638,612
Reconciliation to Balance Sheet:			
Restricted cash and cash equivalents	$	13,934,480	18,811,848
Unrestricted cash and cash equivalents		0	0
Stabilization funds		3,668,390	1,826,764
Total cash and cash equivalents	$	17,602,870	20,638,612

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

STATEMENTS OF CASH FLOWS - (Continued) **Statement 3**
For the Fiscal Years Ended September 30, 2002 and 2001
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

		2002	2001
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	5,521,996	5,665,649
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation, decommissioning, and nuclear fuel amortization		5,021,093	4,696,714
Provision for losses on receivables		62,297	82,070
Decrease (increase) in operating assets:			
Accounts receivable		217,247	(82,362)
Unbilled accounts receivable		1,767,398	874,835
Inventories		(37,685)	(34,354)
Prepaid expenses		(221,776)	45,908
Increase (decrease) in operating liabilities:			
Accounts payable		(327,070)	(3,542,953)
Due to other governments		(22,984)	(348,659)
Customer deposits		162,414	102,182
Accrued liabilities		(10,243)	(95,744)
Deferred liabilities		29,910	(15,371)
Other income		433,355	440,007
Other expense		(56,064)	(15,466)
Net cash provided by operating activities	$	12,539,888	7,772,456

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Utilities Commission, City of New Smyrna Beach, Florida (the "Utilities Commission) are presented in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The existing hierarchy provides that accounting guidance should first be sought in statements of the Governmental Accounting Standards Board (GASB). If the GASB has not issued a standard applicable to a situation, then pronouncements of the Financial Accounting Standards Board (FASB) are presumed to apply except as described below under Measurement Focus and Basis of Accounting. Additionally, the financial statements are presented substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC), except for the method of accounting for contributed capital described in the notes to the financial statements.

The following is a summary of the more significant accounting policies:

Reporting Entity: The Utilities Commission was created in 1967 through the passage of Chapter 67-1754, Laws of Florida, Special Acts of 1967 (House Bill 1669), which amended the Charter of the City of New Smyrna Beach, Florida (the "City") to create the Utilities Commission. The Utilities Commission is governed by a five-member board of Commissioners who are appointed by the City Commission. Utilities Commissioners receive compensation of $100 per month and may serve no more than three consecutive three-year terms. In a referendum held in October, 1984, voters approved amendments to the City Charter which (1) require City Commission approval for extensions of utility services outside the City limits; (2) give the City Commission the right to review and approve the Utilities Commission's operating budget; and (3) require City Commission approval before issuing or refunding revenue certificates and entering into contracts which exceed four years.

The funds and entities related to the operation of the Utilities Commission are appropriately included as a component unit of the City of New Smyrna Beach, Florida, and an integral part of the City's reporting entity in accordance with the requirements of Statement 14 of the GASB, *The Financial Reporting Entity*. The basic financial statements of the Utilities Commission are incorporated in the City's Comprehensive Annual Financial Report as an enterprise fund activity. Complete financial statements of the City of New Smyrna Beach, Florida, the primary government of the Utilities Commission, can be obtained directly from the City's administrative offices, which is as follows:

Administrative Office:

City of New Smyrna Beach, Florida
210 Sams Avenue
New Smyrna Beach, Florida 32168

The Utilities Commission maintains a 0.5608% undivided participant interest with Florida Power Corporation at it's Crystal River Unit 3 nuclear generation facility. Pursuant to this agreement, all fiscal, budgetary and operational control is maintained exclusively by Florida Power Corporation. The agreement and the related ownership interest have remained consistent for the years ended September 30, 2002 and 2001. This agreement does not meet the criteria of a joint venture as specified in Statement 14 of the Governmental Accounting Standards Board.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

In 1983, the Utilities Commission entered into a participation agreement with Florida Municipal Power Agency (FMPA) for an entitlement share of electric capacity and electric energy from FMPA's undivided ownership interest in Florida Power and Light Company's St. Lucie Unit No. 2, a nuclear generating unit. The Utilities Commission's role in the agreement is limited to that of a participant contractually obligated to purchase electric capacity and electric energy. The agreement between the Utilities Commission and FMPA does not meet the criteria for inclusion within the reporting entity of the Utilities Commission. The agreement specifically provides that the arrangement is not a joint venture and neither FMPA nor the other utilities which entered into participation agreements with FMPA for entitlement shares from FMPA's undivided ownership interest in St. Lucie Unit No. 2 are accounting for the agreement as a joint venture. Accordingly, the Utilities Commission is not accounting for the agreement as a joint venture.

On March 17, 1998 the Utilities Commission entered into an Interlocal Agreement creating the Florida Electric Power Alliance (FEPA) by and among the City of Homestead, City of Lake Worth, and the Utilities Commission, City of New Smyrna Beach, Florida, for the purpose coordinating certain joint electric power supply projects. On April 28, 1999 FEPA entered into a contract with Florida Power and Light for the purpose of marketing and trading excess capacity and energy. The initial term of the agreement was for the period from May 1, 1999 to October 31, 1999 and will be automatically extended in additional six month increments. The agreement specifically provides that the arrangement is not a joint venture, but rather is an "agency" created under the authority of Chapter 163, Part I, Florida Statutes, as amended. Neither FEPA nor the underlying utilities which entered into the agreement are accounting for the agreement as a joint venture. Accordingly, the Utilities Commission is not accounting for the agreement as a joint venture.

New Accounting Pronouncements: The Governmental Accounting Standards Board (GASB) has issued Statement of Accounting Standards No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (SGAS 34). The Utilities Commission elected to implement the provisions of SGAS 34 for the year ended September 30, 2001. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

- Unrestricted net assets - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The adoption of Statement No. 34 had no effect on the basic financial statements except for the classification of net assets in accordance with the Statement and the reflection of capital contributions as a change in net assets.

Basis of Presentation: The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include all the activities of the Utilities Commission. By virtue of its municipal ownership, the financial affairs of the Utilities Commission are not subject to the oversight of, or regulation by, the Florida Public Service Commission. While not required, the accounting records of the Utilities Commission are maintained in accordance with the uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the Florida Public Service Commission (FPSC). As a result, the accounting provisions permitted under Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71), have not been adopted by the Utilities Commission.

The Utilities Commission has elected to not apply FASB statements and interpretations issued after November 30, 1989, as permitted by Government Accounting Standards Board (GASB) Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.*"

Basis of Accounting: Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The Utilities Commission's financial statements are prepared on the accrual basis of accounting. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred. Unbilled utility service receivables are recognized to provide a better matching of service revenues and the costs of providing the service.

Budget and Budgetary Accounting: An annual revenue and expense budget is prepared for the combined electric, water, wastewater and water reuse utility systems. In accordance with the Utilities Commission's budget policy, the approved budget is submitted to the City of New Smyrna Beach prior to May 1 of each fiscal year for subsequent City Commission approval. The budget was adopted on a basis consistent with generally accepted accounting principles (GAAP) except that certain other cash receipts and payments are treated as budgetary items to maintain effective fiscal and budgetary control over the collection and disposition of all Utilities Commission resources. Specific budgetary control is exercised over internal operating transfers to restricted funds, payments of principal on long-term debt obligations, and collections of contributed capital which are recognized in the budget as additions and/or deductions to reconcile budgeted net cash receipts to reported net income (loss) for each system. Budget appropriations are prepared by the administrative staff and approved as provided by law by the Utilities Commission. Budgetary control is exercised at the departmental level. Budget amendments, if any, can be requested by the General Manager/CEO. However, all budget amendments must be approved by the Utilities Commission.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Unexpended appropriations for operations lapse at year-end. No supplemental appropriations were required for the current year.

Use of Estimates and Assumptions: In preparing financial statements that conform with generally accepted accounting principles, management makes 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 amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Utilities Commission invests all cash balances in interest bearing accounts. Earnings from these investments are appropriately allocated to the investing fund accounts based upon the investment equity and are used, where applicable, to finance general Utilities Commission operations. For purposes of the statement of cash flows, all highly liquid debt instruments(including restricted and internally designated funds) purchased with original maturity dates of three months or less are considered cash equivalents.

Investments: Investments are recorded at cost or amortized cost, which approximates market. Adjustments are made to cost, for any premium or discount, which is amortized over the maturity of the investment. Investments in U.S. Treasury and agency obligations with maturities of one year or less when purchased are reported on the balance sheet at their amortized cost. All other investments are reported at fair value.

Receivables: Accounts receivable have been reported net of an allowance for uncollectible accounts, which has been provided based upon management's analysis of historical trends. Utility operating revenues are recognized on the basis of cycle billings rendered monthly. Unbilled accounts receivable are accrued at September 30th, to recognize the sales revenues earned between the last utility meter reading date made through the end of the year.

Inventories: Inventories are priced at cost by the use of the "first-in, first-out" method of accounting. The effect of this method is to flow the costs of the materials and supplies in the order in which they are purchased and to assign a balance sheet inventory valuation more nearly at current replacement value. Electric line transformers, electric meters, and replacement units for the generating plants are classified as utility plant in accordance with accepted industry practices set forth by the National Association of Regulatory Utilities Commissioners (NARUC).

Unamortized Debt Discount, Issuance Expenses, and Deferred Amount from Refunding: Original issue discounts, debt issuance expenses, and deferred amounts from the advance refunding of outstanding revenue certificates are appropriately deferred and amortized over the remaining terms of the applicable debt issues (or life of the old debt, whichever is shorter, for deferred amounts from the advance refunding) using the bonds outstanding method, which approximates the interest method. Unamortized debt discounts and deferred amounts from the advance refunding of long-term debt are presented in aggregate in the financial statements as a reduction of the carrying cost of the related long-term debt. The unamortized debt issuance costs are presented as other assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Utility Plant: Utility plant is stated at historical or estimated historical cost. Generally, property, plant and equipment with initial individual costs that equal or exceed $750 and with estimated useful lives of more than one year are recorded as capital assets. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense. The cost of units of property replaced, renewed or retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation. Donated utility plant is stated at its estimated fair market value on the date donated. Construction period interest is capitalized, net of interest earned on unexpended construction funds in accordance with the applicable provisions of Financial Accounting Standards No. 62. All capitalized interest is depreciated over the remaining useful lives of the related assets.

Depreciation and Amortization: For financial reporting purposes, substantially all depreciation of utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated net salvage, which are as follows:

	Years
Electric System:	
Production plant:	
Nuclear production	27
Diesel production	20-40
Transmission plant	30-55
Distribution plant	28-45
General plant:	
Structures and improvements	40
Other general plant	5-20
Water System:	
Source of supply plant	25-50
Pumping plant	35
Water treatment plant	40-50
Transmission and distribution plant	25-50
General plant:	
Structures and improvements	35
Other general plant	10-35
Pollution Control System:	
Collection plant	35-50
Pumping plant:	
Structures and improvements	50
Pumping equipment	25
Treatment and disposal plant	25-40
General plant	10-50
Common Plant:	
Structures and improvements	35
Other general plant	5-15
Water Reuse System:	
Structures and improvements	50
Transmission and distribution plant	50

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE), is computed primarily on the unit-of-production method and charged to fuel expense. Costs related to obligations to the DOE for the decommissioning and decontamination of enrichment facilities are also charged to fuel expense.

Nuclear Plant Decommissioning and Dismantlement Provisions: Provisions for nuclear plant decommissioning costs are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the nuclear plant site. The Utilities Commission's pro-rata share of estimated decommissioning costs are amortized on a straight-line basis over the remaining period of the nuclear plant's operating license and are included in depreciation and amortization expense.

Compensated Absences: The portion of employee payroll costs paid subsequent to year-end attributable to services performed prior to year-end is recorded and recognized as a current liability. Employees earn annual personal leave time (includes vacation, sick and personal leave time) at the rate of 160 hours to 240 hours per fiscal year, depending of the number of years of service, measured on the anniversary date, which is October 1 for all employees. Employees are required to use 50% of the time accrued each year and may retain the balance for use in succeeding years. The maximum amount of hours that can be accumulated at the end of each year fiscal year is 480 hours. Employees with accrued personal leave time over this amount at year-end are paid for all hours in excess of 240 hours or 480 hours, depending on employee election. Payments for any excess hours are made in December of each year based on the employee's regular straight time pay-rate as of preceding September 30th.

Operating Reserve (for Nuclear Re-Fueling costs): The reserve for nuclear re-fueling and maintenance outage is an operating reserve established to account for the estimated charges to be incurred for the removal and installation of nuclear fuel assemblies. Charges are made to the reserve at the time actual re-fueling takes place.

Rates, Revenues and Fuel Expense: Revenues are recognized based on monthly cycle billings to customers. The rate schedules are approved by the Utilities Commission. The electric rate schedule contains an energy cost adjustment clause which reflects the cost of fuel as well as the energy and fuel components of purchased power. Generally, the effect of the increase/decrease in the cost of energy is recovered over a twelve month period and is determined as the difference between actual applicable fuel costs and the costs actually billed during the same period. The cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced for generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core.

Operating revenues and expenses result from providing utility services, which is the principal ongoing operation of the Utilities Commission. The principal operating revenues are charges to customers for sales and service. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on utility plant assets. All revenues and expenses no meeting this definition are reported as non operating revenues and expenses.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Insurance, Bureau of Collateral Securities, and the Department of Treasury have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State Treasurer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State Treasurer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Treasurer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by the Department of Insurance.

Deposits: At September 30, 2002 and 2001, the carrying amounts of the Utilities Commission's deposits, including certificates of deposit, were $1,435,107 and $2,867,026, respectively. The September 30, 2002, bank balances totaled $2,043,688 of which $100,000 was covered by federal depository insurance and $1,943,688 was secured in accordance with the statutory provisions of the Act. Included in the carrying amount of Utilities Commission deposits is $11,704 in petty cash and change funds.

Investments: The Utilities Commission's investment policies are governed by state statutes and local resolution. Allowable investment instruments include: bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, interest bearing savings accounts, interest bearing certificates of deposit and interest bearing time deposits. At September 30, 2002, the Utilities Commission's investments included United States Treasury State and Local Government (SLGS) Bonds, mortgage-backed securities, and overnight investments in money market funds, which were secured by U. S. Treasury obligations. The investments are categorized to give an indication of the level of risk assumed by the Utilities Commission at year-end. Category 1 includes investments that are insured, registered, or for which the securities are held by the Utilities Commission or its agent in the Utilities Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the banks' trust departments or agents in the Utilities Commission's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the banks, or by their trust departments or agents but not in the Utilities Commission's name.

At September 30, 2002, the Utilities Commission's cash and investments are categorized as follows:

Type of Investment	Category 1	Category 2	Category 3	Carrying Value	Fair Value
U.S. Treasury State and Local Government Series (SLGS) Bonds	$ 92,800			92,800	92,800
Federal Farm Credit Bank Bonds		500,000		500,000	501,405
Fannie Mae Unsecured Notes		3,000,000		3,000,000	3,030,000
Federal Home Loan Bank Unsecured Bonds		1,000,000		1,000,000	1,006,560

NOTE 2 - CASH DEPOSITS AND INVESTMENTS– (CONTINUED)

Type of Investment	Category 1	Category 2	Category 3	Carrying Value	Fair Value
Repurchase agreements	$ 0	0	16,176,657	16,176,657	16,176,657
Totals	$ 92,800	4,500,000	16,176,657	20,769,457	20,807,422

NOTE 3 - RESTRICTED AND INTERNALLY DESIGNATED ASSETS

Certain cash and investments are externally restricted by revenue certificate resolutions, nuclear generation facility decommissioning trusts and customer agreements. The Utilities Commission's restricted assets consist of the following accounts:

	September 30, 2002	September 30, 2001
Debt service and related funds:		
Principal and interest funds	$ 3,086,141	3,489,642
Debt service reserve funds	539,839	560,100
	3,625,980	4,049,742
Nuclear generation facility decommissioning funds	2,422,153	2,260,683
Renewal and replacement funds	11,056,151	11,519,981
Customer deposits	1,431,890	1,269,476
Total restricted assets	$ 18,536,174	19,099,882
Total restricted assets consist of:		
Cash and cash equivalents	$ 13,934,480	18,811,848
Investments, at cost	4,592,800	130,100
Accrued interest receivable	8,894	157,934
Total restricted funds	$ 18,536,174	19,099,882

Internally designated assets include certain cash and investments that have been internally designated by the Utilities Commission's governing board and earn the same interest rate as its operating investment portfolio. These funds are comprised of the following:

Internally designated funds:		
Rate Stabilization Fund:		
Cash and cash equivalents	$ 3,664,387	1,826,764
Accrued interest receivable	4,003	0
Total internally designated funds	$ 3,668,390	1,826,764

NOTE 4 - UTILITY PLANT

A summary of utility plant at September 30, 2002 and 2001 is as follows:

	Electric	Water	Wastewater	Water Reuse	Common	September 30, 2002
Land and land rights	$ 1,672,728	483,946	381,642	0	743,588	3,281,904
Structures and improvements	2,590,500	5,112,725	7,561,048	2,236,037	2,408,821	19,909,131
Production and treatment plant	24,118,422	6,422,368	13,887,119	0	0	44,427,909
Transmission, distribution, and collection and treatment plant	46,675,183	22,892,232	21,537,433	4,857,992	0	95,962,840
Other general plant and equipment	1,618,185	905,980	1,400,623	44,524	4,158,440	8,127,752
	76,675,018	35,817,251	44,767,865	7,138,553	7,310,849	171,709,536
Accumulated depreciation	(33,385,198)	(11,457,515)	(9,571,807)	(996,260)	(3,818,362)	(59,229,142)
Allowance for decommissioning	(2,422,153)	0	0	0	0	(2,422,153)
	40,867,667	24,359,736	35,196,058	6,142,293	3,492,487	110,058,241
Construction in progress	1,478,211	1,079,547	266,811	73,235	106,692	3,004,496
Plant held for future use	9,173,992	0	0	0	0	9,173,992
Nuclear fuel, net of amortization	102,970	0	0	0	0	102,970
Utility plant, net	$ 51,622,840	25,439,283	35,462,869	6,215,528	3,599,179	122,339,699

	Electric	Water	Wastewater	Water Reuse	Common	September 30, 2001
Land and land rights	$ 1,672,728	483,946	381,642	0	743,588	3,281,904
Structures and improvements	2,579,200	5,112,725	7,561,048	2,236,037	2,408,821	19,897,831
Production and treatment plant	24,056,426	6,390,537	13,873,650	0	0	44,320,613
Transmission, distribution, and collection and treatment plant	45,756,535	20,424,925	19,283,087	4,840,656	0	90,305,203
Other general plant and equipment	1,477,193	863,033	1,243,160	44,524	4,087,327	7,715,237
	75,542,082	33,275,166	42,342,587	7,121,217	7,239,736	165,520,788
Accumulated depreciation	(30,973,971)	(10,685,301)	(8,445,520)	(850,474)	(3,657,515)	(54,612,781)
Allowance for decommissioning	(2,260,683)	0	0	0	0	(2,260,683)
	42,307,428	22,589,865	33,897,067	6,270,743	3,582,221	108,647,324
Construction in progress	1,270,780	3,672,122	57,542	17,522	278,578	5,296,544
Plant held for future use	9,173,992	0	0	0	0	9,173,992
Nuclear fuel, net of amortization	223,722	0	0	0	0	223,722
Utility plant, net	$ 52,975,922	26,261,987	33,954,609	6,288,265	3,860,799	123,341,582

Depreciation expense totaled $4,737,946 and $4,360,451 for 2002 and 2001, respectively. Capitalized interest on outstanding tax-exempt borrowings charged (credited) to projects during construction was $ -0 - and $483,350, for 2002 and 2001, respectively, which is stated net of $ -0- and $149,910, respectively, of interest earned on unexpended tax-exempt debt proceeds.

NOTE 4 - UTILITY PLANT– (CONTINUED)

A summary of utility plant activity for the year ended September 30, 2002 is as follows:

	Beginning of Year	Acquisitions	Disposals	End of Year
Land and land rights	$ 3,281,904	0	0	3,281,904
Structures and improvements	19,897,831	11,300		19,909,131
Production and treatment plant	44,320,613	111,236	(3,940)	44,427,909
Transmission, distribution, and collection and treatment plant	90,305,203	5,760,423	(102,786)	95,962,840
Other general plant and equipment	7,715,237	486,366	(73,851)	8,127,752
	165,520,788	6,369,325	(180,577)	171,709,536
Accumulated depreciation	(54,612,781)	(4,737,946)	121,585	(59,229,142)
Allowance for decommissioning	(2,260,683)	(161,470)	0	(2,422,153)
	108,647,324	1,469,909	(58,992)	110,058,241
Construction in progress	5,296,544	4,249,655	(6,541,703)	3,001,496
Plant held for future use	9,173,992	0	0	9,173,992
Nuclear fuel, net of amortization	223,722	925	(121,677)	102,970
Utility plant, net	$ 123,341,582	5,720,489	(6,722,372)	122,336,699

NOTE 5 - DECOMMISSIONING AND DISMANTLEMENT PROVISIONS

Provisions for nuclear decommissioning costs associated with the Utilities Commission's 0.5608% undivided participant interest with Florida Power Corporation at it's Crystal River Unit 3 (CR3) nuclear generation facility are approved the Florida Public Service Commission. Florida Power's most recent site-specific estimates of decommissioning costs for the CR3 nuclear plant were developed in 2000, using 2000 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures at the site, with such removal occurring shortly after operating license expiration. The Utilities Commission's share of these estimated costs, in 2000 dollars was $2.89 million and is subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. Decommissioning cost provisions, which are included in depreciation and amortization expense, were $161,470 and $220,766 for the years ended September 30, 2002 and 2001, respectively.

Accumulated decommissioning costs, which are included in accumulated depreciation, were $2,422,153 and $2,260,683 at September 30, 2002 and 2001, respectively. These costs include amounts retained internally in decommissioning trusts. Trust earnings increase the trust balance with a corresponding increase in the accumulated decommissioning balance. These balances are adjusted for net unrealized gains and losses related to changes in the fair value of trust assets.

Management believes that the plant decommissioning costs being recovered through the Utilities Commission's present electric utility rate structure are currently sufficient to provide for the costs of decommissioning.

NOTE 6 - NET ASSETS

Net assets represent the difference between assets and liabilities. The following is a summary of the individual components of the Utilities Commission's net assets at September 30th:

		September 30, 2002	September 30, 2001
Invested in utility plant, net of related debt:			
Net utility plant		$ 122,339,699	123,341,582
Add:	Funds restricted for debt service	3,086,141	3,489,642
	Funds restricted for future decommissioning costs	2,422,153	2,260,683
	Funds restricted for repayment of customer deposits	1,431,890	1,269,476
Less:	Revenue certificates payable (net)	(48,484,090)	(50,804,487)
	Notes payable (net)	(39,756,331)	(41,142,395)
	Accrued interest payable on long-term debt	(365,662)	(1,433,853)
	Customer deposits	(1,431,890)	(1,269,476)
		39,241,910	35,711,172
Restricted for debt service:			
Funds restricted for debt service reserve purposes		$ 539,839	560,100
Restricted for renewal and replacement:			
Funds restricted for renewal and replacement		3,360,566	3,566,913
Internally designated funds for renewal and replacement		7,695,584	7,953,068
Less:	Accounts payable from restricted funds	(8,172)	(31,063)
		11,047,978	11,488,378
	Total net assets invested and restricted	50,829,727	47,759,650
Unrestricted net assets		8,384,049	8,144,046
	Total net assets	$ 59,213,776	55,903,696

NOTE 7 - LONG-TERM DEBT

A summary of long-term debt outstanding at September 30th, is as follows:

	September 30, 2002	September 30, 2001
Utilities System Revenue Certificates, Series 1992--4.10% to 5.60% due serially to 2004, with $515,000 (5.35%), $1,020,000 (5.80%) $1,230,000 (6.00%) and $10,160,000 (6.00%) term bonds due in 2002, 2007, 2010, and 2013, respectively; called for redemption on October 1, 2002	$ 270,000	13,510,000

NOTE 7 - LONG-TERM DEBT– (CONTINUED)

	September 30, 2002	2001
Utilities System Refunding Revenue Certificates, Series 1993—4.75% due serially to 2011; called for redemption on October 1, 2002, with $1,245,000 (5.00%) and $1,85,000 (5.00%) term bonds due in 2018 and 2019, respectively	$ 3,240,000	19,525,000
Utilities System Refunding Revenue Certificates, Series 1996--4.10% to 5.30% due serially to 2011, to be called for redemption on October 1, 2004	7,905,000	19,240,000
Utilities System Refunding Revenue Certificates, Series 2002—2.75% to 5.00% due serially to 2017	39,035,000	0
Total utilities revenue certificates outstanding	50,450,000	52,275,000
Less: current maturities:		
Series 1992 Certificates	(270,000)	(245,000)
Series 1993 Certificates	(710,000)	(680,000)
Series 1996 Certificates	(1,750,000)	(1,670,000)
Series 2002 Certificates	(0)	(0)
	(2,730,000)	(2,595,000)
Long-term certificate debt	47,720,000	49,680,000
Plus: unamortized debt premium	1,040,103	0
Less: deferred amount on advance refunding	(2,910,486)	(706,398)
unamortized debt discount	(95,527)	(764,115)
Net long-term certificate debt	45,754,090	48,209,487
Notes Payable:		
State Revolving Loan Fund–construction loans consisting of $8,521,618, bearing interest at 3.22% per annum, $1,778,378, bearing interest at 3.18% per annum, and $7,135,931 bearing interest at 3.11% per annum; payable in equal semi-annual payments of $639,359, and maturing in August, 2019	$ 16,704,331	17,435,927
$12,200,000 payable to Florida Municipal Power Agency, as agent for Initial Pooled Loan Project, at a variable interest rate; interest payable monthly with annual principal payments over 20 year term; repayment commencing on April 1, 2001 and maturing in April 2020	11,435,000	11,825,000

NOTE 7 - LONG-TERM DEBT– (CONTINUED)

	September 30, 2002	2001
$3,000,000 payable to Florida Municipal Power Agency, as agent for Initial Pooled Loan Project, at a variable interest rate; interest payable monthly with annual principal payments over 20 year term; repayment commencing on October 1, 2001 and maturing in October 2020	2,827,000	2,916,000
$9,050,000 payable to Florida Municipal Power Agency, as agent for Initial Pooled Loan Project, at a variable interest rate; interest payable monthly with annual principal payments over 20 year term; repayment commencing on December 1, 2001 and maturing in December 2020	8,790,000	8,965,468
Total notes payable	39,756,331	41,142,395
Less: current maturities:		
State Revolving Fund Loan	(754,976)	(731,596)
FMPA Pooled loans	(680,000)	(565,468)
	(1,434,976)	(1,297,064)
Long-term portion of note payable	38,321,355	39,845,331
Total long-term debt, net	$ 84,075,445	88,054,818

A summary of borrowings and debt service activity for the year ended September 30, 2002 is as follows:

	Beginning of Year	Borrowings	Maturities / Redemptions	End of Year
Utilities revenue certificates	$ 52,275,000	39,035,000	(40,860,000)	50,450,000
Notes payable	41,142,395	0	(1,386,064)	39,756,331
Total outstanding debt	$ 93,417,395	39,035,000	(42,746,064)	90,206,331

The authorization for the above described revenue certificates outstanding (collectively referred to as the "Certificates") provides that the Utilities Commission will not issue additional obligations except for the construction and acquisition of additions, extensions and improvements to the system or for refunding purposes and except upon the parity conditions provided in the authorizing resolution. The Certificates are payable from and secured by a first lien upon and pledge of the net revenues derived from the operation of the system. The Certificates do not constitute general indebtedness of the Utilities Commission or the City of New Smyrna Beach, Florida (City), and the City is not obligated to levy any taxes for the payment thereof.

NOTE 7 - LONG-TERM DEBT – (CONTINUED)

Under the terms of its long-term debt agreements, the Utilities Commission has agreed to maintain certain restricted funds and to comply with the covenants contained in such agreements, which require specific actions to be taken by the Utilities Commission. Certain of these agreements contain the following provision relating to the right of the obligation holder:

> "Any holder of certificates or any coupons appertaining thereto issued under the provision hereof or any trustee acting for the holders of such certificates may by suit, action, mandamus or other proceedings in any court of competent jurisdiction, protect and enforce any and all rights, including the right to the appointment of a receiver, existing under the laws of the State of Florida, or granted and contained herein, and may enforce and compel the performance of all duties herein required or by any applicable statutes to be performed by the Commission or by any officer thereof. Nothing herein, however, shall be construed to grant to any holder of the certificates any lien on any real property of the Commission or the City."

The notes payable to the State of Florida, Department of Environmental Protection, State Revolving Fund Loan are secured by pledged revenues of the Utilities Commission; however, the lien on the pledged revenues is subordinate to the right of payment and security to the Revenue Certificates Payable - Series 1992, 1993, and 1996. The notes payable to the Florida Municipal Power Agency are secured by a pledge and lien upon the Utilities Commission's utility system revenues and are subordinate to the right of payment and security to the Revenue Certificates and are on a parity with the State Revolving Fund Loan.

On August 7, 2002, the Commission issued $39,035,000 in Utilities System Refunding Revenue Certificates, Series 2002, with an average interest rate of 3.78% to advance refund: (1) all of the outstanding Series 1992 Certificates maturing on October 1, 2003 through October 1, 2017, which will be called for redemption on October 1, 2002 in the principal amount of $12,995,000 with an average interest rate of 5.86%, (2) a portion of the outstanding Series 1993 Certificates maturing on October 1, 2003 through October 2017 and which will be called for redemption on October 1, 2002 in the principal amount of $15,605,000 with an average interest rate of 5.07%, and (3) a portion of the outstanding 1996 Series Certificates maturing on April 1, 2005 through October 1, 2011 and which will be called for redemption on October 1, 2004 in the principal amount of $9,665,000 with an average interest rate of 5.07. The net proceeds of $39.6 million (after payment of $487,630 in underwriting fees, insurance, and other issuance costs) plus $685,256 in excess 1992, 1993, and 1996 sinking fund monies were used to purchase $40,284,821 in U.S. government securities at the date of closing. The U.S. government securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992, 1993, and 1996 certificates through October 1, 2002, when the 1992 and 1993 Series certificates will be called for complete redemption and through October 1, 2004, when the 1996 Series certificates will be called for complete redemption. As a result, the 1992 and a portion of the 1993 and 1996 Series certificates are considered to be defeased and the liability for those certificates has been removed at August 7, 2002.

Although the advance refunding resulted in the recognition of a deferred loss on advance refunding in the amount of $2,780,798 (which will be amortized over the life of the refunding certificates) for the year ended September 30, 2002, the Commission in effect reduced its aggregate debt service payments by almost $3.0 million over the next 15 years and obtained an economic gain (difference between the present values of the old and new debt service payments, adjusted for old and new sinking funds on hand) of $2.5 million.

NOTE 7 - LONG-TERM DEBT – (CONTINUED)

Aggregate annual long-term debt service requirements in each of the next five years (and five-year increments thereafter) are as follows:

Fiscal Year Ending	Revenue Certificates	Note Payable SRF Loan	Notes Payable FMPA	Totals
September 30, 2003	$ 4,382,518	1,278,718	1,004,545	6,665,781
September 30, 2004	$ 5,075,036	1,278,718	1,167,510	7,521,264
September 30, 2005	$ 4,337,284	1,278,718	1,187,667	6,803,669
September 30, 2006	$ 5,039,652	1,278,718	1,223,069	7,541,439
September 30, 2007	$ 5,037,778	1,278,718	1,247,661	7,564,157
September 30, 2008 to 2012	$ 24,751,262	6,393,590	6,751,893	37,896,745
September 30, 2013 to 2017	$ 14,524,149	6,393,590	7,916,852	28,834,591
September 30, 2018 to 2022	$ 4,000,031	2,557,441	6,499,552	13,057,024

NOTE 8 - PRIOR YEARS' DEFEASANCE OF DEBT

In prior years, the Utilities Commission defeased certain of its outstanding utilities revenue certificates (and certain general obligation bonds of the City of New Smyrna Beach, Florida), originally issued for the System and payable from revenues derived from the operation of the utilities systems by placing the proceeds of new certificates in irrevocable trusts to provide for all future debt service payments on the defeased certificates/bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the accompanying financial statements. They include the following at September 30, 2002:

1978 Refunding:	
Series 1965--4.2% to 4.25% due through 2004	$ 545,000
Series T-1963--4.0% due through 2003	48,000
Series B-1965--3.7% to 4.1% due through 2003	100,000
Series 1975--3.75% to 6.2% due through 2004	440,000
Series 1975A--5.0% to 6.6% due through 2005	1,145,000
2002 Refunding:	
Series 1996—4.8% to 5.3% due through 2011	9,665,000

NOTE 9 - REQUIRED PAYMENT TO CITY

The legislation that created the Utilities Commission requires it to pay to the general fund of the City of New Smyrna Beach a sum equal to six percent (6%) of the gross revenues from utilities under Utilities Commission control. This payment is subordinate to the debt service requirement of all utilities revenue certificates and is recorded as a quasi-external transaction for financial reporting purposes. Amounts paid to the City for the years ended September 30, 2002 and 2001 totaled $2,509,729 and $2,625,008, respectively. The balances due to the City at September 30, 2002 and 2001, totaled $249,605 and $271,703, respectively.

NOTE 10 - EMPLOYEE PENSION PLANS

A. Defined Benefit Pension Plan

Plan Description. The Utilities Commission contributes to the Florida (public employee) Retirement System of the State of Florida (the "FRS"), a cost-sharing, multiple-employer defined benefit pension plan created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. The pension plan, which is administered by the State of Florida, Department of Administration, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 112, Florida Statutes. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. The FRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Florida Retirement System, Department of Administration, Division of Retirement, Cedars Executive Center, Building C, 2639 North Monroe Street, Tallahassee, FL 32399-1560.

Funding Policy. The funding methods and determination of benefits payable are provided in the various acts of the Florida Legislature, which created the fund, including subsequent amendments thereto. In previous years, these acts provided, in general, that funds were to be accumulated from employee contributions, employer contributions, State appropriations and income from investments of accumulated funds. The act also provides that, should the accumulated funds in the fund at any time be insufficient to meet and pay the benefits due, the employer shall supplement the funds by an appropriation from current funds, or from any revenues which may lawfully be used for said purposes, in an amount sufficient to make up the deficiency.

The Utilities Commission made the required contributions to the plan for the fiscal years ended September 30, 2002, 2001, and 2000, as follows: $299,683, $364,604, and $429,348, respectively. The employer contribution rates for FRS members (which are examined and amended each year on July 1) were as follows:

Plan year beginning June 30, 2002	5.76%
Plan year beginning June 30, 2001	7.30%
Plan year beginning June 30, 2000	9.15%
Plan year beginning June 30, 1999	10.15%
Plan year beginning June 30, 1998	16.45%

There were no employee contributions made during these years.

B. Defined Contribution Plan

The Utilities Commission contributes to the Utilities Commission of New Smyrna Beach Retirement Plan, a defined contribution plan administered by the Principal Mutual Life Insurance Company, P. O. Box 9396, Des Moines, IA 50306-9396.

NOTE 10 - EMPLOYEE PENSION PLANS – (CONTINUED)

Under Resolution No. 54-95, the Utilities Commission established this plan for all regular full time and regular part time employees hired on or after January 1, 1996, by revoking its participation in the Florida Retirement System pursuant to Chapter 95-338, Laws of Florida with respect to such employees. All qualifying employees at least 18 years of age participate in the plan on the date of employment. Normal retirement and disability benefits are available after 5 years of service and attaining age 62. Early retirement and disability benefits are available after 5 years of service and attaining age 55. Employer contributions to the plan are 8% of the gross employee wages. Employees may make supplemental contributions to the extent permitted by law. Employer contributions to the plan were $73,429, $42,230, and $26,985, for the years ended September 30, 2002, 2001, and 2000, respectively. There were no employee contributions made during these years.

NOTE 11 - DEFERRED EMPLOYEE BENEFITS

A. IRC Section 401(k) Plan

The Utilities Commission offers its Chief Executive Officer participation in a Prototype 401(k) Plan, created in accordance with Sections 401(a) and 401(k) of the Internal Revenue Code. The assets of the prototype deferred compensation plan are administered by the International City Managers Association Retirement Corporation. Upon separation from service for reasons of death, disability or attainment of age 55 (normal retirement age) the participant may elect to commence receiving benefits which equal accumulated employer's and employee's contributions plus earnings thereon. All benefits vest with the employee at the date of contribution. For the years ended September 30, 2002, 2001 and 2000, the Utilities Commission's covered payroll was $133,663, $127,296 and $97,743, respectively. For the years ended September 30, 2002, 2001 and 2000, employer contributions were $17,549, $16,715 and $13,627, respectively. For the years ended September 30, 2002, 2001 and 2000, employee contributions to the plan were $24,372, $19,640 and $16,913, respectively.

B. IRC Section 457 Plan

The Utilities Commission also provides its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The assets of this plan are administered by the International City Managers Association Retirement Corporation. The plan has been amended to include provisions changed by the Economic Growth and Tax Relief Reconciliation Act of 2001. Annual contributions, determined by the participant, may not exceed the lesser of $11,000 or 100% of gross annual compensation for plan years beginning in 2002. Participants who have attained age 50 by year end can add catch-up contributions to the elective deferrals to the plan in the amount of $1,000 for 2002.

Deferred compensation withheld from a participating employee's pay is not taxable as current income until withdrawn from the plan. Such compensation is not available to the employees until employment termination, retirement, or death. All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

NOTE 12 - DEPARTMENTAL INFORMATION

The information below discloses certain financial activity for the Utilities Commission's individual utility systems as follows:

	Electric System	Water System	Wastewater System	Water Reuse System	Total
Operating revenue	$ 29,997,004	4,983,226	5,113,001	518,994	40,612,225
Depreciation/decommissioning	2,741,739	832,380	1,179,511	145,786	4,899,416
Operating income	3,220,136	1,160,860	946,101	324,095	5,521,996
Required payments to City	1,891,212	301,359	310,799	6,539	2,509,729
Income (loss) before contributions	1,970,045	385,978	77,106	(83,644)	2,349,485
Capital contributions	81,864	603,767	274,964	0	960,595
Change in net assets	2,051,909	989,745	352,070	(83,644)	3,310,080
Utility plant acquisitions	1,327,838	2,577,565	2,446,569	17,335	6,369,307
Utility plant retirements	174,361	3,298	2,918	0	180,577
Revenue certificates payable	24,965,984	14,501,642	6,065,086	4,917,289	50,450,000
Notes payable	20,225,000	1,243,880	18,287,452	0	39,756,332
Net assets	22,695,972	18,776,970	18,796,885	(1,056,051)	59,213,776
Total assets	73,448,816	32,571,626	40,521,496	6,445,943	152,987,881

NOTE 13 - LEGAL MATTERS

The Utilities Commission is engaged in routine litigation incidental to the conduct of its utilities affairs. In the opinion of its legal counsel, no legal proceedings are pending or threatened against the Utilities Commission which are not covered by applicable insurance which would inhibit its ability to perform its operations or materially affect its financial condition.

NOTE 14 - COMMITMENTS

The Utilities Commission, acting through the Florida Municipal Power Agency (FMPA), is a participant in a portion of Florida Power and Light Company's (FPL) St. Lucie Unit No. 2, a nuclear generating unit. FMPA originally acquired an 8.806% undivided ownership interest of St. Lucie No. 2 together with rights to receive electric capacity and electric energy under a reliability exchange agreement. The Utilities Commission's participation provides for a 9.884% entitlement share of FMPA's ownership interest.

A reliability exchange agreement provides for FMPA's exchanging 50% of its share of the output from St. Lucie No. 2 for a like amount from FPL's exclusively owned St. Lucie No. 1 to mitigate the potential for economic loss resulting from the extended or permanent outage or early retirement of St. Lucie No. 2. The Utilities Commission, as a participant, has also entered into a power sales contract which requires payment on a "take-and pay" basis for its entitlement share of the project capability for the St. Lucie Project for each month during any portion of which electric capacity and electric energy are available to the Utilities Commission from the St. Lucie Project, including electric capacity and electric energy under the reliability exchange agreement with FPL. In the event payment is not required for any month under the this power sales contract, the Utilities Commission is required to make payment for such month under its project support

contract on a "take-or-pay" basis. The payment under the project support contract would be the amount the Utilities Commission would have been required to pay under its power sales contract for such month if any electric capacity and electric energy from the St. Lucie Project had been made available to them. As a result of these agreements, the Utilities Commission is obligated to provide payments of approximately $3.7 million annually.

The Utilities Commission has entered into an interlocal agreement with Reliant Energy of New Smyrna Beach, LLC for the purpose of assisting Reliant Energy in the development and construction of a 500 MW combined-cycle electric generating facility. As a part of the agreement, the Utilities Commission will provide certain infrastructure and infrastructure- and utility-related services to Reliant Energy for the facility and receive the right to purchase up to 30 MW of generating capacity from the facility or from other sources. Reliant has obtained the necessary environmental permits for the plant; however, in order to proceed with the project Reliant must secure capacity contracts for approximately 50% of the plant's output. With the recent downturn in the industry, the project is currently on hold with the Florida Department of Environmental Protection granting an extension of time for the environmental permits. Construction of the generating facility is expected to commence upon attaining the permits and securing the capacity contracts. No additional investment is anticipated on the Utilities Commission's part at this time.

The Utilities Commission is involved in a tri-party agreement by and between the Utilities Commission, the City of New Smyrna Beach, Florida (the "City"), and Volaris Communications. ("Volaris") to provide dial-up analog and DSL internet access services to customers of the Utilities Commission. Pursuant to the agreement, the Utilities Commission is obligated to pay to the City 6% of the internet service gross revenue and is required to pay to Volaris for technical support, training, and for use of provided equipment, including all hardware, lines, maintenance, licenses, etc. During the fiscal years ended September 30, 2002 and 2001, the Commission paid $412,596 and $374,537, respectively, to Volaris (and its predecessor companies) for the ability to provide these services. The balance due Volaris as of September 30, 2002 and 2001 amounted to $33,456 and $28,222, respectively. The 6% paid to the City is included in the required payment amount reported in Note 9 above.

The Utilities Commission also entered into a tri-party marketing agreement with Epicus, Inc. ("Epicus") and the City of New Smyrna Beach, Florida (the "City"), whereby the Utilities Commission markets certain intrastate and interstate telecommunications services for Epicus. As with the preceding agreement, the Utilities Commission must pay the City 6% of the gross commissions and revenues received from Epicus. During the fiscal year ended September 30, 2002, the Commission paid $397,853 to Epicus for the ability to provide these services.

As of September 30, 2002, the Utilities Commission had additional unrecognized construction contract commitments of approximately $10.8 million for utility plant expansion and upgrading.

The Utilities Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

SUPPLEMENTAL INFORMATION

THIS SECTION IS COMPOSED OF THE FOLLOWING:

SUPPLEMENTAL DETAIL FINANCIAL INFORMATION OF THE:

ELECTRIC SYSTEM,
WATER SYSTEM,
WASTEWATER SYSTEM, AND
WATER REUSE SYSTEM

STATISTICAL SECTION

THESE SCHEDULES PROVIDE A MORE DETAILED VIEW OF THE "BASIC FINANCIAL STATEMENTS" PRESENTED IN THE PRECEDING SUBSECTION.

RESOLUTION NUMBERS 16-75 AND 28-78, AS AMENDED, ESTABLISHED THE ELECTRIC, WATER, POLLUTION CONTROL, AND WATER REUSE SYSTEMS AS A SINGLE ENTERPRISE FUND. THESE SCHEDULES ARE PRESENTED TO PROVIDE DETAILED INFORMATION ON THE INDIVIDUAL UTILITY SYSTEMS AND TO PRESENT THE BUDGETARY COMPARISONS THAT ARE NOT NECESSARY FOR A FAIR PRESENTATION IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BY UTILITY SYSTEM
For the Fiscal Year Ended September 30, 2002
With Comparative Actual Amounts for the Fiscal Year Ended September 30, 2001
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	Electric	Water	Wastewater
Operating Revenue:			
Sales	$ 29,668,517	4,768,459	5,010,070
Other revenues	328,487	214,767	102,931
Total operating revenue	29,997,004	4,983,226	5,113,001
Operating Expenses:			
Purchased power and fuel expenses	13,652,608	0	0
Other production expenses	4,907,957	1,130,882	0
Transmission, distribution, and sewage collection and treatment	1,423,256	495,611	1,692,716
Customer accounting	445,467	197,827	177,834
Administrative and general	1,714,629	864,307	806,040
Required payments to City of New Smyrna Beach	1,891,212	301,359	310,799
Depreciation and decommissioning	2,741,739	832,380	1,179,511
Total operating expenses	26,776,868	3,822,366	4,166,900
Operating income	3,220,136	1,160,860	946,101
Nonoperating Revenue (Expenses):			
Interest earnings	300,247	109,336	47,503
Other income	357,912	113	75,330
Interest and debt expense	(1,850,263)	(842,247)	(982,281)
Other expenses	0	(42,017)	(9,487)
Gain (loss) on disposal of assets	(57,987)	(67)	(60)
Total nonoperating revenue (expenses)	(1,250,091)	(774,882)	(868,995)
Income (loss) before contributions	1,970,045	385,978	77,106
Capital contributions	81,864	603,767	274,964
Change in net assets	2,051,909	989,745	352,070
Net assets, beginning of year	20,644,063	17,787,225	18,444,815
Net assets, end of year	$ 22,695,972	18,776,970	18,796,885

Schedule 1

Water Reuse	Totals 2002	Totals 2001
518,994	39,966,040	42,177,716
0	646,185	537,671
518,994	40,612,225	42,715,387
0	13,652,608	16,385,996
0	6,038,839	5,844,715
171,058	3,782,641	3,348,147
0	821,128	745,380
892	3,385,868	3,519,275
6,359	2,509,729	2,625,008
145,786	4,899,416	4,581,217
324,095	35,090,229	37,049,738
194,899	5,521,996	5,665,649
4,067	461,153	905,244
0	433,355	440,007
(278,050)	(3,952,841)	(3,976,825)
(4,560)	(56,064)	(15,466)
0	(58,114)	(99,267)
(278,543)	(3,172,511)	(2,746,307)
(83,644)	2,349,485	2,919,342
0	960,595	1,185,634
(83,644)	3,310,080	4,104,976
(972,407)	55,903,696	51,798,720
(1,056,051)	59,213,776	55,903,696

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - BUDGET AND ACTUAL - ELECTRIC SYSTEM (NON-GAAP BUDGETARY BASIS) **Schedule 2**

For the Fiscal Year Ended September 30, 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue and Receipts:			
Direct Sales:			
Electric sales	$ 37,832,885	29,570,990	(8,261,895)
Other revenues	221,000	328,487	107,487
Nonoperating revenue (expenses):			
Interest earnings	425,000	300,247	(124,753)
Meter Deposit interest expense	0	(33,458)	(33,458)
Other revenues (expenses)	344,233	391,370	47,137
Capital contributions	0	81,864	81,864
	38,823,118	30,639,500	(8,183,618)
Operating Expenses:			
Purchased power and fuel expenses	20,830,888	13,652,608	7,178,280
Power production	5,012,910	4,907,957	104,953
Transmission and distribution	1,426,391	1,423,256	3,135
Customer accounting	418,612	445,467	(26,855)
Administrative and general	1,752,191	1,714,629	37,562
Required payments to the City of New Smyrna Beach	2,287,027	1,891,212	395,815
Decommissioning expense	115,493	161,470	(45,977)
	31,843,512	24,196,599	7,646,913
Net revenue and receipts	6,979,606	6,442,901	(536,705)
Operating Transfers In (Out):			
Sinking Fund - 1992 Certificates	(494,992)	(435,507)	59,485
Sinking Fund - 1993 Certificates	(885,636)	(815,320)	70,316
Sinking Fund - 1996 Certificates	(1,238,369)	(1,199,743)	38,626
Sinking Fund - 2002 Certificates	0	(54,415)	(54,415)
Debt Reduction Fund - required contribution	0	(58,768)	(58,768)
Sinking Fund - FMPA Pooled Loans	(1,711,674)	(1,127,792)	583,882
Renewal and Replacement Funds - required contribution	(1,914,850)	(1,914,852)	(2)
Restricted fund contribution to Rate Stabilization Fund	(734,085)	(505,021)	229,064
	(6,979,606)	(6,111,418)	868,188
Budgeted net cash receipts	$ 0	331,483	331,483
Reconciliation of Net Cash Receipts to Net Income (GAAP):			
Unbilled revenue		97,527	
Principal portion of required Sinking Fund transfers		2,007,862	
Net transfers to Renewal and Replacement Fund		1,914,852	
Net transfers to Rate Stabilization Fund		505,021	
Gain (loss) on disposal of property and equipment		(57,987)	
Depreciation		(2,580,269)	
Amortization of debt expense and loss on refunding		(166,580)	
Change in net assets		$ 2,051,909	

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - BUDGET AND ACTUAL - WATER SYSTEM (NON-GAAP BUDGETARY BASIS) **Schedule 3**

For the Fiscal Year Ended September 30, 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue and Receipts:			
Direct Sales:			
Water sales	$ 4,738,653	4,726,321	(12,332)
Other revenues	233,512	214,767	(18,745)
Nonoperating revenue:			
Interest earnings	248,800	109,336	(139,464)
Meter Deposit interest expense	0	(6,396)	(6,396)
Other revenues (expenses)	20,000	(35,508)	(55,508)
Capital contributions	472,543	603,767	131,224
	5,713,508	5,612,287	(101,221)
Operating Expenses:			
Water production	1,037,321	1,130,882	(93,561)
Transmission and distribution	467,357	495,611	(28,254)
Customer accounting	213,410	197,827	15,583
Administrative and general	926,478	864,307	62,171
Required payments to the City of New Smyrna Beach	295,330	301,359	(6,029)
	2,939,896	2,989,986	(50,090)
Net revenue and receipts	2,773,612	2,622,301	(151,311)
Operating Transfers In (Out):			
Sinking Fund - 1992 Certificates	(167,399)	(145,436)	21,963
Sinking Fund - 1993 Certificates	(572,697)	(527,227)	45,470
Sinking Fund - 1996 Certificates	(847,442)	(821,010)	26,432
Sinking Fund - 2002 Certificates	0	(30,310)	(30,310)
Debt Reduction Fund - required contribution	0	(32,733)	(32,733)
Sinking Fund - FMPA Pooled Loans	(104,595)	(66,906)	37,689
Renewal and Replacement Funds - required contribution	(364,864)	(364,860)	4
Renewal and Replacement Funds - restricted contribution	(472,543)	(587,522)	(114,979)
Restricted fund contribution to Rate Stabilization Fund	(35,570)	(13,627)	21,943
Reuse Subsidy Surcharge	(208,502)	(214,366)	(5,864)
	(2,773,612)	(2,803,997)	(30,385)
Budgeted net cash receipts	$ 0	(181,696)	(181,696)
Reconciliation of Net Cash Receipts to Net Income (GAAP):			
Unbilled revenue		42,138	
Principal portion of required Sinking Fund transfers		884,357	
Net transfers to Renewal and Replacement Fund		952,382	
Net transfers to Rate Stabilization Fund		13,627	
Net transfers of Reuse Subsidy Surcharge		214,366	
Gain (loss) on disposal of property and equipment		(67)	
Depreciation		(832,380)	
Amortization of debt expense and loss on refunding		(102,982)	
Change in net assets		$ 989,745	

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - BUDGET AND ACTUAL - WASTEWATER SYSTEM (NON-GAAP BUDGETARY BASIS) **Schedule 4**

For the Fiscal Year Ended September 30, 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue and Receipts:			
Direct Sales:			
Pollution control charges	$ 5,231,538	4,994,096	(237,442)
Other revenues	48,000	102,931	54,931
Nonoperating revenue:			
Interest earnings	222,200	47,503	(174,697)
Meter Deposit interest expense	0	(2,132)	(2,132)
Other revenues (expenses)	42,788	67,975	25,187
Capital contributions	345,227	274,964	(70,263)
	5,889,753	5,485,337	(404,416)
Operating Expenses:			
Collection and treatment system	1,522,215	1,692,716	(170,501)
Customer accounting	188,786	177,834	10,952
Administrative and general	846,171	806,040	40,131
Required payments to the City of New Smyrna Beach	315,560	310,799	4,761
	2,872,732	2,987,389	(114,657)
Net revenue and receipts	3,017,021	2,497,948	(519,073)
Operating Transfers In (Out):			
Sinking Fund - 1992 Certificates	(148,539)	(130,112)	18,427
Sinking Fund - 1993 Certificates	(53,514)	(49,265)	4,249
Sinking Fund - 1996 Certificates	(527,332)	(510,885)	16,447
Sinking Fund - 2002 Certificates	0	(12,261)	(12,261)
Debt Reduction Fund - required contribution	0	(13,243)	(13,243)
Sinking Fund - FMPA Pooled Loans	(133,121)	(85,153)	47,968
Sinking Fund - State Revolving Fund Loan	(1,278,873)	(1,278,873)	0
Renewal and Replacement Fund - required contribution	(291,037)	(340,609)	(49,572)
Renewal and Replacement Fund - restricted contribution	(345,227)	(291,036)	54,191
Restricted fund contribution to water reuse system	(43,942)	(43,942)	0
Restricted fund contribution to Rate Stabilization Fund	(1,255)	202,528	203,783
Reuse Subsidy Surcharge	(194,181)	(198,647)	(4,466)
	(3,017,021)	(2,751,498)	265,523
Budgeted net cash receipts	$ 0	(253,550)	(253,550)
Reconciliation of Net Cash Receipts to Net Income (GAAP):			
Unbilled revenue		15,974	
Principal portion of required Sinking Fund transfers		1,170,929	
Net transfers to Renewal and Replacement Fund		631,645	
Net transfers to Water Reuse System		242,589	
Net transfers from Rate Stabilization Fund		(202,528)	
Gain (loss) on disposal of property and equipment		(60)	
Depreciation		(1,179,511)	
Amortization of debt expense		(73,418)	
Change in net assets		$ 352,070	

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - BUDGET AND ACTUAL - WATER REUSE SYSTEM (NON-GAAP BUDGETARY BASIS) **Schedule 5**

For the Fiscal Year Ended September 30, 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue and Receipts:			
Direct Sales:			
Reuse water sales	$ 147,021	105,983	(41,038)
Reuse subsidy surcharge	402,684	413,011	10,327
Nonoperating revenue:			
Interest earnings	0	4,067	4,067
Other Revenues (expenses)	9,000	(4,560)	(13,560)
	558,705	518,501	(40,204)
Operating Expenses:			
Transmission and distribution system	176,161	171,058	5,103
Administrative and general	1,540	892	648
Required payments to the City of New Smyrna Beach	8,821	6,359	2,462
	186,522	178,309	8,213
Net revenue and receipts	372,183	340,192	(31,991)
Operating Transfers In (Out):			
Sinking Fund - 1992 Certificates	(248,555)	(219,257)	29,298
Sinking Fund - 1993 Certificates	(150,070)	(138,156)	11,914
Sinking Fund - 2002 Certificates	0	(12,789)	(12,789)
Debt Reduction Fund - required contribution	0	(13,812)	(13,812)
Renewal and Replacement Fund - required Contribution	(17,500)	(17,500)	0
Restricted fund contribution from Rate Stabilization Fund	0	28,051	28,051
Proceeds of transfer from Pollution Control System	43,942	43,942	0
	(372,183)	(329,521)	42,662
Budgeted net cash receipts	$ 0	10,671	10,671
Reconciliation of Net Cash Receipts to Net Income (GAAP):			
Principal portion of required Sinking Fund transfers		128,469	
Net transfers to Renewal and Replacement Fund		17,500	
Restricted fund contribution from Rate Stabilization Fund		(28,051)	
Proceeds of transfer from Pollution Control System		(43,942)	
Depreciation		(145,786)	
Amortization of debt expense		(22,505)	
Change in net assets		$ (83,644)	

SCHEDULE OF OPERATING EXPENSES-
ELECTRIC SYSTEM

Schedule 6

For the Fiscal Years Ended September 30, 2002 and 2001
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

		2002	2001
Operating Expenses:			
Purchased power and fuel:			
Nuclear fuel	$	569,520	627,918
Diesel fuel		67,407	190,909
Purchased power		13,015,681	15,567,169
		13,652,608	16,385,996
Power production:			
Nuclear power generation		4,129,520	4,107,177
Diesel power generation		293,811	292,008
System control and load dispatching		484,426	411,178
		4,907,757	4,810,363
Transmission and Distribution		1,423,256	1,287,820
Customer Accounting		445,467	407,539
Administrative and General		1,714,629	1,901,354
Required payments to the City of New Smyrna Beach		1,891,212	2,047,697
Depreciation and decommissioning		2,741,739	2,479,970
Total operating expenses	$	26,776,668	29,320,739

SCHEDULE OF OPERATING EXPENSES-
WATER SYSTEM

Schedule 7

For the Fiscal Years Ended September 30, 2002 and 2001
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

		2002	2001
Operating Expenses:			
Water production:			
Source of supply	$	346,352	341,492
Water treatment		784,530	692,860
		1,130,882	1,034,352
Transmission and Distribution		495,611	454,633
Customer Accounting		197,827	177,757
Administrative and General		864,307	809,936
Required payments to the City of New Smyrna Beach		301,359	298,783
Depreciation		832,380	792,520
Total operating expenses	$	3,822,366	3,567,981

SCHEDULE OF OPERATING EXPENSES-
WASTEWATER SYSTEM

Schedule 8

For the Fiscal Years Ended September 30, 2002 and 2001
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

		2002	2001
Operating Expenses:			
Collection and treatment system:			
Collection expenses	$	252,762	216,669
Pumping expenses		314,169	293,765
Treatment and disposal		1,125,785	948,083
		1,692,716	1,458,517
Customer Accounting		177,834	160,084
Administrative and General		806,040	807,331
Required payments to the City of New Smyrna Beach		310,799	274,441
Depreciation		1,179,511	1,163,770
Total operating expenses	$	4,166,900	3,864,143

SCHEDULE OF OPERATING EXPENSES-
WATER REUSE SYSTEM

Schedule 9

For the Fiscal Years Ended September 30, 2002 and 2001
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2002	2001
Operating Expenses:		
Transmission and Distribution	171,058	147,177
Administrative and General	892	654
Required payments to the City of New Smyrna Beach	6,359	4,087
Depreciation	145,786	144,957
Total operating expenses	$ 324,095	296,875

SCHEDULE OF INTEREST EARNINGS **Schedule 10**

For the Fiscal Years Ended September 30, 2002 and 2001

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

		2002	2001
Interest Earnings By Source:			
From Investments:			
Sinking funds	$	49,130	114,056
Renewal and replacement funds		273,622	527,492
Customers' deposits		25,616	61,237
CR3 nuclear decommissioning funds		45,977	105,273
Other		66,808	97,186
Total interest earnings		461,153	905,244
Interest Earnings By System:			
Electric system		300,247	533,768
Water system		109,336	251,685
Wastewater system		47,503	113,816
Water reuse system		4,067	5,975
Total interest earnings	$	461,153	905,244

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURIT

Revenue Certificates Payable

For the Fiscal Year Ended September 30, 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

NEW SMYRNA BEACH, FLORIDA

Schedule 11

	Utilities System Revenue Certificates Series 1992				Utilities System Refunding Revenue Certificates Series 1993				Utilities System Refunding Revenue Certificates Series 1996				Utilities System Refunding Revenue Certificates Series 2002				Total Debt Service Requirements to Maturity -- All Certificates --		
Payment Date	Principal Amount	Coupon Rate	Interest	Total Requirements	Principal Amount	Coupon Rate	Interest	Total Requirements	Principal Amount	Coupon Rate	Interest	Total Requirements	Principal Amount	Coupon Rate	Interest	Total Requirements	Principal Amount	Interest	Total Requirements
10/01/2002	270,000	5.350%	7,222	277,222	710,000	4.750%	80,112	790,112	880,000	4.500%	190,048	1,070,048	-	2.750%	380,546	380,546	1,860,000	657,928	2,517,928
04/01/2003	-		-	-	-		63,250	63,250	870,000	4.600%	170,247	1,040,247	-	2.750%	761,093	761,093	870,000	994,590	1,864,590
10/01/2003	-		-	-	-	4.800%	63,250	63,250	900,000	4.600%	150,238	1,050,238	1,340,000	2.750%	761,093	2,101,093	2,240,000	974,581	3,214,581
04/01/2004	-		-	-	-		63,250	63,250	925,000	4.700%	129,537	1,054,537	-	2.750%	742,668	742,668	925,000	935,455	1,860,455
10/01/2004	-		-	-	-	5.000%	63,250	63,250	970,000	4.700%	107,800	1,077,800	1,335,000	3.000%	743,668	2,078,668	2,305,000	914,718	3,219,718
04/01/2005	-		-	-	-		63,250	63,250	245,000	4.800%	85,005	330,005	-	3.000%	724,311	724,311	245,000	872,566	1,117,566
10/01/2005	-		-	-	-	5.000%	63,250	63,250	255,000	4.800%	79,125	334,125	2,840,000	3.000%	724,311	3,564,311	3,095,000	866,686	3,961,686
04/01/2006	-		-	-	-		63,250	63,250	260,000	4.900%	73,005	333,005	-	3.000%	681,711	681,711	260,000	817,966	1,077,966
10/01/2006	-		-	-	-	5.100%	63,250	63,250	270,000	4.900%	66,635	336,635	2,920,000	3.000%	681,712	3,601,712	3,190,000	811,597	4,001,597
04/01/2007	-		-	-	-		63,250	63,250	275,000	5.000%	60,020	335,020	-	3.000%	637,911	637,911	275,000	761,181	1,036,181
10/01/2007	-		-	-	-	5.200%	63,250	63,250	280,000	5.000%	53,145	333,145	3,010,000	3.000%	637,911	3,647,911	3,290,000	754,306	4,044,306
04/01/2008	-		-	-	-		63,250	63,250	290,000	5.100%	46,145	336,145	-	3.200%	592,761	592,761	290,000	702,156	992,156
10/01/2008	-		-	-	-	5.250%	63,250	63,250	295,000	5.100%	38,750	333,750	3,095,000	3.200%	592,762	3,687,762	3,390,000	694,762	4,084,762
04/01/2009	-		-	-	-		63,250	63,250	305,000	5.200%	31,228	336,228	-	3.400%	543,241	543,241	305,000	637,719	942,719
10/01/2009	-		-	-	-	5.250%	63,250	63,250	310,000	5.200%	23,297	333,297	3,195,000	3.400%	543,241	3,738,241	3,505,000	629,788	4,134,788
04/01/2010	-		-	-	-		63,250	63,250	320,000	5.300%	15,238	335,238	-	3.600%	488,926	488,926	320,000	567,414	887,414
10/01/2010	-		-	-	-	5.250%	63,250	63,250	125,000	5.300%	6,757	131,757	3,510,000	3.600%	488,927	3,998,927	3,635,000	558,934	4,193,934
04/01/2011	-		-	-	-		63,250	63,250	130,000	5.300%	3,445	133,445	-	5.000%	425,746	425,746	130,000	492,441	622,441
10/01/2011	-		-	-	-	5.250%	63,250	63,250	-		-	-	3,970,000	5.000%	425,746	4,395,746	3,970,000	488,996	4,458,996
04/01/2012	-		-	-	-		63,250	63,250	-		-	-	-	5.000%	326,496	326,496	-	389,746	389,746
10/01/2012	-		-	-	-	5.000%	63,250	63,250	-		-	-	4,300,000	5.000%	325,496	4,625,496	4,300,000	388,746	4,688,746
04/01/2013	-		-	-	-		63,250	63,250	-		-	-	-	5.000%	218,996	218,996	-	282,246	282,246
10/01/2013	-		-	-	-	5.000%	63,250	63,250	-		-	-	4,515,000	5.000%	218,996	4,733,996	4,515,000	282,246	4,797,246
04/01/2014	-		-	-	-		63,250	63,250	-		-	-	-	4.100%	106,121	106,121	-	169,371	169,371
10/01/2014	-		-	-	-	5.000%	63,250	63,250	-		-	-	1,305,000	4.100%	106,121	1,411,121	1,305,000	169,371	1,474,371
04/01/2015	-		-	-	-		63,250	63,250	-		-	-	-	4.250%	79,369	79,369	-	142,619	142,619
10/01/2015	-		-	-	-	5.000%	63,250	63,250	-		-	-	1,355,000	4.250%	79,369	1,434,369	1,355,000	142,619	1,497,619
04/01/2016	-		-	-	-		63,250	63,250	-		-	-	-	4.250%	50,575	50,575	-	113,825	113,825
10/01/2016	-		-	-	-	5.000%	63,250	63,250	-		-	-	1,155,000	4.250%	50,575	1,205,575	1,155,000	113,825	1,268,825
04/01/2017	-		-	-	-		63,250	63,250	-		-	-	-	4.375%	26,031	26,031	-	89,281	89,281
10/01/2017	-		-	-	-	5.000%	63,250	63,250	-		-	-	1,190,000	4.375%	26,031	1,216,031	1,190,000	89,281	1,279,281
04/01/2018	-		-	-	-		63,250	63,250	-		-	-	-			-	-	63,250	63,250
10/01/2018	-		-	-	1,245,000	5.000%	63,250	1,308,250	-		-	-	-			-	1,245,000	63,250	1,308,250
04/01/2019	-		-	-	-		32,125	32,125	-		-	-	-			-	-	32,125	32,125
10/01/2019	-		-	-	1,285,000	5.000%	32,125	1,317,125	-		-	-	-			-	1,285,000	32,125	1,317,125
	$270,000		$7,222	$277,222	$3,240,000		$2,168,362	$5,408,362	$7,905,000		$1,329,665	$9,234,665	$39,035,000		$13,192,461	$52,227,461	$50,450,000	$16,697,710	$67,147,710

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

Schedule 12

Florida Department of Environmental Protection State Revolving Fund Loan

For the Fiscal Year Ended September 30, 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

NEW SMYRNA BEACH, FLORIDA

	Wastewater Treatment Plan Project CS 120 4260060 State Revolving Fund Loan Original Loan				Wastewater Treatment Plan Project CS 120 4260060 State Revolving Fund Loan Amendment 1				Wastewater Treatment Plan Project CS 120 4260060 State Revolving Fund Loan Amendment 2				Total Debt Service Requirements to Maturity -- Combined --		
Payment Date	Principal Amount	Interest Rate	Interest	Total Requirements	Principal Amount	Interest Rate	Interest	Total Requirements	Principal Amount	Interest Rate	Interest	Total Requirements	Principal Amount	Interest	Total Requirements
02/15/2003	182,282	3.220%	131,467	313,749	38,169	3.180%	27,091	65,260	154,068	3.110%	106,282	260,350	374,519	264,840	639,359
08/15/2003	185,216	3.220%	128,533	313,749	38,776	3.180%	26,484	65,260	156,464	3.110%	103,886	260,350	380,456	258,903	639,359
02/15/2004	188,198	3.220%	125,551	313,749	39,393	3.180%	25,867	65,260	158,897	3.110%	101,453	260,350	386,488	252,871	639,359
08/15/2004	191,228	3.220%	122,521	313,749	40,019	3.180%	25,241	65,260	161,368	3.110%	98,982	260,350	392,615	246,744	639,359
02/15/2005	194,307	3.220%	119,442	313,749	40,656	3.180%	24,604	65,260	163,877	3.110%	96,473	260,350	398,840	240,519	639,359
08/15/2005	197,436	3.220%	116,314	313,750	41,302	3.180%	23,958	65,260	166,425	3.110%	93,925	260,350	405,163	234,197	639,360
02/15/2006	200,614	3.220%	113,135	313,749	41,959	3.180%	23,301	65,260	169,013	3.110%	91,337	260,350	411,586	227,773	639,359
08/15/2006	203,844	3.220%	109,905	313,749	42,626	3.180%	22,634	65,260	171,641	3.110%	88,709	260,350	418,111	221,248	639,359
02/15/2007	207,126	3.220%	106,623	313,749	43,304	3.180%	21,956	65,260	174,310	3.110%	86,040	260,350	424,740	214,619	639,359
08/15/2007	210,461	3.220%	103,288	313,749	43,992	3.180%	21,268	65,260	177,021	3.110%	83,329	260,350	431,474	207,885	639,359
02/15/2008	213,849	3.220%	99,900	313,749	44,692	3.180%	20,568	65,260	179,774	3.110%	80,576	260,350	438,315	201,044	639,359
08/15/2008	217,292	3.220%	96,457	313,749	45,402	3.180%	19,858	65,260	182,569	3.110%	77,781	260,350	445,263	194,096	639,359
02/15/2009	220,791	3.220%	92,959	313,750	46,124	3.180%	19,136	65,260	185,408	3.110%	74,942	260,350	452,323	187,037	639,360
08/15/2009	224,345	3.220%	89,404	313,749	46,857	3.180%	18,403	65,260	188,291	3.110%	72,059	260,350	459,493	179,866	639,359
02/15/2010	227,957	3.220%	85,792	313,749	47,602	3.180%	17,658	65,260	191,219	3.110%	69,131	260,350	466,778	172,581	639,359
08/15/2010	231,627	3.220%	82,122	313,749	48,359	3.180%	16,901	65,260	194,192	3.110%	66,158	260,350	474,178	165,181	639,359
02/15/2011	235,357	3.220%	78,392	313,749	49,128	3.180%	16,132	65,260	197,212	3.110%	63,138	260,350	481,697	157,662	639,359
08/15/2011	239,146	3.220%	74,603	313,749	49,909	3.180%	15,351	65,260	200,279	3.110%	60,071	260,350	489,334	150,025	639,359
02/15/2012	242,996	3.220%	70,753	313,749	50,703	3.180%	14,557	65,260	203,393	3.110%	56,957	260,350	497,092	142,267	639,359
08/15/2012	246,908	3.220%	66,841	313,749	51,509	3.180%	13,751	65,260	206,556	3.110%	53,794	260,350	504,973	134,386	639,359
02/15/2013	250,884	3.220%	62,866	313,750	52,328	3.180%	12,932	65,260	209,768	3.110%	50,582	260,350	512,980	126,380	639,360
08/15/2013	254,923	3.220%	58,826	313,749	53,160	3.180%	12,100	65,260	213,030	3.110%	47,320	260,350	521,113	118,246	639,359
02/15/2014	259,027	3.220%	54,722	313,749	54,005	3.180%	11,255	65,260	216,342	3.110%	44,008	260,350	529,374	109,985	639,359
08/15/2014	263,197	3.220%	50,552	313,749	54,864	3.180%	10,396	65,260	219,706	3.110%	40,644	260,350	537,767	101,592	639,359
02/15/2015	267,435	3.220%	46,314	313,749	55,736	3.180%	9,524	65,260	223,123	3.110%	37,227	260,350	546,294	93,065	639,359
08/15/2015	271,741	3.220%	42,009	313,750	56,623	3.180%	8,637	65,260	226,592	3.110%	33,758	260,350	554,956	84,404	639,360
02/15/2016	276,116	3.220%	37,634	313,750	57,523	3.180%	7,737	65,260	230,116	3.110%	30,234	260,350	563,755	75,605	639,360
08/15/2016	280,561	3.220%	33,188	313,749	58,438	3.180%	6,822	65,260	233,694	3.110%	26,656	260,350	572,693	66,666	639,359
02/15/2017	285,078	3.220%	28,671	313,749	59,367	3.180%	5,893	65,260	237,328	3.110%	23,022	260,350	581,773	57,586	639,359
08/15/2017	289,668	3.220%	24,081	313,749	60,311	3.180%	4,949	65,260	241,019	3.110%	19,331	260,350	590,998	48,361	639,359
02/15/2018	294,331	3.220%	19,418	313,749	61,270	3.180%	3,990	65,260	244,767	3.110%	15,583	260,350	600,368	38,991	639,359
08/15/2018	299,070	3.220%	14,679	313,749	62,244	3.180%	3,016	65,260	248,573	3.110%	11,777	260,350	609,887	29,472	639,359
02/15/2019	303,885	3.220%	9,864	313,749	63,233	3.180%	2,027	65,260	252,438	3.110%	7,912	260,350	619,556	19,803	639,359
08/15/2019	308,778	3.220%	4,971	313,749	64,239	3.180%	1,021	65,260	256,363	3.110%	3,987	260,350	629,380	9,979	639,359
	$8,165,674		$2,501,797	$10,667,471	$1,703,822		$515,018	$2,218,840	$6,834,836		$2,017,064	$8,851,900	$16,704,332	$5,033,879	$21,738,211

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY **Schedule 13**

Note Payable - Florida Muncipal Power Agency

For the Fiscal Year Ended September 30, 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

NEW SMYRNA BEACH, FLORIDA

	Initial Pooled Loan Project Acquisition of Electric Generation Plant Original Loan - $12,200,000, Principal due 04/01				Initial Pooled Loan Project Acquisition of Sugar Mill Water/Sewer Plant Original Loan - $3,000,000, Principal due 10/01				Initial Pooled Loan Project Acquisition of Land for Plant Expansion Original Loan - $9,050,000, Principal due 12/01				Total Debt Service Requirements to Maturity -- Combined --		
Payment Period	Principal Amount	Interest Rate	Interest	Total Requirements	Principal Amount	Interest Rate	Interest	Total Requirements	Principal Amount	Interest Rate	Interest	Total Requirements	Principal Amount	Interest	Total Requirements
09/30/2003	405,000	1.70%	183,898	588,898	-	1.70%	-	-	275,000	1.70%	140,647	415,647	680,000	324,545	1,004,545
09/30/2004	425,000	1.70%	176,545	601,545	94,000	1.70%	46,461	140,461	290,000	1.70%	135,504	425,504	809,000	358,510	1,167,510
09/30/2005	440,000	1.70%	168,853	608,853	99,000	1.70%	44,778	143,778	305,000	1.70%	130,036	435,036	844,000	343,667	1,187,667
09/30/2006	465,000	1.70%	160,778	625,778	105,000	1.70%	42,993	147,993	325,000	1.70%	124,298	449,298	895,000	328,069	1,223,069
09/30/2007	485,000	1.70%	152,320	637,320	111,000	1.70%	41,106	152,106	340,000	1.70%	118,235	458,235	936,000	311,661	1,247,661
09/30/2008	510,000	1.70%	143,438	653,438	117,000	1.70%	39,117	156,117	360,000	1.70%	111,903	471,903	987,000	294,458	1,281,458
09/30/2009	535,000	1.70%	134,088	669,088	124,000	1.70%	37,009	161,009	375,000	1.70%	105,173	480,173	1,034,000	276,270	1,310,270
09/30/2010	565,000	1.70%	124,270	689,270	131,000	1.70%	34,782	165,782	400,000	1.70%	98,090	498,090	1,096,000	257,142	1,353,142
09/30/2011	590,000	1.70%	113,985	703,985	138,000	1.70%	32,436	170,436	420,000	1.70%	90,667	510,667	1,148,000	237,088	1,385,088
09/30/2012	620,000	1.70%	103,148	723,148	146,000	1.70%	29,954	175,954	440,000	1.70%	82,833	522,833	1,206,000	215,935	1,421,935
09/30/2013	655,000	1.70%	91,715	746,715	155,000	1.70%	27,319	182,319	465,000	1.70%	74,573	539,573	1,275,000	193,607	1,468,607
09/30/2014	690,000	1.70%	79,645	769,645	164,000	1.70%	24,531	188,531	490,000	1.70%	65,889	555,889	1,344,000	170,065	1,514,065
09/30/2015	730,000	1.70%	79,645	809,645	173,000	1.70%	24,531	197,531	515,000	1.70%	65,889	580,889	1,418,000	170,065	1,588,065
09/30/2016	770,000	1.70%	66,895	836,895	183,000	1.70%	21,590	204,590	545,000	1.70%	56,709	601,709	1,498,000	145,194	1,643,194
09/30/2017	815,000	1.70%	53,423	868,423	194,000	1.70%	18,479	212,479	575,000	1.70%	47,019	622,019	1,584,000	118,921	1,702,921
09/30/2018	860,000	1.70%	39,185	899,185	205,000	1.70%	15,181	220,181	600,000	1.70%	36,890	636,890	1,665,000	91,256	1,756,256
09/30/2019	910,000	1.70%	24,140	934,140	216,000	1.70%	11,696	227,696	635,000	1.70%	26,194	661,194	1,761,000	62,030	1,823,030
09/30/2020	965,000	1.70%	8,203	973,203	229,000	1.70%	8,024	237,024	670,000	1.70%	14,903	684,903	1,864,000	31,130	1,895,130
09/30/2021	-		-	-	243,000	1.70%	4,131	247,131	765,000	1.70%	13,005	778,005	1,008,000	17,136	1,025,136
	$11,435,000		$1,904,174	$13,339,174	$2,827,000		$504,118	$3,331,118	$8,790,000		$1,538,457	$10,328,457	$23,052,000	$3,946,749	$26,998,749

Statistical Section

Statistical tables differ from financial statements because they usually cover more than one fiscal year and may present non-accounting data. These tables reflect social and economic data and financial trends of the Utilities Commission, City of New Smyrna Beach, Florida.

SCHEDULE OF EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Fiscal Year		Total Expenses	Production Expenses	Transmission, Distribution and Collection	Customer Accounting	Administrative and General	Operating Required Payments to City of New Smyrna Beach
1993	$	32,101,787	16,033,390	2,930,222	811,560	4,088,053	1,878,058
1994	$	32,069,031	15,514,926	2,937,195	811,963	4,015,134	1,922,423
1995	$	33,667,749	15,736,225	3,433,468	808,391	4,300,729	1,945,294
1996	$	33,106,991	16,004,020	3,053,810	819,986	3,778,385	2,076,104
1997	$	32,319,028	16,469,270	2,624,394	726,214	3,312,462	1,949,594
1998	$	32,709,554	16,652,829	2,657,672	660,678	3,406,001	2,018,552
1999	$	31,791,948	16,005,319	2,731,438	721,860	3,169,521	2,016,471
2000	$	43,684,948	22,970,923	3,140,325	818,320	3,227,988	2,214,486
2001	$	41,181,296	22,270,711	3,348,147	745,380	3,519,275	2,625,008
2002	$	39,157,248	19,691,447	3,782,641	821,128	3,385,868	2,509,729

Table I

Expenses		Nonoperating Expenses			
Depreciation and Decommissioning	Total Operating Expense	Interest and Debt Expense	Other Nonoperating Expense	Loss on disposal of assets	Total Nonoperating Expenses
2,988,477	28,729,760	3,250,343	66,861	54,823	3,372,027
3,210,370	28,412,011	3,458,792	117,691	80,537	3,657,020
3,540,923	29,765,030	3,791,166	78,565	32,988	3,902,719
3,583,478	29,315,783	3,731,690	20,647	38,871	3,791,208
3,632,710	28,714,644	3,462,756	39,840	101,788	3,604,384
3,692,111	29,087,843	3,422,072	40,092	159,547	3,621,711
3,694,652	28,339,261	3,353,913	11,328	87,446	3,452,687
3,875,830	36,247,872	3,877,542	61,620	3,497,914	7,437,076
4,581,217	37,089,738	3,976,825	15,466	99,267	4,091,558
4,899,416	35,090,229	3,952,841	56,064	58,114	4,067,019

SCHEDULE OF REVENUES BY SOURCE
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

		Operating Revenues				
Fiscal Year	Total Revenues	Electric System	Water System	Wastewater System	Water Reuse System	Total Operating Revenue
1993	$ 34,057,785	24,880,055	3,938,507	2,826,245	6,405	31,651,212
1994	$ 33,264,310	24,352,192	3,923,279	3,165,162	7,650	31,448,283
1995	$ 41,208,889	25,612,207	3,972,005	3,168,544	382,696	33,135,452
1996	$ 36,439,421	25,872,665	4,145,975	3,332,543	411,907	33,763,090
1997	$ 35,820,675	24,901,225	4,187,748	3,326,421	432,078	32,847,472
1998	$ 36,105,091	24,699,025	4,365,734	3,402,639	446,383	32,913,781
1999	$ 36,717,793	24,066,446	4,552,710	3,473,396	459,629	32,552,181
2000	$ 43,664,295	31,967,742	4,576,099	4,381,628	494,438	41,419,907
2001	$ 45,246,272	33,114,680	4,736,997	4,377,572	486,138	42,715,387
2002	$ 42,467,328	29,997,004	4,983,226	5,113,001	518,994	40,612,225

Table II

Nonoperating Revenues			
Interest Earnings	Other Income	Capital Contributions	Total Nonoperating Revenue
370,830	270,065	1,765,678	2,406,573
495,971	277,769	1,042,287	1,816,027
762,206	355,693	6,955,538	8,073,437
824,645	252,121	1,599,565	2,676,331
898,260	199,327	1,875,616	2,973,203
1,082,325	353,946	1,755,039	3,191,310
1,006,728	286,029	2,872,855	4,165,612
1,114,573	356,616	773,199	2,244,388
905,244	440,007	1,185,634	2,530,885
461,153	433,355	960,595	1,855,103

DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Table III

Fiscal Year	New Smyrna Beach's Estimated Population (1)		County Per Capita Income (2)	County Unemployment Rate (3)	School Enrollment (4)	School Percent Attendance (4)
1993	17,231		$17,227	6.6%	5,009	96.0%
1994	17,989		$18,482	6.4%	5,053	96.0%
1995	17,853		$19,425	4.9%	5,348	96.0%
1996	18,239		$20,431	4.5%	4,978	96.0%
1997	18,327		$21,328	3.9%	5,008	95.9%
1998	18,503		$21,933	3.3%	6,767	95.4%
1999	18,603		$22,675	2.9%	6,810	95.2%
2000	18,977	(5)	N/A	4.0%	6,478	95.0%
2001	20,048	(5)	N/A	3.3%	5,059	95.0%
2002	20,169	(5)	N/A	4.3%	4,900	95.0%

(1) Obtained from University of Florida, Bureau of Economics and Business Research.

(2) Obtained from Volusia County Business Development Corporation.

(3) Obtained from State of Florida, Department of Labor and Employment Security.

(4) Obtained from Volusia County School Board - includes grades K-12.

(5) Obtained from City of New Smyrna Beach Development Services Division

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS (4) **Table IV**
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Fiscal Year	Number of Permits (1)	Dollar Value of Construction ($000's)	FDIC Insured Institutional Deposits (2) ($000's)		Property Assessed Value (3) ($000's)
1993	2,421	$28,848	$862,672		$1,117,205
1994	2,266	$18,103	$532,340	(5)	$1,149,931
1995	2,177	$33,581	$539,119	(6)	$1,199,523
1996	2,561	$23,785	$548,762	(6)	$1,231,515
1997	2,301	$28,975	$543,313	(6)	$1,275,232
1998	3,779	$39,327	$562,509	(6)	$1,336,740
1999	5,777	$41,166	$576,008	(6)	$1,380,855
2000	2,257	$41,296	$590,205	(6)	$1,541,902
2001	3,742	$72,439	$653,201	(6)	$1,685,072
2002	2,810	$59,610	$590,955	(6)	$1,852,528

(1) Obtained from City of New Smyrna Beach Building Department.

(2) Obtained from inquiry of officials of banks and savings and loan associations.

(3) Obtained from Volusia County Finance Department.

(4) The above data is related exclusively to area within the municipal limits of the City of New Smyrna Beach.

(5) Deposit information after 1993 does not include deposits from bank and savings and loan branches which are located outside the municipal boundaries of the City of New Smyrna Beach. Prior to 1994, branch deposits were based on regional banking/savings and loan center totals which included branches located outside of the City. Prior year data cannot be easily segregated due to the large number of banking changes/mergers that have occured during the last ten years.

(6) Deposit information obtained from Florida Bankers Association and FDIC June Market Share Report

SCHEDULE OF INSURANCE IN FORCE **Table V**
September 30, 2002
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Coverage and Insuring Company	Policy Number	Policy Period	Details of Coverage	Liability Limits
Comprehensive General Liabiity:				
Coregis	651-8113-2	01/01/2002 01/01/2003	Combined bodily injury and property damage	$5,000,000 with $ -0- deductible (statutory limits)
Business Auto:				
Coregis	651-8113-2	01/01/2002 01/01/2003	Liability	$1,000,000 bodily injury and property combined
			Comprehensive	Actual cash value less $250 deductible
			Collision	Actual cash value less $500 deductible
			No fault	Statutory
Business Property:				
Coregis	651-8113-2	01/01/2002 12/31/2003	Buildings and contents	$18,850122 with $10,000 deductible (agreed value)
			Valuable papers/records	$100,000 with $250 deductible
			Contractors equipment	$952,793 with $1,000 deductible
			Computer equipment	$155,000 with $1,000 deductible
Crime:				
Coregis	651-8113-2	01/01/2002 12/31/2003	Forgery or Alteration	$100,000 aggregate, $1,000 deductible
			Theft, Destruction (inside)	$70,000 with $1,000 deductible
			Theft, Destruction (outside)	$70,000 with $1,000 deductible
			Employee Dishonesty	$100,000 with $1,000 deductible
Boiler and Machinery:				
Travelers Property Casualty	M5J-BMG-595x7321-TIL-00	01/01/2002 01/01/2003	Breakdown due to accident	$50,000,000 with $10,000 deductible
Flood Insurance:				
Omaha Property Casualty	3009721220	10/01/2002 10/01/2003	Building	$500,000
			Contents	$500,000
			Deductible	$5,000
Nuclear Energy Damage:				
American Nuclear Insurance and Nuclear Electric Insurance, Ltd.	P00-081	10/09/2002 10/09/2003	Primary property	$500 million
	X00-015	10/01/2002 10/01/2003	Excess property (Excess of $500 million)	$1.100 billion
Insurance Ltd. (These amounts represent the total insurance coverage for Florida Power Corporation's Crystal River nuclear plant, of which the Commission owns a 0.05608% undivided ownership interest)	NF195	01/01/2002 01/01/2003	Primary liability	$200 million
	NS347	01/01/2002 01/01/2003	Suppliers and transporters liability	$200 million
	N35	01/01/2002 01/01/2003	Secondary financial protection	$9.514 billion with $200 million deductible
	NW579	01/01/2002 01/01/2003	Master Workers Torts	$200 million aggregate
Public Official/Employee Liabiity:				
Coregis Insurance Organizations	P0D-002405-1	07/28/1999 01/01/2002	Liability	$1,000,000 Retentions-$10,000 per loss
Workers' Compensation:				
Preferred Governmental Insurance Trust	0010000000241	10/01/2002 10/01/2003	Statutory coverage Employer's liability	Statutory $100,000
Pollution Liability:				
Florida Petroleum Liability Insurance Program Great American Insurance	02T000006818	07/10/2002 07/10/2003	Liability - fuel spillage	$1,000,000 / $2,000,000 aggregate $10,000 deductible
Coregis	651-008113-2	01/01/2002 12/31/2003	Liability	$1,000,000 aggregate $25,000 deductible

TEN LARGEST ELECTRIC CUSTOMERS **Table VI**
September 30, 2002
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

		Kilowatt Hour Sales		Revenues Billed	
		(kWh) (000's)	Percent of Total	Amount	Percent of Total
1.	Bert Fish Medical Center	7,419	2.16%	$608,704	1.93%
2.	Utilities Commission (wastewater plant)	4,311	1.26%	359,297	1.14%
3.	Winn Dixie (#2304)	3,008	0.88%	246,687	0.78%
4.	Reddy Ice	2,938	0.86%	244,485	0.78%
5.	Publix Food Store (#2033500)	2,816	0.82%	232,000	0.74%
6.	Wal-Mart Stores	2,386	0.70%	194,709	0.62%
7.	Board of Public Instruction (NSB Middle School)	2,375	0.69%	215,144	0.68%
8.	Publix Food Store (#2019100)	2,359	0.69%	199,036	0.63%
9.	KMart #7447	2,111	0.62%	176,698	0.56%
10.	Food Lion Corp (#829)	2,092	0.61%	172,947	0.55%
	Totals	31,815	9.29%	$2,649,707	8.41%

TEN LARGEST WATER CUSTOMERS **Table VII**
September 30, 2002
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

		Consumption		Revenues Billed	
		Gallons (000's)	Percent of Total	Amount	Percent of Total
1.	Board of Public Instruction	20,090	1.43%	$52,051	1.06%
2.	Bert Fish Medical Center	17,015	1.21%	31,004	0.63%
3.	Reddy Ice	16,244	1.16%	43,344	0.88%
4.	Errol by the Sea Condominium Association	10,902	0.78%	21,188	0.43%
5.	Sea Woods Homeowners Association	10,672	0.76%	29,164	0.59%
6.	Islander Beach Lodge	10,446	0.74%	16,902	0.34%
7.	Rinker Materials	10,278	0.73%	24,956	0.51%
8.	Pelican Association	9,058	0.65%	14,607	0.30%
9.	Oceanview Nursing Home	8,773	0.63%	15,637	0.32%
10.	Federal Housing Authority	7,879	0.56%	29,475	0.60%
	Totals	121,357	8.65%	$278,328	5.66%

SCHEDULE OF REVENUE CERTIFICATE COVERAGE **Table VIII**
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

		2002	2001	2000	1999	1998
Gross Revenue Per Certificate Resolution:						
Operating revenues	$	40,612,225	42,715,387	41,419,907	32,552,181	32,913,781
Interest and other income (excluding construction fund interest earnings)		894,508	1,345,251	1,471,189	1,292,757	1,436,271
Capital contributions		960,595	1,185,634	773,198	1,774,292	1,755,040
Assessment collections		0	0	0	3,408	40,878
Gross revenue per certificate resolution		42,467,328	45,246,272	43,664,294	35,622,638	36,145,970
Expenses Per Certificate Resolution:						
Operating expenses		35,090,229	37,049,738	36,247,872	28,339,261	29,087,843
Less: Depreciation expense		(4,737,946)	(4,360,451)	(3,656,949)	(3,502,707)	(3,490,562)
Required payments to the City		(2,509,729)	(2,625,008)	(2,214,486)	(2,016,471)	(2,018,552)
Expenses per certificate resolution		27,842,554	30,064,279	30,376,437	22,820,083	23,578,729
Income available for debt service	$	14,624,774	15,181,993	13,287,857	12,802,555	12,567,241
Annual Debt Service Requirements:						
Principal	$	2,705,000	2,560,000	2,460,000	2,350,000	2,255,000
Interest (less accrued interest) (1)		2,515,209	2,747,236	2,857,214	2,948,209	3,054,404
Annual debt service requirements	$	5,220,209	5,307,236	5,317,214	5,298,209	5,309,404
Coverage ratio (Times)		2.80	2.86	2.50	2.42	2.37

		1997	1996	1995	1994	1993
Gross Revenue Per Certificate Resolution:						
Operating revenues	$	32,847,472	33,763,090	33,135,452	31,448,283	31,651,212
Interest and other income (excluding construction fund interest earnings)		1,097,587	1,076,766	1,117,899	773,740	640,895
Capital contributions		1,785,424	1,383,945	798,090	727,054	1,521,443
Assessment collections		559	1,331	3,106	(301)	5,576
Gross revenue per certificate resolution		35,731,042	36,225,132	35,054,547	32,948,776	33,819,126
Expenses Per Certificate Resolution:						
Operating expenses		28,714,644	29,315,783	29,765,030	28,412,011	28,729,760
Less: Depreciation expense		(3,450,710)	(3,386,306)	(3,337,966)	(3,179,382)	(2,889,647)
Required payments to the City		(1,949,594)	(2,076,104)	(1,945,294)	(1,922,423)	(1,878,058)
Expenses per certificate resolution		23,314,340	23,853,373	24,481,770	23,310,206	23,962,055
Income available for debt service	$	12,416,702	12,371,759	10,572,777	9,638,570	9,857,071
Annual Debt Service Requirements:						
Principal	$	1,945,000	1,855,000	1,680,000	1,595,000	1,015,000
Interest (less accrued interest) (1)		3,138,448	3,687,574	3,841,252	3,923,144	3,780,962
Annual debt service requirements	$	5,083,448	5,542,574	5,521,252	5,518,144	4,795,962
Coverage ratio (Times)		2.44	2.23	1.91	1.75	2.06

(1) Interest expense for the fiscal years ended September 30, 2002 and 1993 is stated net of $152,218 and $613,763 respectively, in interest expense which was funded from the proceeds of the issuance of revenue certificates.

HISTORICAL PEAK DEMAND AND ELECTRIC SYSTEM NET ENERGY REQUIREMENTS, WATER DEMAND, AND SEWAGE FLOWS
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Table IX

	ELECTRIC SYSTEM				WATER SYSTEM				WASTEWATER SYSTEM			
Fiscal Year	Net Energy Requirements (kWh)	Annual Increase %	Annual Peak Demand (kW)	Annual Increase (Decrease) %	Maximum Daily Flow (MGD)	Average Daily Flow (MGD)	Minimum Daily Flow (MGD)	Total Annual Production (MGY)	Maximum Daily Flow (MGD)	Average Daily Flow (MGD)	Minimum Daily Flow (MGD)	Total Annual Production (MGY)
1993	292,485,000	1.9	72,100	2.1	5.89	4.02	2.55	1,470	2.98	2.53	2.18	925
1994	301,883,000	3.2	69,900	(3.1)	5.83	3.84	2.12	1,400	3.16	2.68	1.72	979
1995	318,962,000	5.7	88,300	26.3	6.14	4.19	2.62	1,457	3.59	2.88	1.65	1,053
1996	331,282,000	3.9	89,200	1.0	6.18	4.30	2.85	1,572	4.43	2.77	2.07	1,016
1997	325,239,000	(1.8)	82,500	(7.5)	5.85	4.28	2.73	1,562	4.50	2.46	1.88	898
1998	352,623,000	8.4	80,200	(2.8)	6.62	4.54	2.88	1,659	4.23	2.49	1.94	909
1999	335,599,000	0.8	85,700	6.9	6.13	4.57	2.56	1,667	7.55	2.97	1.25	1,096
2000	360,760,000	0.8	87,300	1.9	7.06	4.82	2.77	1,763	5.72	3.30	2.25	1,203
2001	361,159,000	0.1	91,100	4.4	5.96	4.54	2.11	1,658	9.29	3.81	1.97	1,304
2002	367,175,437	1.7	87,900	(3.5)	6.62	4.73	2.16	1,726	9.77	3.92	2.40	1,429

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate issued on August 7, 2002.

UTILITY RATE SCHEDULE -
ELECTRIC SERVICE
September 30, 2002
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Table X

Electric System Rate Schedule:

Residential Service - Monthly Rate		
Customer Charge:	Single Phase Service	$5.65
	Three Phase Service	$7.85
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.07173 per kWh
General Service - Non-Demand - Monthly Rate		
Customer Charge:	Single Phase Service	$6.05
	Three Phase Service	$8.85
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.07333 per kWh
General Service - Demand - Monthly Rate		
Customer Charge:		$33.50
Demand Charge:	All kW of billing demand	$5.50 per kW
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.05546 per kWh
General Service - Demand Time of Use - Monthly Rate		
Customer Charge:		$33.50
Demand Charge:	per kW of excess demand	$22.00 per kW
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.05546 per kWh
Customer Charge:		$235.00
Demand Charge:	All kW of billing demand	$5.50 per kW
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.05546 per kWh
Green Pricing Rate		
Green Pricing Level 1		$5.00
Green Pricing Level 2		$10.00

Fuel and Purchased Power Cost Adjustment Clause:

The Fuel and Purchased Power Cost Adjustment Clause (FPPCAC) is an integral component of the monthly charges, and is designed to allow for accurate billing of fluctuating applicable fuel and purchased power costs. In order to minimize changes in customer billings, the FPPCAC is developed on a twelve month projected basis, with provision to "true-up" any over or under recovery of any applicable fuel and purchased power cost in each subsequent twelve month period. A provision is provided in the clause for the FPPCAC to be modified if significant circumstances arise during the twelve month billing cycle. The adjustment for the twelve month period ending September 30, 2002 was $28.47 per 1,000 kWh through February 28, 2002. Beginning March 1, 2002 the adjustment was decreased to $8.82 per kWh, which remains in effect as of October 1, 2002.

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate which was issued on August 7, 2002 in conjunction with the sale of $39,035,000 Utilities Refunding Revenue Certificates, Series 2002.

UTILITY RATE SCHEDULE -
WATER SERVICE
September 30, 2002
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Table XI

	Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
Residential Service: Single Family	5/8"	$ 8.85	$ 0.90	$ 1.90	$ 11.65 + Gallonage Charge
	1"	22.15	2.25	1.90	$ 26.30 + Gallonage Charge
	1 1/2"	44.25	4.50	1.90	$ 50.65 + Gallonage Charge
	2"	70.80	7.20	1.90	$ 79.90 + Gallonage Charge
	3"	141.60	14.40	1.90	$ 157.90 + Gallonage Charge
	4"	221.25	22.50	1.90	$ 245.65 + Gallonage Charge
	6"	442.50	45.00	1.90	$ 489.40 + Gallonage Charge
	8"	708.00	72.00	1.90	$ 781.90 + Gallonage Charge

Gallonage Charge/1,000 Gallons

Block 1	Block 2	Block 3	Block 4
$1.00	$1.10	$2.20	$2.70

Monthly Rate Blocks (Gallons)

	Block 1	Block 2	Block 3	Block 4
All meter sizes	0-2000	2,001-6,000	6,001 - 14,000	14,001 and over

	Billing Account	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
Mulit-Family	Each Unit	$ 8.85	$ 0.90	$ 0.00	$ 9.75
	Master Meter	0.00	0.00	1.90	$ 1.90 + Gallonage Charge @ $1.05 per KG - all usage

Sugar Mill Residential, General and Multi-Family Master Meter Services

Meter Size (Inches)	Base Facility Charge	Total Monthly Billing
5/8" x 3/4"	$ 9.77	$ 9.77 + Gallonage Charge
3/4"	14.55	$ 14.55 + Gallonage Charge
1"	24.43	$ 24.43 + Gallonage Charge
1 1/2"	48.88	$ 48.88 + Gallonage Charge
2"	78.20	$ 78.20 + Gallonage Charge
3"	156.39	$ 156.39 + Gallonage Charge
4"	244.37	$ 244.37 + Gallonage Charge
6"	488.74	$ 488.74 + Gallonage Charge
8"	782.00	$ 782.00 + Gallonage Charge
10"	1,124.11	$ 1,124.11 + Gallonage Charge

Gallonage Charge/1,000 Gallons

All meter sizes	$4.43

UTILITY RATE SCHEDULE -
WATER SERVICE - (Continued)
September 30, 2002
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Table XI

Irrigation Service:

Gallonage Charge/1,000 Gallons

Meter Size	Block 1	Block 2	Block 3
1" - 8"	$1.00	$1.10	$2.20

Monthly Rate Blocks (Gallons)

Meter Size	Block 1	Block 2	Block 3
1"	0 - 15,000	15,001 - 40,000	40,001 and over
1 1/2"	0 - 30,000	30,001 - 75,000	75,001 and over
2"	0 - 50,000	50,001 - 100,000	100,001 and over
3"	0 - 100,000	100,001 - 200,000	200,001 and over
4"	0 - 200,000	200,001 - 400,000	400,001 and over
6"	0 - 300,000	300,001 - 600,000	600,001 and over
8"	0 - 600,000	600,001 - 1,000,000	1,000,001 and over

Nonresidential service:

Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
5/8"	$ 8.85	$ 0.90	$ 1.90	$ 11.65 + Gallonage Charge
1"	22.15	2.25	1.90	$ 26.30 + Gallonage Charge
1 1/2"	44.25	4.50	1.90	$ 50.65 + Gallonage Charge
2"	70.80	7.20	1.90	$ 79.90 + Gallonage Charge
3"	141.60	14.40	1.90	$ 157.90 + Gallonage Charge
4"	221.25	22.50	1.90	$ 245.65 + Gallonage Charge
6"	442.50	45.00	1.90	$ 489.40 + Gallonage Charge
8"	708.00	72.00	1.90	$ 781.90 + Gallonage Charge

Gallonage Charge/1,000 Gallons

Meter Size	Block 1	Block 2	Block 3
5/8" - 8"	$1.05	$1.25	$1.70

Monthly Rate Blocks (Gallons)

Meter Size	Block 1	Block 2	Block 3
5/8"	0 - 7,000	7,001 - 14,000	14,001 and over
1"	0 - 15,000	15,001 - 40,000	40,001 and over
1 1/2"	0 - 30,000	30,001 - 75,000	75,001 and over
2"	0 - 50,000	50,001 - 100,000	100,001 and over
3"	0 - 100,000	100,001 - 200,000	200,001 and over
4"	0 - 200,000	200,001 - 400,000	400,001 and over
6"	0 - 300,000	300,001 - 600,000	600,001 and over
8"	0 - 600,000	600,001 - 1,000,000	1,000,001 and over

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate which was issued on August 7, 2002 in conjunction with the sale of $39,035,000 Utilities Refunding Revenue Certificates, Series 2002.

UTILITY RATE SCHEDULE -
WASTEWATER AND WATER REUSE SERVICE
September 30, 2002
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Table XII

Wastewater Rate Schedule

Residential, (Single-Family) and Non-Residential:

Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
5/8"	$ 14.07	$ 1.05	$ 1.50	$ 16.62 + Gallonage Charge
1"	35.20	2.65	1.50	$ 39.35 + Gallonage Charge
1 1/2"	70.35	5.25	1.50	$ 77.10 + Gallonage Charge
2"	112.56	8.40	1.50	$ 122.46 + Gallonage Charge
3"	225.12	16.80	1.50	$ 243.42 + Gallonage Charge
4"	351.75	26.25	1.50	$ 379.50 + Gallonage Charge
6"	703.50	52.50	1.50	$ 757.50 + Gallonage Charge
8"	1,125.60	84.00	1.50	$ 1,211.10 + Gallonage Charge

	Gallonage Charge/1,000 Gallons	
	Block 1	Block 2
All meter sizes	$2.00	$2.35

	Monthly Rate Blocks (Gallons)	
	Block 1	Block 2
All meter sizes	0-2,000	2,001and over

Multi-Family:

Each Unit	$ 14.07	1.05	0.00	0.00	$ 15.12
Master Meter	0.00	0.00	1.50	1.55	$ 1.50 + Gallonage Charge

Sugar Mill Area:
Residential Service

Meter Size (Inches)	Base Facility Charge	Total Monthly Billing
5/8" x 3/4"	$ 19.63	$ 19.63 + Gallonage Charge
3/4"	19.63	$ 19.63 + Gallonage Charge
1"	19.63	$ 19.63 + Gallonage Charge
1 1/2"	19.63	$ 19.63 + Gallonage Charge
2"	19.63	$ 19.63 + Gallonage Charge
3"	19.63	$ 19.63 + Gallonage Charge
4"	19.63	$ 19.63 + Gallonage Charge
6"	19.63	$ 19.63 + Gallonage Charge
8"	19.63	$ 19.63 + Gallonage Charge
10"	19.63	$ 19.63 + Gallonage Charge

	Gallonage Charge/1,000 Gallons	
All meter sizes	0 - 6,000	$5.73
	All excess gallons	no charge

UTILITY RATE SCHEDULE -
WASTEWATER AND WATER REUSE SERVICE - (Continued)
September 30, 2002
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Table XII

Sugar Mill Area: General and Multi-Family Master Meter Service	Size (Inches)	Facility Charge	Monthly Billing
	5/8" x 3/4"	$ 19.63	$ 19.63 + Gallonage Charge
	3/4"	29.45	$ 29.45 + Gallonage Charge
	1"	49.07	$ 49.07 + Gallonage Charge
	1 1/2"	98.16	$ 98.16 + Gallonage Charge
	2"	157.04	$ 157.04 + Gallonage Charge
	3"	314.08	$ 314.08 + Gallonage Charge
	4"	490.77	$ 490.77 + Gallonage Charge
	6"	981.51	$ 981.51 + Gallonage Charge
	8"	1,570.42	$ 1,570.42 + Gallonage Charge
	10"	2,257.47	$ 2,257.47 + Gallonage Charge

	Gallonage Charge/1,000 Gallons
All meter sizes	$6.86

Sugar Mill Area: Residential Wastewater Only Service	Meter Size	Charge per Billing Period
	All	$36.54

Reclaimed Water Rate Schedule:

		Meter Size (Inches)	Minimum Monthly Charge	Flow Charge per KG
Primary Tier Rate:	Service:	5/8" X 3/4"	$ 10.00	N/A
		1"	25.00	N/A
		1 1/2"	50.00	N/A
	Metered:	2"	0.00	$ 0.15
		3"	0.00	0.15
		4"	0.00	0.15
		6"	0.00	0.15

Secondary Tier Rate: $16.29/acre/month for metered users whose anticipated capacity exceeds 100,000 gallons per day and which must provide a minimum of three (3) days of wet weather storage for the minimum flow rate of 1,900 gallons/acre/day on an annual average

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate which was issued on August 7, 2002 in conjunction with the sale of $39,035,000 Utilities Refunding Revenue Certificates, Series 2002.

SUPPLEMENTAL AUDIT REPORTS

BRENT MILLIKAN & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida

We have audited the financial statements of Utilities Commission, City of New Smyrna Beach, Florida, a component unit of City of New Smyrna Beach, Florida, as of and for the year ended September 30, 2002, and have issued our report thereon dated November 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Utilities Commission, City of New Smyrna Beach, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Utilities Commission, City of New Smyrna Beach, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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This report is intended solely for the information and use of the Utilities Commission, management, City of New Smyrna Beach, the Auditor General of the State of Florida, and applicable federal/state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brent Millikan & Co., P.A.

November 8, 2002

BRENT MILLIKAN & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida

We have audited the financial statements of Utilities Commission, City of New Smyrna Beach, Florida, (the "Commission") as of and for the fiscal year ended September 30, 2002, and have issued our report thereon dated November 8, 2002.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have also issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting. Disclosures in this report, which is dated November 8, 2002, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General. Those rules (Section 10.554(1)(g)1.a.) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. No inaccuracies, irregularities, shortages, defalcations, and/or violations of laws, rules, regulations, and contractual provisions were disclosed in the preceding annual report.

The Rules of the Auditor General (Section 10.554(1)(g)1.b.) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit report have been corrected.

As required by the Rules of the Auditor General (Section 10.554(1)(g)2.), the scope of our audit included a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that Utilities Commission, City of New Smyrna Beach, Florida, complied with Section 218.415, Florida Statutes.

The Rules of Auditor General (Section 10.554(1)(g)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal control: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements);(4)failures to properly record financial

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transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed the following matters required to be disclosed:

Current Year Recommendations to Improve Financial Management, Accounting Procedures, and Internal Controls

2002.1 Allowance for Uncollectible Accounts Receivable

During our fieldwork procedures, we noted that the valuation allowance for estimated uncollectible accounts receivable was not computed on a monthly basis throughout the fiscal year, as the balance did not change from the amount established at the immediately preceding fiscal year end. While accounts deemed to be totally worthless were, in practice, written off by the Commission under the "direct charge-off method," (all of which were expressly approved by the Commission), no formal procedures were taken to continuously monitor its exposure to estimated losses on other past due accounts which may, or may not, be collected in the future until the end of the year.

We recommend that you consider the monthly implementation of the "reserve method" for estimating the valuation allowance for potential losses on past due accounts. If monitored monthly, the recognition of losses on past due accounts will be spread over each month's operations on a basis which more adequately reflects these true costs.

The Rules of the Auditor General (Section 10.554(1)(g)5.) also require that the name or official title and legal authority for the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The Utilities Commission, City of New Smyrna Beach, Florida, was created in 1967 through the passage of Chapter 67-1754, Laws of Florida, Special Acts of 1967 (House Bill 1669), which amended the Charter of the City of New Smyrna Beach, Florida, to create the Utilities Commission as a component unit of the City of New Smyrna Beach, Florida.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.a.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that Utilities Commission, City of New Smyrna Beach, Florida, is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.b.), we are required to determine that the annual financial report for Utilities Commission, City of New Smyrna Beach, Florida, required to be filed with the Florida Department of Banking and Finance pursuant to Section 218.32 (1)(b), Florida Statutes is in agreement with the annual financial audit report for the fiscal year ended September 30, 2002. This report has not yet been completed by the Commission's oversight unit (City of New Smyrna Beach, Florida, Unit ID#251) at the time of submitting this report. Upon completion of the annual financial report, we will compare the reported data with that data contained in their audited financial statements to confirm that both are in agreement. Should it be determined by us that the data reported in

the annual financial report is not in agreement with the Commission's audited financial statements, we will promptly report our findings to you in an amended or supplemental management letter.

As required by the Rules of the Auditor General (Sections 10.554(g)(6)c. and 10.556), we applied financial condition assessment procedures at September 30, 2002. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of Utilities Commission, City of New Smyrna Beach, Florida and its management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Brent Milliken & Co., P.A.
November 8, 2002

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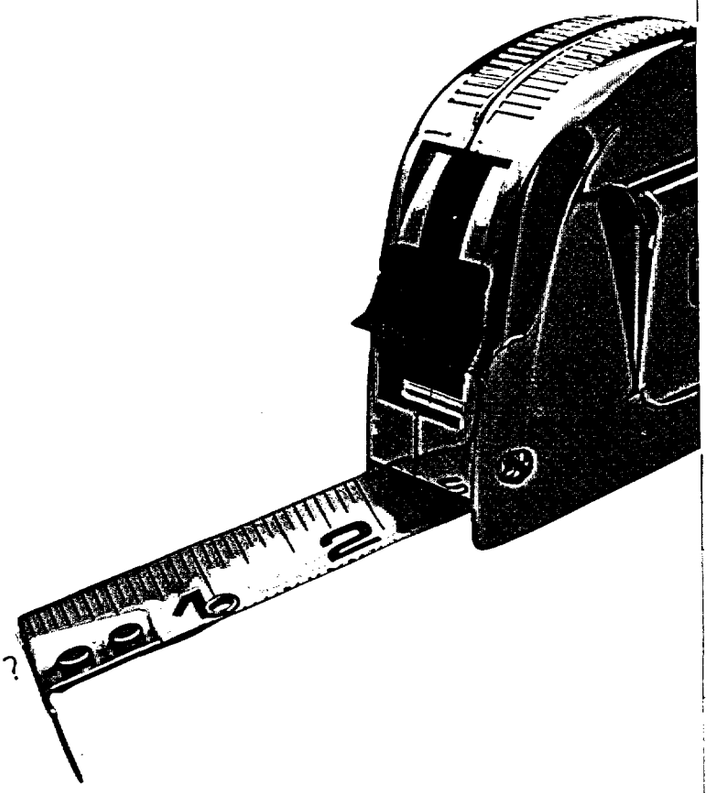
The *Reliable* One®

2002 ANNUAL REPORT



HOW DO YOU MEASURE **RELIABILITY**?

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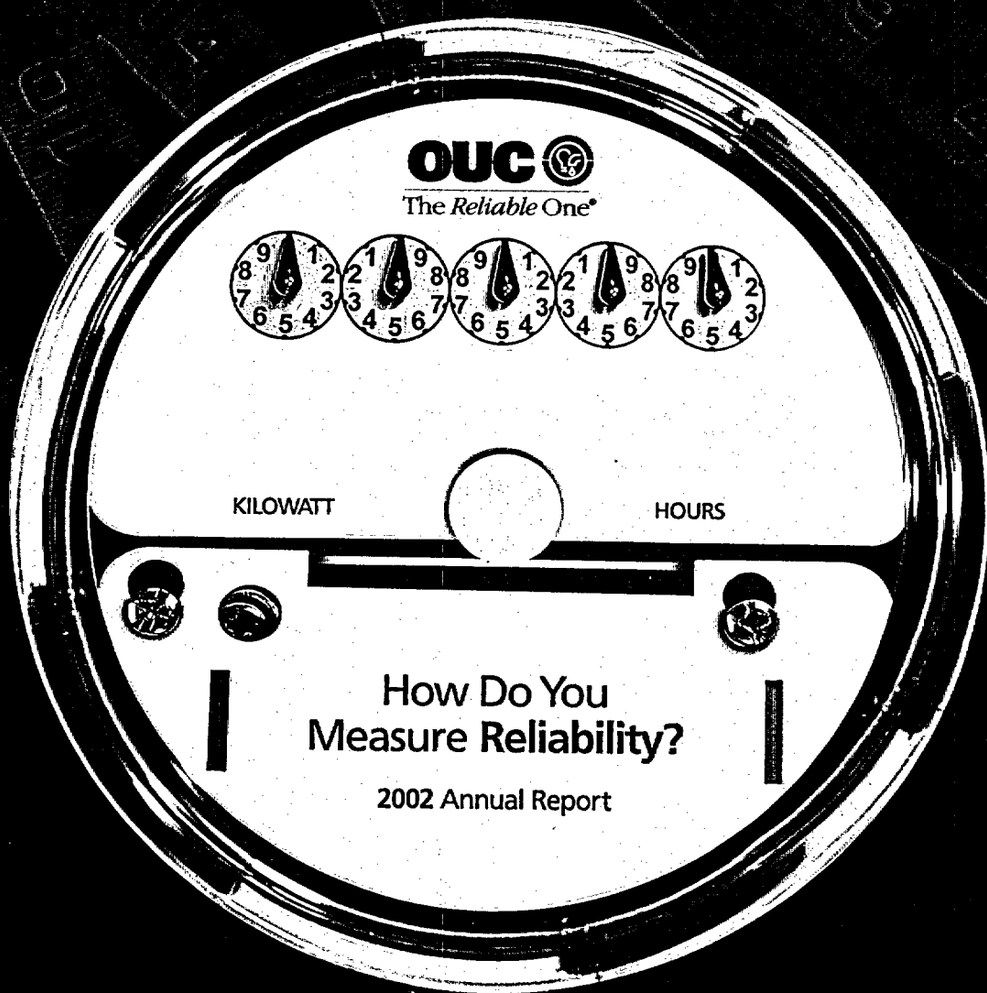

How Do You Measure Reliability?

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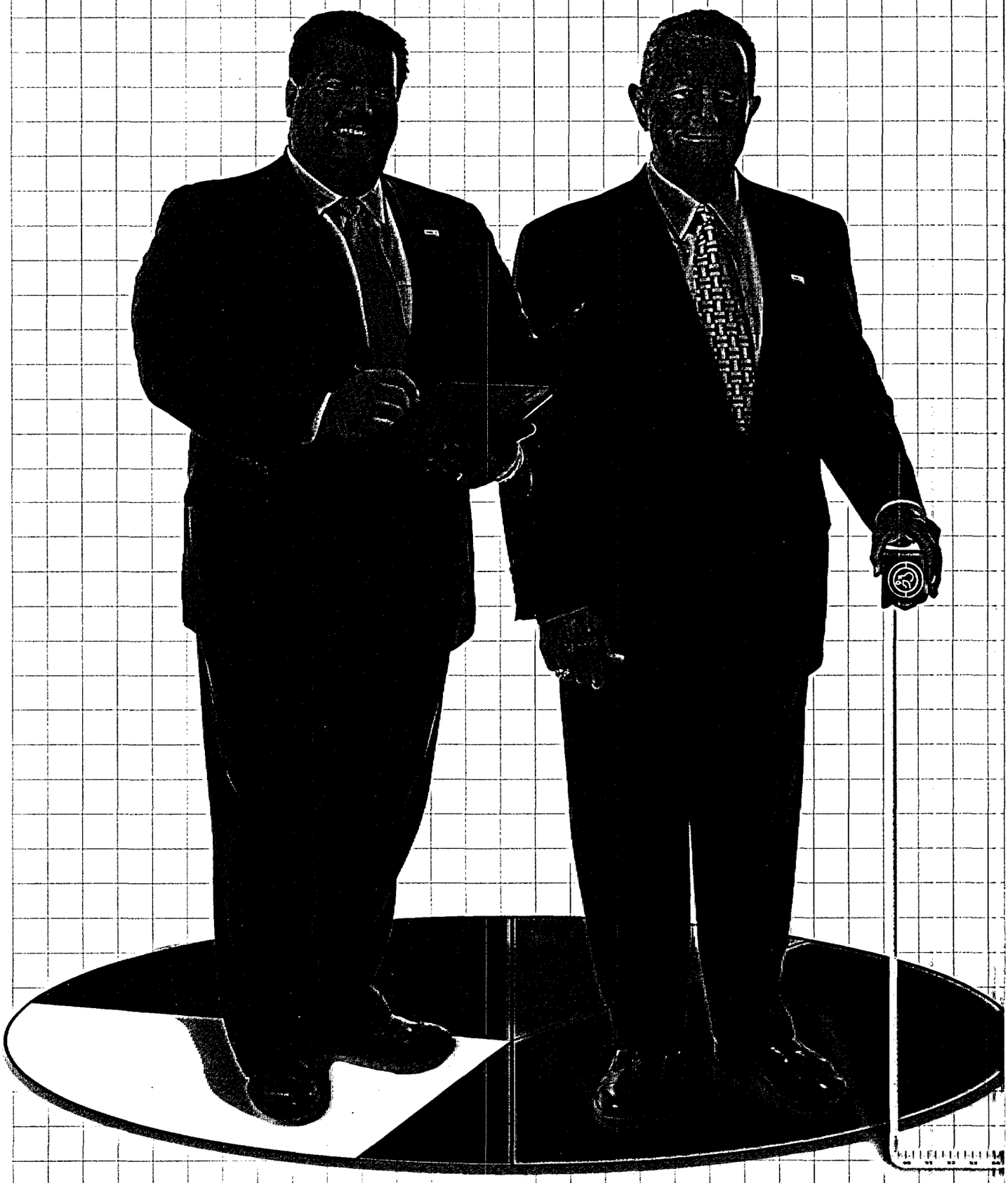


RELIABILITY IN ALL WE DO

Reliability is measured in countless ways at OUC.

Primarily it's measured in terms of how dependably we deliver electric and water services. That's a given. But reliability is also uppermost in our minds when it comes to answering customer inquiries, selecting vendors, safeguarding our facilities and balancing our budget.

In short, reliability is a company-wide commitment to excellence. And that's especially important when the going gets tough. As we faced new challenges in fiscal 2002, our people dug in and gave their all. The end result was a number of successes across all business units.

During the summer storm season – one of the most active in recent years – our electric crews worked around the clock to keep the lights on and maintain OUC's standing as Florida's most reliable utility. When Orlando received an unsubstantiated threat against the community's water supply, we moved quickly to tighten security at our water plants and reassure customers that their drinking water was safe. And despite the summer's mild, rainy weather – and lower demand for electricity and water – we brought net income very close to budget.

On the customer service side, we introduced a new online billing service, called OUConvenient *Billing*, which gave customers a paperless, worry-free way to manage their OUC accounts. We also partnered with SpeedPay to provide our customers with a simple, automated system for paying their bills with a credit card, either online or over the phone. By outsourcing this payment process to SpeedPay, we reduced call volume to our customer service centers by 5,700 calls a month, enabling us to respond even faster to other customer inquiries.

OUC will always be committed to delivering dependable, friendly, competitively priced service.

OUCooling, our chilled water service for commercial air-conditioning systems, saw continued expansion last year. In fact, *OUCooling* won an international award for signing up more customer square footage than any other chilled water business. We also saw OUConvenient *Lighting* extend its reach. The utility's lighting division installed nearly 7,000 fixtures in residential neighborhoods, at apartment complexes, inside parking garages and at the Orange County Convention Center.

Of course, conservation remained a high priority for us, and OUC continued encouraging citizens to use water and energy more efficiently. Meanwhile, our Stanton A power generation project moved closer to reality. The 633-megawatt, natural gas-fired unit is set to begin operations in fall 2003.

As a locally owned municipal utility, OUC will always be committed to delivering dependable, friendly, competitively priced service. Moving forward, we'll also continue applying our reliability doctrine at every turn – and doing everything we can to measure up to our name, The *Reliable* One.

Tico Perez, Esq.
Commission President

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

OUC electric crews kept the average annual customer interruption to below 42 minutes in our combined Orlando-St. Cloud service territory.

HOW DOES OUR ENERGY DELIVERY UNIT MEASURE **RELIABILITY?**

IN MINUTES

We're proud to be The *Reliable* One, but we're not resting on our laurels. We had to earn our reputation every day in 2002.

During the year's active storm season, OUC electric crews were on the go, responding quickly to trouble and maintaining the level of reliability our customers expect. As usual, our power-restoration performance was worth bragging about. We kept the average annual customer interruption to below 42 minutes in our combined Orlando-St. Cloud service area. In this business, every minute counts.

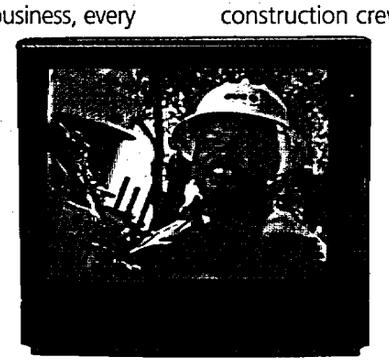
While we've always aimed at being Florida's most reliable utility, our service record now commands attention far beyond the Sunshine State. PA Consulting Group, a leading management, systems and technology consulting firm, named OUC the most reliable utility in the Southeast, based on an audit of our power-restoration and reliability data. It was an honor we worked hard for – and were proud to accept.

"Reliability is our corporate culture, the heart of our business," says Ken Ksionek, Vice President of OUC's Energy Delivery Business Unit.

"Reliability and accountability – these are not just buzz-words, they're what we stand for. We live, eat and breathe this philosophy."

To give people an insider's perspective on this corporate culture, we ran television spots over the summer featuring OUC linemen "testimonials." In these spots, linemen used their own words to discuss the passion they have for their jobs. Restoring power during a storm is "like the last minute of a game," said one of them. "It's a rush." Another explained how OUC's success "all boils down to teamwork." Another pointed out how "we don't answer to stockholders, we answer to our neighbors."

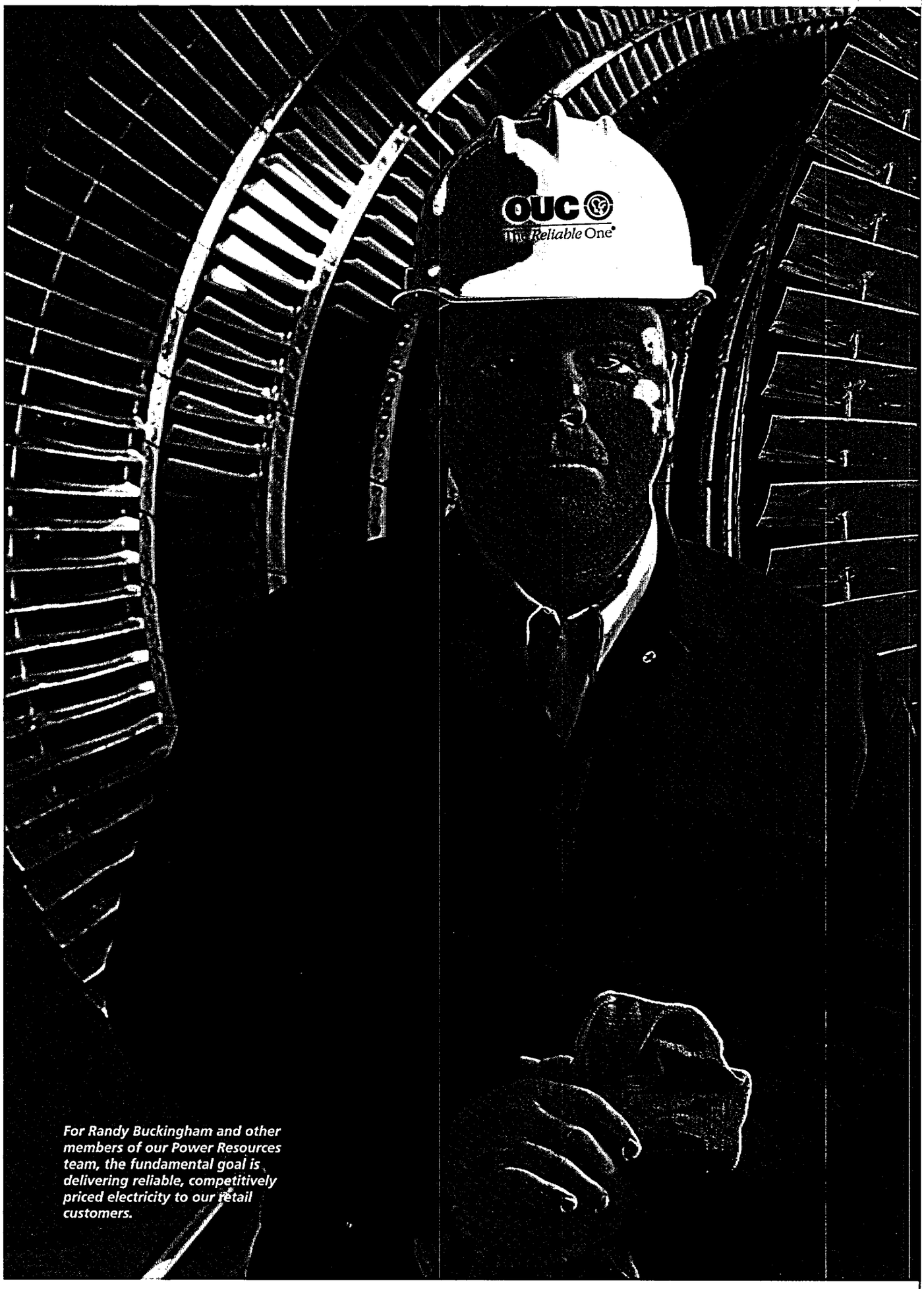
Aside from keeping the lights on, reliability means taking on additional customers while maintaining the same level of service, if not improving it. Last year, OUC construction crews installed electric infrastructure for some of Orlando's largest commercial projects in recent memory. Topping the list of high-profile jobs was the 1.2 million-square-foot Mall at Millenia, where we installed more than 21 miles of cable and 27 megawatts of transformer capacity. Other projects included the Orange County Convention Center Phase V, expansion of the Festival Bay Mall, development of the Baldwin Park neighborhood in east Orlando, and the new 1,350-room Royal Pacific Hotel at Universal Orlando.



Our "What Makes OUC The Reliable One?" television spots featured testimonials from lineman Spencer Barnes (above) and 13 of his colleagues.

OUConvenient *Lighting* crews kept busy last year, too. We installed 4,165 fixtures and associated equipment for local government agencies – an 89 percent increase over the previous year's activity. On the private side, we installed 2,678 fixtures – a 78 percent jump.

In the final analysis, it's OUC's workforce that earns The *Reliable* One distinction, day after day. "We give our people the structure for success," Ksionek says. "We give them great tools, great training, great support systems, and then we turn them loose and let them do what they do best."



For Randy Buckingham and other members of our Power Resources team, the fundamental goal is delivering reliable, competitively priced electricity to our retail customers.

HOW DOES OUR POWER RESOURCES UNIT MEASURE **RELIABILITY?**

In Megawatts

The power generation business saw its share of difficulties in 2002. Mild weather and excess supply kept wholesale energy prices down and, well, surely you heard about that Enron mess.

At OUC, our financial wherewithal doesn't rely on speculative and volatile wholesale markets. Only after accomplishing our fundamental task – delivering reliable, competitively priced electricity to our retail customers – do we enter the wholesale markets.

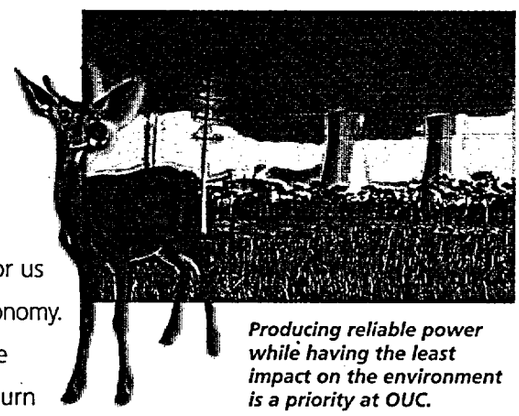
What created challenges for us last year was the sluggish economy.

"Our charge is to manage markets, and when things turn south you manage more aggressively," says Fred Haddad, Vice President of Power Resources. That meant doing things like negotiating contracts that are fair yet flexible enough to allow us to respond to changing market conditions. It also meant strengthening our contingency plans to protect against the insolvency of business partners, no matter how unlikely.

"An occasional slowdown in the economy can be healthy," Haddad adds.

"It makes us work harder and rethink our strategies, and helps us position ourselves for the next up cycle."

To maneuver the economic ups and downs as effectively as possible, OUC operates a fleet of modern, fuel-efficient power generators incorporating the latest environmental technology. The newest addition to our fleet is Stanton A, a 633-megawatt, natural gas-fired unit under construction at OUC's Stanton Energy Center. We are developing the project jointly with Southern Company and our municipal utility partners. OUC will own nearly a third of Stanton A's output and have the option of purchasing even more, giving us up to 80 percent of the plant's capacity.

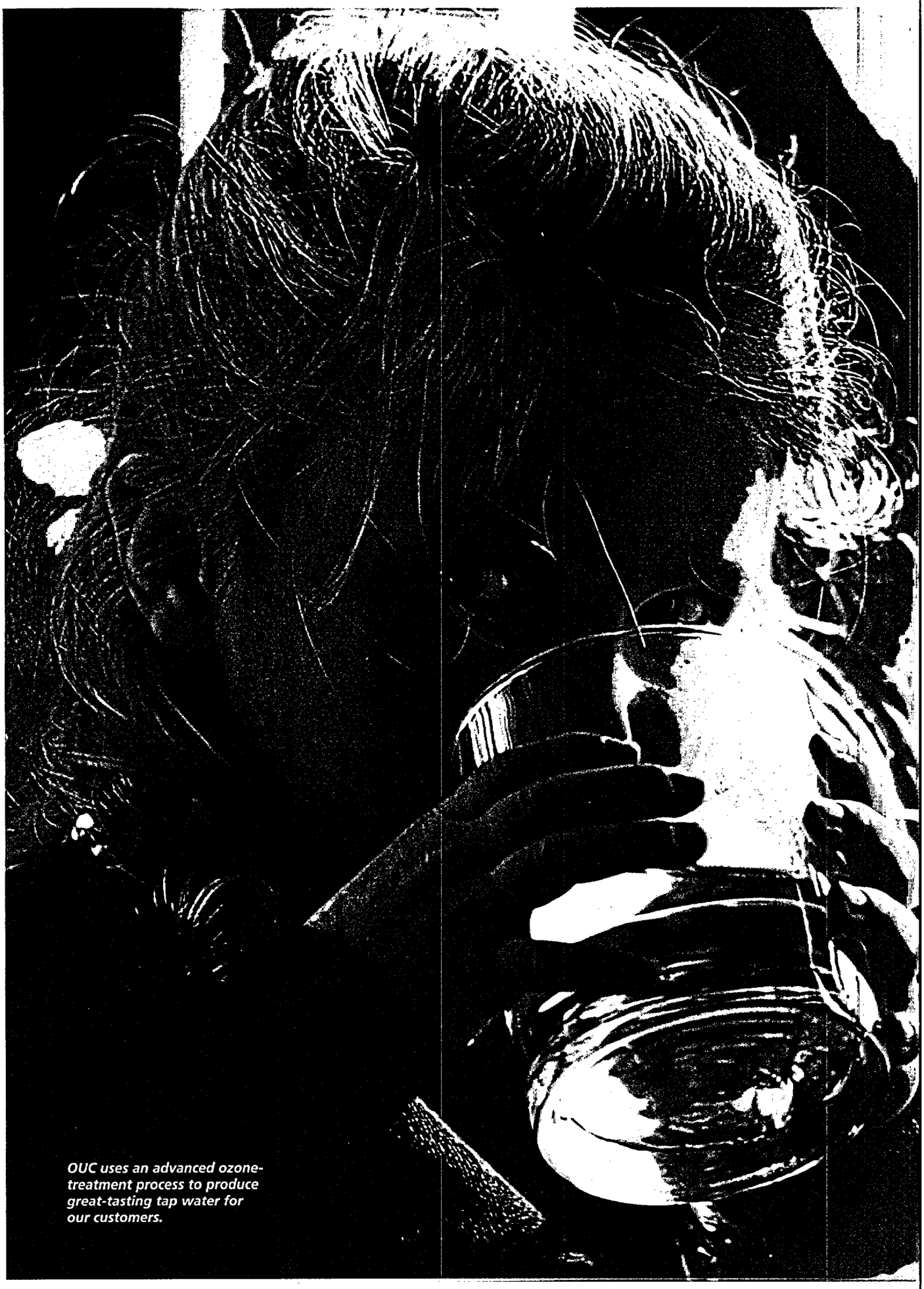


Producing reliable power while having the least impact on the environment is a priority at OUC.

Aside from providing the extra energy our customers will need in the years ahead, Stanton A will help us maintain stable power prices by further diversifying our fuel mix and maintaining flexibility through the use of purchased-power agreements. In addition to this new generation project, the alliance relationships developed will aid our power marketing and risk management efforts as well.

"The mix of ownership and purchased power within our generation portfolio will ensure that we continue providing value to our retail customers at competitive rates," Haddad says. "This also gives us more flexibility to enter the wholesale markets when doing so will further optimize our generating resources for the benefit of our customers."

Reliable power and competitive pricing are what our customers value most – and that's exactly what we intend to deliver. Day after day, year after year.



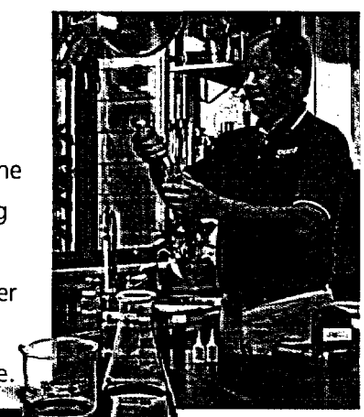
OUC uses an advanced ozone-treatment process to produce great-tasting tap water for our customers.

HOW DOES OUR WATER BUSINESS UNIT MEASURE **RELIABILITY?**

In Gallons

At OUC, we're committed to delivering a safe, reliable supply of drinking water while helping our customers use water more efficiently.

To ensure a high level of water quality, OUC accomplished several important initiatives in fiscal 2002. For example, we completed the expansion of our water treatment plant near the former Naval Training Center in east Orlando. The plant's capacity was doubled and the facility became the seventh OUC water plant to use ozone water treatment – the method used to create our great-tasting tap water, H_2OUC. We also began the process of expanding our Sky Lake water plant and converting its treatment process from partial to complete ozone.



Water quality technician Donnie Becker performs tests on customers' tap water to ensure they receive the highest-quality H_2OUC.

Meanwhile, we maintained our painstaking water-quality testing schedule, performing three times the testing required by regulatory agencies.

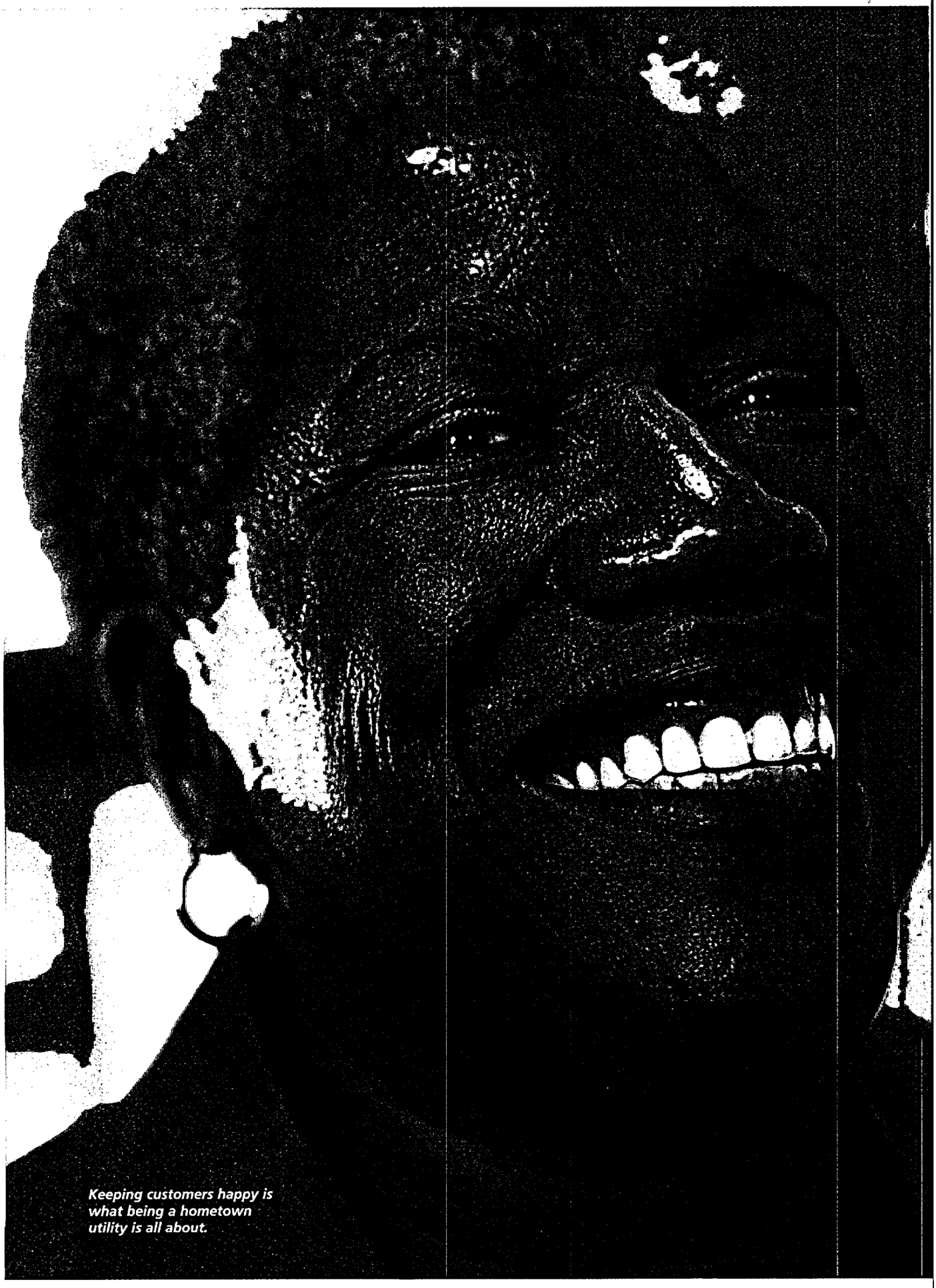
But that's not all our water employees were up to last year. We tightened security at our treatment plants, continued planning for the long-term protection of our community's water resources, improved our detection of customer water leaks and promoted conservation and efficient irrigation.

While our water treatment plants were equipped with modern intrusion-detection systems well before September 11, 2001, we moved quickly to enhance the security of our facilities in late 2001 and early 2002. An unsubstantiated threat against the community's water supply in the spring of 2002 led to even more safeguards.

Looking to the future, OUC continued negotiating with the St. Johns River Water Management District for a new permit for groundwater withdrawals. To protect our community's future water supply, OUC is volunteering to maintain our existing withdrawal levels for the next 20 years. To accomplish this, OUC intends to work with the City of Orlando to expand the use of reclaimed water for irrigation purposes. We also plan to continue promoting conservation aggressively. These actions not only demonstrate OUC's commitment to protecting Central Florida's valuable water resources, they'll also save our customers money by delaying our switch to more expensive alternative water supplies, such as surface water or desalinated water.

Our water distribution employees continued to earn industry recognition last year for bringing a high level of quality, professionalism and reliability to their work. For the sixth consecutive year, OUC won an Outstanding Distribution Award from the Florida Section of the American Water Works Association. We also won AWWA's Water Conservation Award for Excellence for a new OUC program that greatly accelerated the detection and repair of customer water leaks. In its first seven months, the program helped 159 residential and commercial customers save more than 170 million gallons of water.

On the technology front, we prepared to implement a joint water/electric Geographic Information System (GIS). The system will convert all water and electric distribution information to digital format and build an extensive database for the facilities. The GIS will provide a convenient, easy way for maintenance staff to view maps of OUC's distribution systems and quickly extract other information crucial to making repairs.



Keeping customers happy is what being a hometown utility is all about.

HOW DO OUR SERVICE AND SUPPORT TEAMS MEASURE **RELIABILITY?**

In Smiles

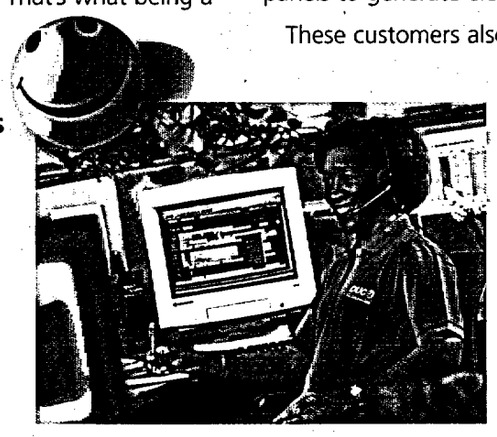
When our customers are happy, we know we're doing our job.

Delivering reliable electric and water services is only part of our responsibility. We're also dedicated to delivering those services in friendly, helpful, convenient ways.

While customers are our primary focus, so are employees, vendors and others in the community. Making everyone smile is our goal. That's what being a hometown utility is all about.

Connecting With Customers

In 2002, OUC reached out to its residential and commercial customers in innovative new ways. We introduced OUConvenient *Billing*, an easy way for people to manage their OUC accounts, right from their personal computers. We also partnered with SpeedPay to provide our customers with a simple, automated system for paying their bills with a credit card, either online or over the phone.



Customer Service Representative Cynthia McMain provides friendly, helpful service at OUC's downtown Orlando call center.

The OUCustomer *Connection* continued to stress the importance of conservation last year. We restructured commercial irrigation rates to encourage efficient use of water, much like we did with residential water rates the year before. On the electric side, we introduced a conservation rate structure that provides residential customers with an added financial incentive for using less power. The majority of OUC customers, those using 1,400 kilowatt hours a month or less, saw a reduction in their bills or no impact.

To encourage the use of solar energy, OUC introduced special rates to customers who use photovoltaic (PV) panels to generate electricity.

These customers also receive monthly credits on their utility bills when unused solar energy is transferred to the OUC electric grid for use elsewhere. Offering these incentives was a logical extension of an earlier OUC initiative: installing solar panels at five public schools to give students hands-on experience with renewable energy.

The OUCustomer *Connection* continued inking long-term electric service agreements last year. In fact, we finalized negotiations with our second-largest customer, the Greater Orlando Aviation Authority. GOAA operates Orlando International Airport, which handles more than 28 million passengers each year and is one of the nation's busiest airports.

(continued on next page)

Taking Care Of Employees, Building Positive Vendor Alliances

OUC Corporate Services provides a wide range of support to employees while also working closely with vendors. At the same time, the business unit works to minimize costs and improve operational efficiencies.

A top priority in 2002 was strengthening the security of our facilities for the safety of employees, customers and other visitors. As usual, we also made sure OUC personnel performed their jobs in the safest manner possible and that risk was managed as effectively as possible. In an analysis of OUC, insurance giant Liberty Mutual pointed out that our risk-management results for the most recent two-year period not only surpassed the industry standard, they also showed improvement over our previous results. This performance translated into considerable financial savings on insurance and other costs of risk management.

A top priority in 2002 was strengthening the security of our facilities for the safety of employees, customers and other visitors.

In the area of Human Resources, we opened a new learning center, *Reliable University*, at our Gardenia Avenue facility and introduced an expanded list of computer-training courses. We also started providing on-site fitness coaches for employees.

Meanwhile, Supply Chain Management expanded our vendor alliances and stepped up combined-bid activity with other municipal utilities to save on equipment and materials. For instance, we realized significant savings this year by joining with utilities in Jacksonville and Gainesville to procure chlorine and welding supplies. In our Fleet & Facilities Division, we built more flexibility into our maintenance shifts to better accommodate the schedules of our customers, both internal and external. We also reconfigured the scheduling process for some of OUC's field personnel, staggering shifts to avoid gaps in coverage and reduce overtime costs.

OUC customers are so satisfied with their service they are doing testimonials on our behalf. Pictured is Rebecca L. Moroose, MD, Medical Director of Florida Hospital Cancer Institute in an advertisement for OUC.

Reaching Out To Those In Need, Spreading Our Reliability Message

At OUC, we care about our community. We're not called The *Reliable* One just because of our exceptional electric and water operations. We're also reliable when it comes to being a good neighbor, particularly in times of need.

With a slumping economy affecting many of our customers last year, OUC acted quickly to reach out to the less fortunate. A few weeks after the September 11, 2001 terror attacks, we contributed $100,000 to Project Care, an OUC program that provides emergency utility bill assistance. Then in April 2002, we set aside another $100,000 for Project Care.

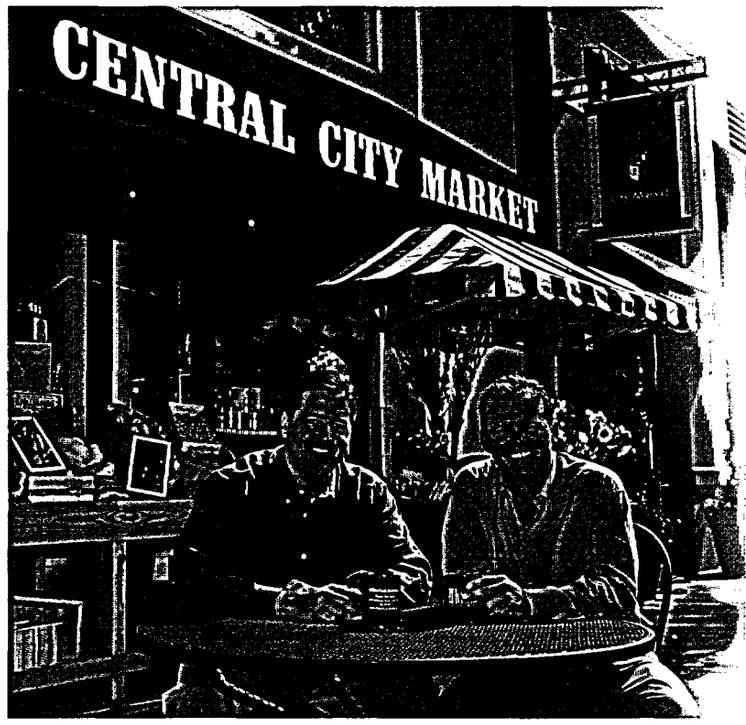
We also reached out to the homeless, using our annual charity golf tournament to raise $25,000 for the Women's Residential and Counseling Center, a program operated by the Coalition for the Homeless of Central

Florida. On top of that, we provided financial support – as well as in-kind donations and many volunteer hours – to such organizations as the March of Dimes, American Cancer Society, Junior Achievement, Adult Literacy League, Daily Bread, UCF Shakespeare Festival and the Heart of Florida United Way.

OUC's community service is directed by our Marketing, Communications & Community Relations team. This group also juggles the tasks of advertising, public information, media relations and office services.

Among the department's most triumphant efforts of 2002 was its "What Makes OUC The *Reliable* One?" television and radio campaign. The campaign's centerpiece was a series of linemen "testimonial" spots in which OUC linemen used their own words to describe the passion and dedication they have for providing reliable service. The campaign was a tremendous success. In a customer survey conducted several weeks after the campaign, favorable customer opinion of OUC – those saying we do a good job of providing reliable service – jumped to 91 percent, up 5 percent from the year before.

We're not called The *Reliable* One just because of our exceptional electric and water operations. We're also reliable when it comes to being a good neighbor.



Relaxing in front of Thornton Park's Central City Market – one of OUC's newest customers in downtown Orlando – are Craig Ustler (left), President of Ustler Development Inc., and Phil Rampy, President & Founder of Olde Town Brokers Inc.

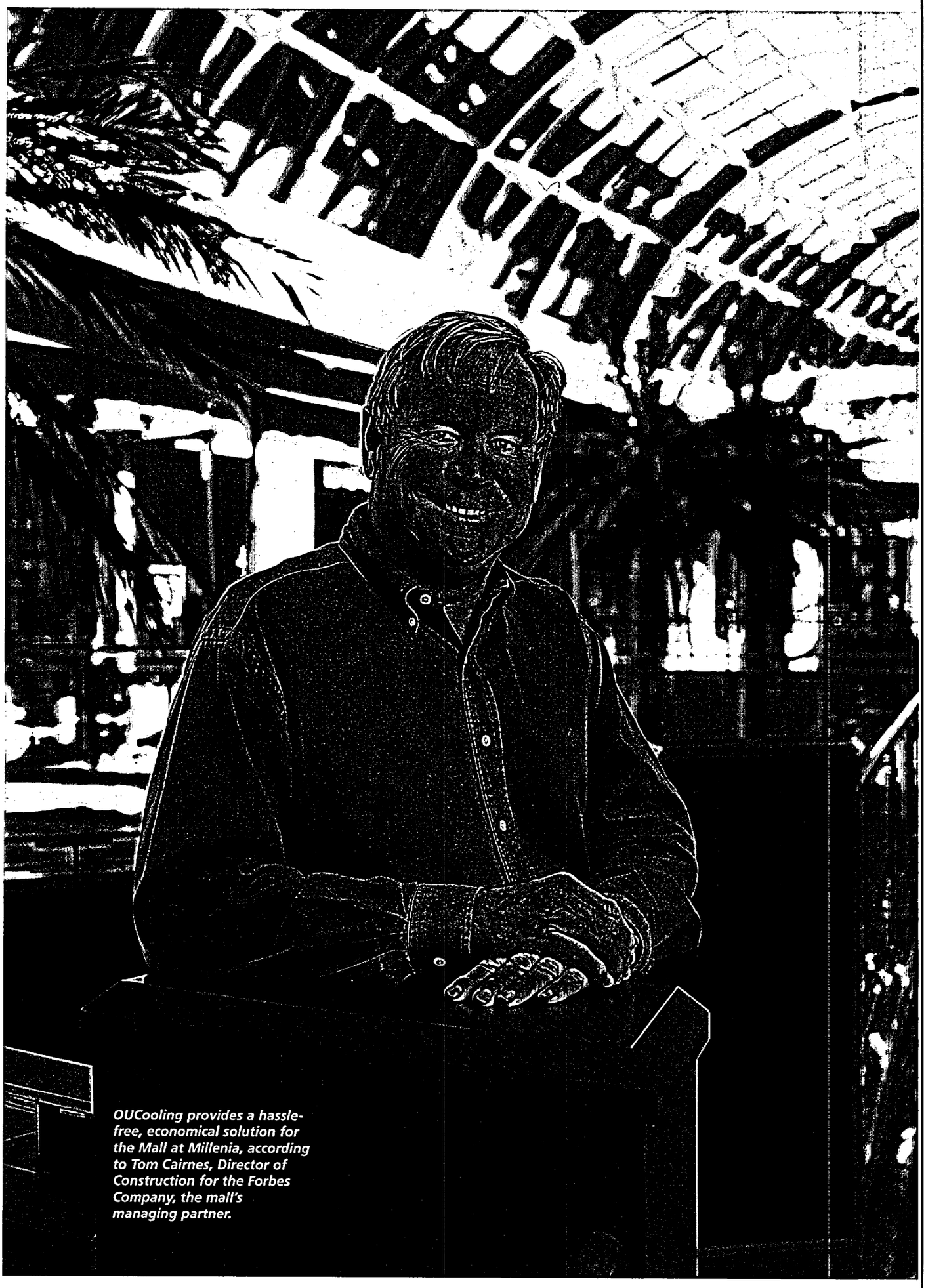
Putting Technology To Work

It was a productive year, too, for our Information Technology unit. We launched a major upgrade of our interactive voice-response (IVR) system, started an exciting new "middleware" initiative, and took steps toward enhancing OUC's customer information and payroll systems.

During the first phase of the IVR upgrade, we made the system more intuitive from a customer perspective while creating more programming and call-routing flexibility for OUC. Later phases will involve expanding the IVR's interface with our customer information system and incorporating more skills-based routing, which will enable customers to select a residential or commercial service representative, for instance, or one who speaks English or Spanish.

We also implemented an "enterprise report writer" system last year that provides more thorough, up-to-date customer and financial data right to employees' desktops. Through the use of "middleware" in the future, we intend to deliver this critical information to employees in real time – and in a manner that "glues together" the company's separate databases seamlessly.

OUC also started the process of migrating the utility's 13-year-old payroll system from a mainframe computer to a more efficient server-based system. Eventually this system will enable employees to access and make changes to their personal data (benefits, payroll, etc.) via OUC's intranet.



OUCooling provides a hassle-free, economical solution for the Mall at Millenia, according to Tom Cairnes, Director of Construction for the Forbes Company, the mall's managing partner.

HOW DOES *OUCOOLING* MEASURE **RELIABILITY?**

In Degrees

Attention shoppers. Thanks to OUC, you'll stay cool and comfortable as you navigate Orlando's new Mall at Millenia.

OUCooling put the finishing touches last year on a massive chilled water production system for the upscale retail destination, whose tony tenants include Bloomingdales, Neiman Marcus and Tiffany's. A team of OUC engineers made sure that no matter how warm it gets outside, the 1.2 million-square-foot mall stays nice and cool.

"In the retail business, cooling problems with tenants can be a major concern," says Tom Cairnes, Director of Construction for the Forbes Company, the mall's managing partner. "*OUCooling* offered us a trouble-free solution, one that is also more economical for our tenants."

OUC launched its chilled water service for commercial air-conditioning systems (also called district cooling) in 1997. Although chilled water is a relatively new offering for the 79-year-old municipal utility, it was a natural fit. "With Florida's heat and high humidity, a district cooling service made sense," says Keith Rice, OUC's Director of Chilled Water Services. "It's a logical choice – a value-added service that our customers truly need."

With district cooling, customers receive chilled water through a line connected to a central chiller plant. The 38-degree water passes through the coils in the customers' air-handling units before flowing back to the plant to repeat the cycle.

In its brief history, *OUCooling* has made spectacular strides. It won a first-place award last year from the International District Energy Association (IDEA) for signing up more customer square footage for chilled water services than any other company in the world. *OUCooling* added 9 million square feet of customer space – more than twice the space secured by the second-place winner.

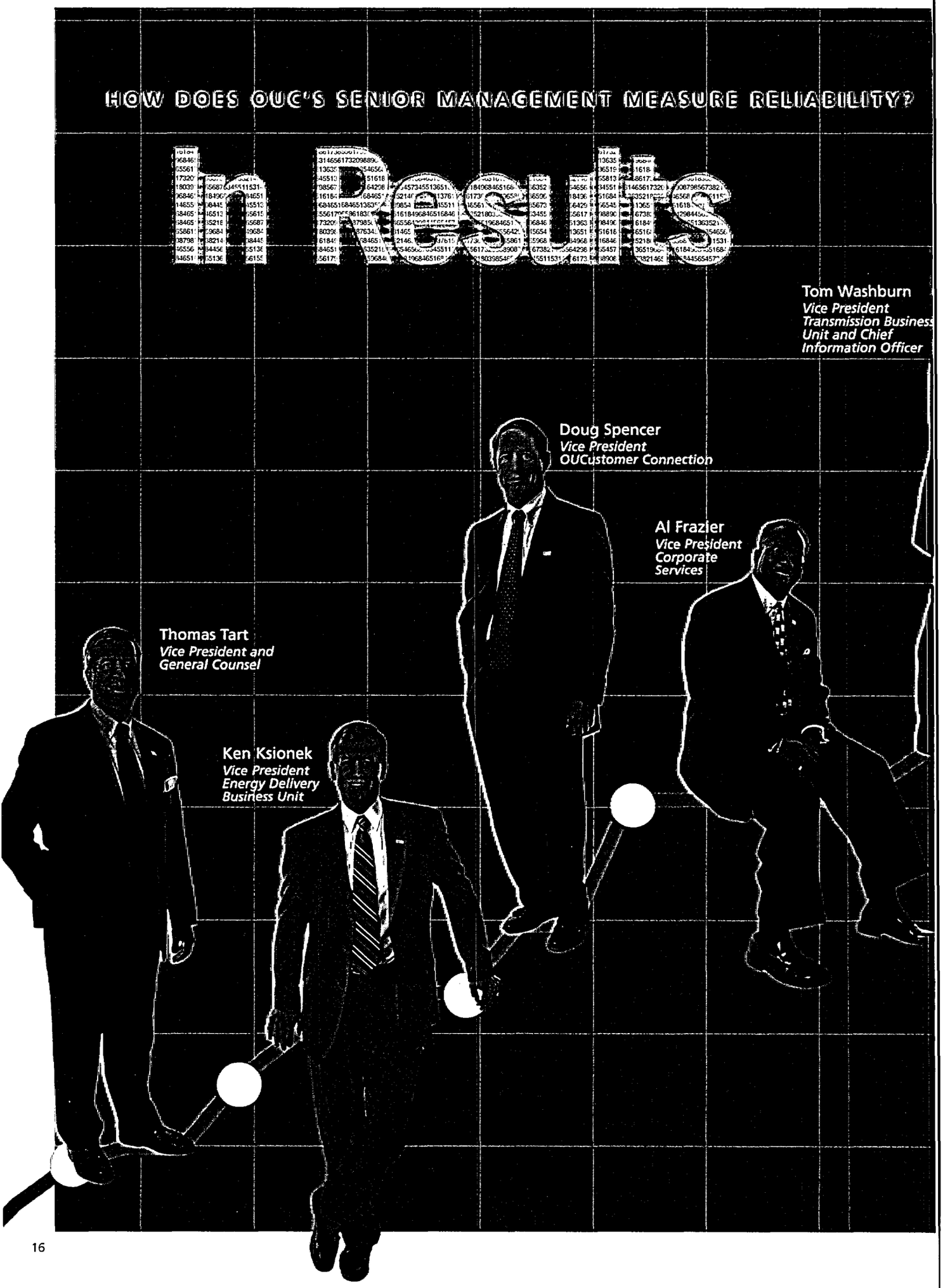
In 2002, OUCooling was recognized for signing up more customer square footage than any other chilled water provider in the world.

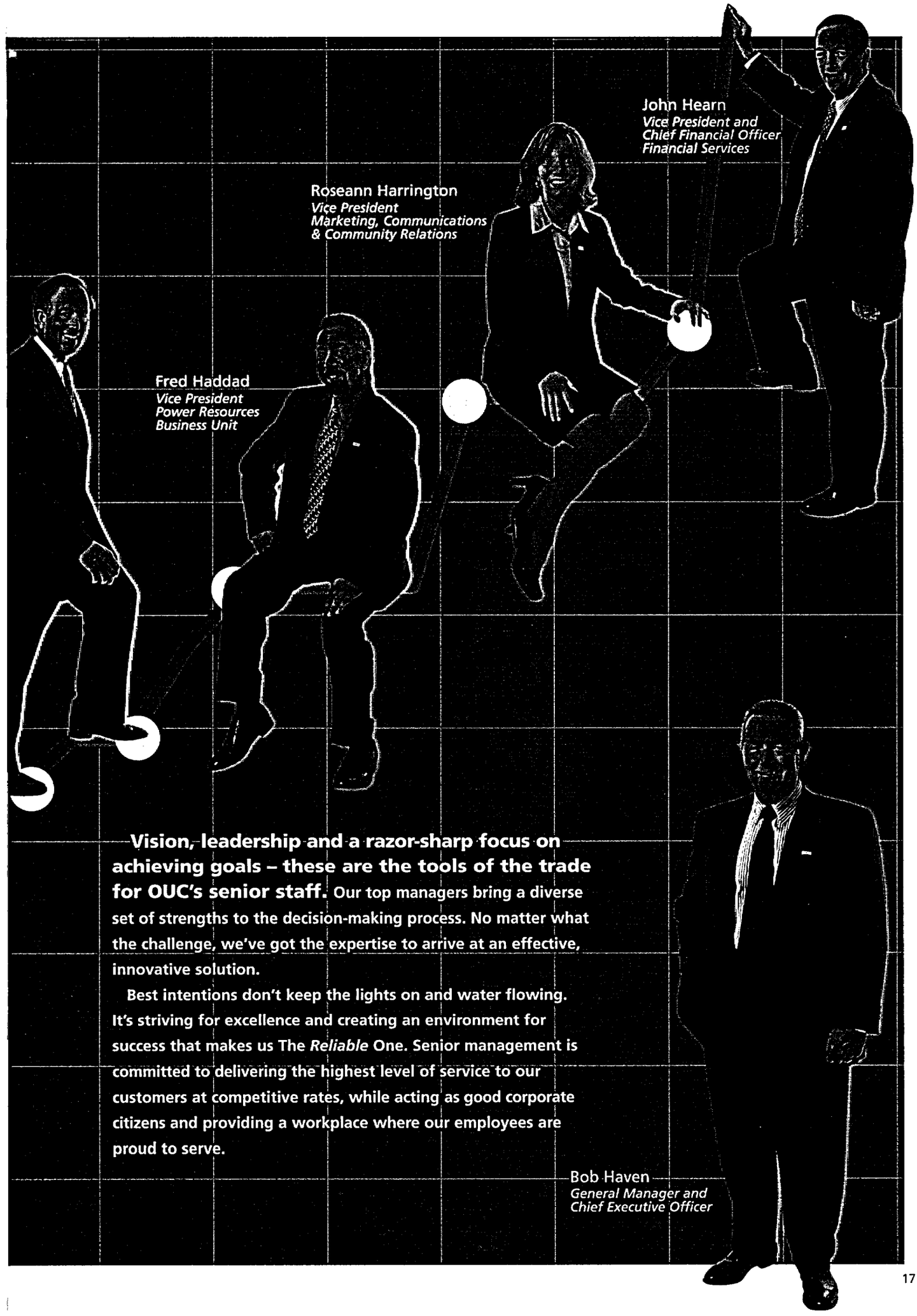
Aside from the Mall at Millenia, *OUCooling* operates on-site cooling systems for the Orange County Convention Center and the Sheraton Vistana Villages timeshare development in south Orange County. At the convention center, *OUCooling* is building the world's largest chilled water storage tank – a 17.6 million-gallon reservoir that will be chilled nightly.

In downtown Orlando, *OUCooling* operates a district cooling "loop" serving nine customers, including hotels, office towers and churches – nearly 2 million square feet of space combined. Last year we began expanding the downtown system northward to accommodate even more customers, including office buildings, high-rise apartments and the 150,000-square-foot Hughes Supply Inc. headquarters set to open in mid-2003.

HOW DOES OUC'S SENIOR MANAGEMENT MEASURE RELIABILITY?

In Results





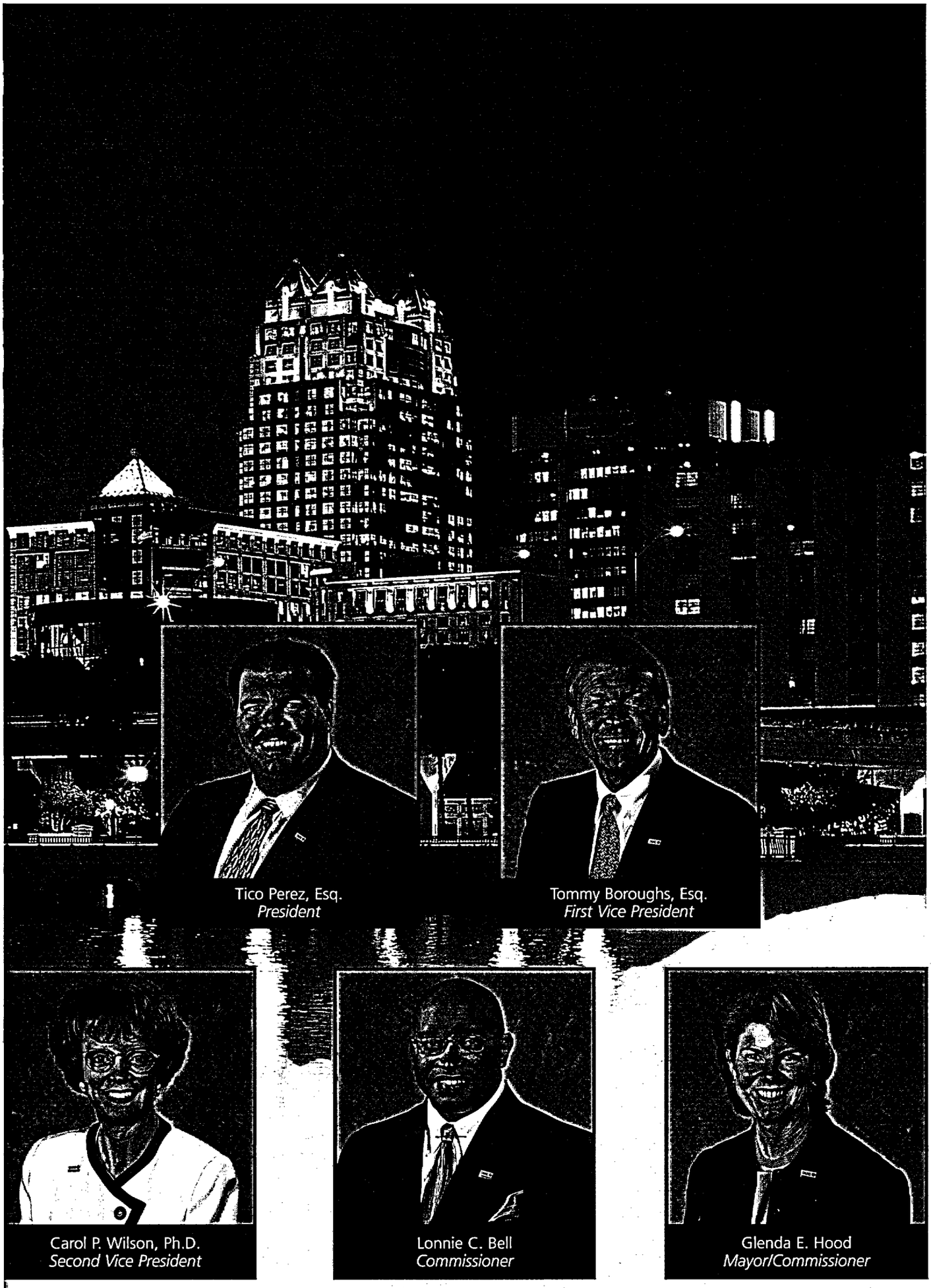
Vision, leadership and a razor-sharp focus on achieving goals – these are the tools of the trade for OUC's senior staff. Our top managers bring a diverse set of strengths to the decision-making process. No matter what the challenge, we've got the expertise to arrive at an effective, innovative solution.

Best intentions don't keep the lights on and water flowing. It's striving for excellence and creating an environment for success that makes us The *Reliable* One. Senior management is committed to delivering the highest level of service to our customers at competitive rates, while acting as good corporate citizens and providing a workplace where our employees are proud to serve.

HOW DO OUR COMMISSIONERS MEASURE RELIABILITY?

IN ACCOUNTABILITY

OUC's board members are dedicated to being good stewards of our customers' money and enacting effective policies for our company. Known as the Commission, our governing board is made up of five citizens who live in OUC's service territory, have strong local ties and represent the diversity of our community. Our Commissioners are well versed in rate structures, budgets and capital projects – and they're attuned to the constant changes in our industry.



Tico Perez, Esq.
President

Tommy Boroughs, Esq.
First Vice President

Carol P. Wilson, Ph.D.
Second Vice President

Lonnie C. Bell
Commissioner

Glenda E. Hood
Mayor/Commissioner

(Dollars in Thousands)

STATISTICAL HIGHLIGHTS

	September 30 2002	September 30 2001	% Increase (Decrease)	September 30 1992
COMBINED OPERATIONS				
Operating Revenues	$ 494,965	$ 534,344	-7.4%	$ 307,359
Total Operating Expenses	$ 406,215	$ 444,314	-8.6%	$ 228,672
Interest and Other Income	$ 39,898	$ 52,223	-23.6%	$ 38,321
Interest and Other Expenses	$ 81,623	$ 88,766	-8.0%	$ 92,073
Income Before Contributions	$ 47,025	$ 53,485	-12.1%	$ 24,933
Payments to City of Orlando	$ 44,494	$ 48,046	-7.4%	$ 28,057
Utility Plant (Net book value)	$ 1,623,729	$ 1,546,399	5.0%	$ 1,081,618
Total Net Assets	$ 657,767	$ 628,026	7.4%	$ 371,583
Long-term Debt	$ 1,280,209	$ 1,367,949	-6.4%	$ 1,207,387
Total Assets	$ 2,398,104	$ 2,419,570	-0.2%	$ 1,756,303
Debt Service Coverage:				
Senior lien	3.27	4.34	-24.7%	2.67
Junior lien	4.39	3.84	14.3%	5.11
Combined debt	2.08	2.17	-4.1%	1.87
Senior Bond Ratings (1)	AA,Aa1,AA	AA,Aa1,AA		AAA,Aa1,AA
ELECTRIC BUSINESS UNIT				
Operating Revenues	$ 453,111	$ 495,531	-8.6%	$ 286,781
Total Operating Expenses	$ 374,213	$ 410,253	-8.8%	$ 211,660
Fuel and Purchased Power	$ 189,967	$ 231,128	-17.8%	$ 99,445
Departmental Operations (2)	$ 184,246	$ 179,125	2.9%	$ 112,215
Total Sales (MWH)	7,030,392	7,633,910	-7.9%	5,022,271
Total Retail Sales (MWH)	4,879,617	4,846,894	0.7%	3,543,506
Commercial/Industrial Sales	3,249,835	3,199,999	1.6%	2,331,349
Residential Sales	1,629,782	1,646,895	-1.0%	1,212,157
Sales for Resales (MWH)	2,150,775	2,787,016	-22.8%	1,478,765
Total Active Services (3)	152,914	149,735	2.1%	120,891
Residential	132,186	129,342	2.2%	104,309
Commercial/Industrial	20,728	20,393	1.6%	16,582
Average Annual Residential Use (KWH)	12,464	12,860	-3.1%	11,621
Average Revenue per KWH				
Residential Sales	8.07¢	8.09¢	-0.2%	7.42¢
Heating Degree Days	457	706	-35.3%	505
Cooling Degree Days	3,487	3,278	6.4%	3,403
Gross Peak Demand (MW)	1,058	1,030	2.7%	810
WATER BUSINESS UNIT				
Operating Revenues	$ 41,854	$ 38,813	7.8%	$ 20,578
Total Operating Expenses	$ 32,002	$ 34,061	-6.0%	$ 17,012
Sales (In Thousands of Gallons)	28,517,536	29,305,811	-2.7%	25,387,719
Total Active Services	120,466	119,197	1.1%	101,985
Residential	95,829	95,254	0.6%	85,423
Commercial/Industrial	11,519	11,351	1.5%	10,155
Irrigation	13,118	12,592	4.2%	6,407
Average Annual Residential Usage (Gal.)	151,000	159,000	-5.0%	159,000
Average Revenue per 1000 gallons				
Residential Sales (Dollars not in thousands)	$ 1.57	$ 1.40	11.7%	83.79¢
Rainfall (Inches)	56.6	52.0	8.8%	49.3
Peak Pumping (Million Gallons per Day)	109.7	111.7	-1.8%	146.7

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.

AUDITED FINANCIAL STATEMENTS

ORLANDO UTILITIES COMMISSION

SEPTEMBER 30, 2002 AND 2001

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Commissioners of the
Orlando Utilities Commission:

We have audited the accompanying statements of net assets of Orlando Utilities Commission as of September 30, 2002 and 2001, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of Orlando Utilities Commission'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 Orlando Utilities Commission as of September 30, 2002 and 2001, 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.

Management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the presentation of management's discussion. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2002 on our consideration of Orlando Utilities Commission'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 audits.

Deloitte & Touche LLP

November 22, 2002

Deloitte
Touche
Tohmatsu

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

Management's Report

The management of Orlando Utilities Commission (OUC) has prepared — and is responsible for — the integrity and objectivity of the financial statements and related information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board.

To ensure the integrity of our financial statements, OUC maintains a system of internal accounting controls. These internal accounting controls are supported by written policies and procedures and an organizational structure that appropriately assigns responsibilities to mitigate risks. These controls have been put in place to ensure OUC's assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized. OUC's controls are evaluated on an ongoing basis by both management and OUC's internal auditors. In addition, Deloitte & Touche, LLP, OUC's independent public accountants, consider certain elements of the internal control system to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Based on the statements above, it is management's assertion that the financial statements do not omit or improperly include untrue statements of a material fact or include statements of a misleading nature.

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

John E. Hearn
Vice President and
Chief Financial Officer

Mindy F. Willis
Director
Accounting Services

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to OUC's financial statements. It defines the basic financial statements and summarizes OUC's general financial condition and result of operations.

Basic Financial Statements

The basic financial statements are prepared to provide the reader with a comprehensive overview of OUC's statement of position and operations.

The Statements of Revenues, Expenses and Changes in Net Assets present both current and prior year revenue and expenses. Operating results are reported separately from non-operating and contributions in aid of construction activities. Non-operating expenses consist primarily of current and prior year financing and investing. Contributions in aid of construction typically are comprised of amounts received from residential and commercial customers for system enhancements.

The Statements of Net Assets, previously titled Balance Sheet, present information on all of OUC's assets and liabilities with the difference between these two amounts being reported as net assets. OUC's assets are separated for reporting purposes based on their nature. Utility plant includes those assets which are both in service and those currently under construction. Restricted and designated assets include cash and cash equivalents either legally restricted by debt ordinances, charter requirements or Commission action. Current assets, other assets and liabilities are reported based on their liquidity.

The Statements of Cash Flows are presented using the direct method. This method outlines the sources and uses of cash as it relates to operating income. In addition, included in the Cash Flows Statement are classifications for non-capital related financing, capital related financing, and investing activities.

Reporting Changes and Significant Accounting Policies

In 2002, OUC implemented Statement of Governmental Accounting Standards (SGAS) No. 34, *Basic Financial Statements — and Management's Discussion and Analysis* as amended by SGAS No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34* and SGAS No. 38, *Certain Financial Statement Note Disclosures.* The implementation of these statements, although not affecting OUC's financial position or results of operations, did result in reporting presentation changes including the incorporation of this discussion. In addition, as a result of the adoption of SGAS No. 34 in 2002, OUC reclassified its presentation of contributions in aid of construction to comply with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions.* As a result of this change, contributions in aid of construction previously reported as donated utility plant on the Statements of Net Assets are now reported as revenue and flow through the Statements of Revenues, Expenses and Changes in Net Assets.

Results of Operations

Fiscal Year 2002 presented many challenges including an economic slowdown, mild summer weather and a less robust wholesale electric market. The combined effects of these factors resulted in income before contributions (previously reported as net income) of $47 million for 2002, a $6.5 million reduction from 2001.

Retail electric revenue is comprised of two components: energy and fuel. In 2002, several factors affected retail electric revenue including lower fuel prices, economic slowdown and milder weather. These factors were offset by a 2% growth in OUC's customer base. Although the energy portion of retail revenue was level with 2001, fuel revenue was $2 million lower.

Wholesale electric revenue, also comprised of two components, was down $44.7 million from 2001. The energy component was down $6.1 million from 2001 although in line with expectations for 2002. The fuel component was down $38.6 million from 2001, due to a decrease in megawatt hours sold and lower fuel prices. As anticipated, increased supply from new capacity coming on-line affected the wholesale electric markets. Milder weather also reduced the 2002 demand.

Water revenue recognized in 2002 was $41.9 million. In 2001, OUC deferred through regulatory action, $4 million of water revenue for future water supply needs. In 2002 rainfall was 8.8% above normal and customer growth was 1%. The following table compares water revenue in 2002 with 2001:

	September 30	
(Dollars in Thousands)	**2002**	**2001**
Water revenue after regulatory deferrals	$ 41,854	$ 38,813
Regulatory deferrals	–	4,000
Water revenue before regulatory deferrals	$ 41,854	$ 42,813

Other revenues increased $4.4 million in 2002. This increase was attributable to several factors including planned expansion in the chilled water and streetlight operating segments. Chilled water revenues increased as new operating plant loops began generating revenue in the current year and existing operating plant loops expanded their customer base. Streetlight revenues also increased as OUC expanded services available to our customer base.

Costs related to fuel for generation and purchased power decreased $41.2 million or 17.8% in 2002 compared to 2001. A large portion of this decrease is a function of the decrease in megawatt hour sales (retail and wholesale) coupled with lower gas and oil prices.

Other operating expenses in total, including unit department, depreciation and payments to other governments and taxes in total, were consistent with the prior year.

Results of Operations (continued)

Interest income and expense were less in 2002 due to lower interest rates. In 2002 the average investment yield decreased from 5.68% in 2001 to 3.28% in 2002. These changes caused lower than anticipated earnings and costs. See the Financing section below for additional discussion of interest expense changes.

Other income was higher in 2002 as a result of land and land right sales which resulted in a gain of $3.0 million.

The amount amortized in 2002 for the deferred gain on sale increased by $2.2 million over 2001. The gain on sale is being recognized to mitigate additional generation and purchased power costs until OUC's new generating unit comes on line.

Capital Assets

A 633 megawatt combined-cycle plant is being constructed on OUC's Stanton Energy Center site. OUC will own 28% and purchase 52% of the output. Other Florida municipal electric utilities will own 7% and purchase 13%. Southern Company will construct and operate the plant and maintain a 65% ownership. The plant is expected to come on line in October 2003. OUC's cost is expected to be $112 million with $55.7 million incurred through September 30, 2002.

OUC's transmission and distribution asset base continues to grow with 2002 capital additions, through construction work in progress, of $64 million. One of this year's major projects included an expansion of electric services at the Orange County Convention Center.

In the water business unit, capital outflows were $20 million, a 7% increase as compared to the prior year. This increase was due to the upgrade of the water treatment plant at Baldwin Park, formerly the Orlando Naval Training Center, which began operations in September 2002.

OUC's chilled water division continues to grow its market with expansion of the International Drive and Mall at Millenia operating loops.

Financing

The lower interest rate environment in 2002 created several opportunities for OUC. In October 2001, $276.8 million of OUC's outstanding bonds were refunded resulting in present value savings of $19.2 million. In June 2002, OUC issued $120 million in variable rate debt to provide funds for capital projects. The bonds were swapped to a fixed rate of 3.596%. In July 2002, funds from the Liability Reduction Fund were used to defease $112.2 million of high coupon (6.75%) outstanding debt. In addition, in November 2002, during the subsequent event period of the annual audit, OUC issued $100 million in variable rate debt to provide funds for capital projects and refunded $84.3 million of OUC's outstanding bonds for a present value savings of $4.3 million.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

REVENUES, EXPENSES AND NET ASSETS (Dollars in thousands)	Year Ended September 30 2002	2001
Operating Revenues		
Retail electric, net	$322,012	$324,137
Wholesale electric, net	115,207	159,889
Water revenues, net	41,854	38,813
Other revenues	15,892	11,505
Total Operating Revenues	**494,965**	**534,344**
Operating Expenses		
Fuel for generation and purchased power	189,967	231,128
Unit/Department expenses	111,595	106,460
Depreciation and amortization	74,157	77,248
Payments to other governments and taxes	30,496	29,478
Total Operating Expenses	**406,215**	**444,314**
Operating Income	**88,750**	**90,030**
Non-Operating Income and Expenses		
Interest income	26,465	41,045
Other income, net	4,858	3,156
Amortization of deferred gain on sale of assets	13,433	11,178
Interest expense	(86,481)	(91,924)
Total Net Non-Operating Expense	**(41,725)**	**(36,545)**
Income before contributions	**47,025**	**53,485**
Revenue From Contributions in Aid of Construction	10,916	8,317
Annual Dividend Payment	(28,200)	(32,091)
Increase in Net Assets	**29,741**	**29,711**
Net Assets - Beginning of Year	**628,026**	**598,315**
Net Assets - End of Year	**$657,767**	**$628,026**

See notes to the financial statements.

STATEMENTS OF NET ASSETS

ASSETS (Dollars in thousands)	September 30 2002	2001
Utility Plant		
Electric	$1,748,803	$1,677,700
Water	362,632	335,459
Common	111,614	106,275
Allowances for depreciation and amortization	(748,094)	(672,077)
	1,474,955	1,447,357
Land and Other Non-Depreciable Assets	28,652	27,605
Construction Work in Progress	103,141	71,437
Utility Plant, Net	**1,606,748**	**1,546,399**
Restricted and Internally Designated Assets		
Debt service and related funds	164,883	177,379
Construction and related funds	46,522	24,557
Renewal and replacement fund	48,939	47,522
Customer meter deposits	19,161	15,008
Total restricted assets	279,505	264,466
Liability reduction fund	187,260	328,917
Stabilization funds	95,392	73,024
Self-insurance fund	4,759	4,527
Total internally designated assets	287,411	406,468
Total Restricted and Internally Designated Assets	**566,916**	**670,934**
Current Assets		
Cash and investments	57,186	55,294
Customer accounts receivable, less allowance for doubtful accounts (2002 – $1,784, 2001 – $1,518)	59,956	58,243
Accrued utility revenue	26,126	23,668
Fuel for generation	10,404	4,716
Materials and supplies inventory	28,567	26,342
Accrued interest receivable	2,082	2,700
Miscellaneous receivables and prepaid expenses	16,985	19,142
Total Current Assets	**201,306**	**190,105**
Other Assets		
Deferred charges	18,749	8,569
Unamortized debt issuance costs	2,693	2,079
Other deferred costs	1,692	1,484
Total Other Assets	**23,134**	**12,132**
Total Assets	**$2,398,104**	**$2,419,570**

See notes to the financial statements.

LIABILITIES (Dollars in thousands)	September 30 2002	2001
Current Liabilities		
Payable from restricted assets		
Accrued interest payable on notes and bonds	$ 31,338	$ 34,254
Current portion of long-term debt	91,155	54,190
Customer meter deposits	19,161	15,008
Total Payable From Restricted Assets	141,654	103,452
Payable from current assets		
Accounts payable and accrued expenses	57,130	55,294
Billings on behalf of state and local governments	9,654	9,931
Accrued payments to the City of Orlando	1,650	8,516
Total Payable From Current Assets	68,434	73,741
Total Current Liabilities	**210,088**	**177,193**
Other Liabilities and Deferred Credits		
Deferred gain on sale of assets	110,000	123,437
Deferred revenue	138,783	121,043
Water and electric construction deposits and other	1,257	1,922
Total Other Liabilities and Deferred Credits	**250,040**	**246,402**
Long-Term Debt		
Bond and note principal	1,373,780	1,475,100
Unamortized discount and deferred amount on refunding	(93,571)	(107,151)
Total Long-Term Debt	**1,280,209**	**1,367,949**
Total Liabilities	**1,740,337**	**1,791,544**
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	432,324	299,089
Restricted	51,289	49,335
Unrestricted	174,154	279,602
Total Net Assets	**$ 657,767**	**$ 628,026**

See notes to the financial statements.

STATEMENTS OF CASH FLOWS

STATEMENTS OF CASH FLOWS (Dollars in thousands)	Year Ended September 30 2002	2001
Cash Flows from Operating Activities		
Cash received from customers	$ 506,245	$ 570,813
Cash paid for fuel and purchased power	(192,805)	(228,895)
Cash paid for unit department expenses	(110,237)	(95,847)
Cash paid for other payments and taxes	(31,506)	(32,055)
Net Cash Provided by Operating Activities	**171,697**	**214,016**
Cash Flows from Non-capital Related Financing Activities		
Dividend to the City of Orlando	(35,091)	(31,984)
Net Cash Used in Non-capital Related Financing Activities	**(35,091)**	**(31,984)**
Cash Flows from Capital Related Financing Activities		
Debt interest payments	(74,483)	(76,198)
Principal payments on long-term debt	(432,089)	(61,735)
Debt issuances	394,813	50,290
Debt issue expenses	(19,266)	(2,795)
Utility plant net of contributions in aid of construction	(145,149)	(103,664)
Net Cash Used in Capital Related Financing Activities	**(276,174)**	**(194,102)**
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investment securities	476,076	677,945
Proceeds for gain on sale of investments	2,488	–
Purchases of investment securities	(312,354)	(607,209)
Investment and other income	35,301	46,065
Net Cash Provided by Investing Activities	**201,511**	**116,801**
Net increase in cash and cash equivalents	**61,943**	**104,731**
Balance - beginning of year	**159,036**	**54,305**
Balance - End of Year	**$ 220,979**	**$ 159,036**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 88,750	$ 90,030
Non-cash Items Included		
Depreciation and amortization of plant charged to operations	74,157	77,248
Depreciation and amortization charged to fuel for generation and purchased power	1,942	3,299
Depreciation of vehicles and equipment charged to Unit/Department expenses	1,902	1,453
Changes in Assets and Liabilities		
Decrease/(Increase) in receivables and accrued revenue	(2,890)	10,412
Increase in fuel and materials and supplies inventories	(7,979)	(805)
Increase in accounts payable	2,166	8,930
Increase/(Decrease) in deposits payable and deferred items	247	(2,608)
Increase in stabilization and deferred revenue accounts	13,402	26,057
Net Cash Provided by Operating Activities	**$ 171,697**	**$ 214,016**
Reconciliation of cash and cash equivalents		
Internally designated investments	$ 162,370	$ 139,075
Cash and investments	32,307	18,919
Construction and related funds	26,297	1,038
Debt service and related funds	5	4
Cash and Cash Equivalents at the End of the Year	**$ 220,979**	**$ 159,036**

NOTES TO 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 set 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 full 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 Governmental Accounting Standards Board Statement No. 14, *"The Financial Reporting Entity"* and Statement No. 39, *"Determining Whether Certain Organizations are Component Units."*

Within OUC's stand-alone government reporting structure are undivided interests in several utility plants which are operated through participation agreements as described in Note D. Under these agreements, title to the property is held in accordance with the terms defined in each agreement and as such, each party is obligated for its contractual share of operations. There are no separate entities or organizations associated with these 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 contributions in aid of construction which are recorded in accordance with GASB.

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.*

Rates and Revenue: According to the existing laws of the State of Florida, the five board members of OUC act as the regulatory authority for the establishment of electric and water rates. These rates are set in accordance with the "rate structures" established by the Florida Public Service Commission (FPSC). The FPSC has the jurisdiction to regulate the electric "rate structures" of municipal utilities in Florida. A rate structure is defined as the rate relationship between customer class and among customers within rate classes and is distinguishable from the total amount of revenue requirements a utility may receive from rates.

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 FPSC regarding electric rate structures, OUC's staff develops its electric and water rate schedules. Prior to the implementation of any rate change, OUC notifies customers individually, holds a public workshop, presents the rates to the governing board for approval and files the proposed tariffs with the FPSC.

Budgets: Revenue and expense budgets are prepared on an annual basis in accordance with OUC's budget policy and bond resolutions and submitted to the OUC board 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 budget by operating unit as well as by line item. Variance analyses are prepared and submitted to OUC's governing board 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. Depreciation is recorded systematically using the straight-line method over the estimated useful life of the 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.

Nuclear Decommissioning: OUC accrues its proportionate share of nuclear decommissioning costs based on the expected service life of the unit. Nuclear decommissioning costs are provided to OUC from the owner-operator after the estimates have been approved by the FPSC. Estimated nuclear decommissioning costs are required to be submitted to the FPSC at least every five years. Nuclear decommissioning costs are included as a reduction to utility plant in allowance for depreciation.

Cash, Cash Equivalents & Investments: Cash equivalents include all authorized 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.

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, 2002 and 2001 had a fair market value in excess of amortized costs of $5,650 and $8,021, respectively. This treatment is consistent with OUC's intent and ability to hold these investments until the related debt instruments have reached maturity. Realized and unrealized gains and losses for all investments except those executed in conjunction with a bond refunding, are included in interest income and/or interest expense, respectively, on the Statements of Revenues, Expenses and Changes in Net Assets. Realized gains recognized as a result of a bond refunding are included as a reduction of unamortized loss on refunding. Premiums and discounts on bonds and other investments are amortized using the effective interest method.

Energy Risk Management and Derivative Instruments: Derivative transactions are executed in accordance with OUC's internally established Energy Risk Management Oversight Committee (ERMOC) whose 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 credit-worthiness, 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 of the gross current market value of the derivatives.

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accounting for fuel hedge activities, OUC records these derivative instruments, where applicable, 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 purchased power costs. OUC has derivative instruments (swaps, futures and options) with a net fair market value of $2,027 and $1,700 at September 30, 2002 and 2001, respectively. No amount is recorded for the fuel swaps other than the net monthly fuel settlement amount resulting from these agreements.

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 Revenue" above.

The customer net accounts receivable balance of $59,956 and $58,243 at September 30, 2002 and 2001, respectively, includes billings on behalf of state and other local governments. The net liability of $9,654 and $9,931 at September 30, 2002 and 2001, respectively, (billings on behalf of state and local governments less expenses) represents the September billings for 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.

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, 2002 and 2001, annual vacation leave earned but not taken was $763 and $769; sick leave accumulated but not taken was $2,821and $2,666, respectively. Such amounts are included in the Statements of Net Assets under the caption, Accounts payable and accrued expenses.

Contributions in Aid of Construction: In December 1998 the Governmental Accounting Standards Board (GASB) issued Statement No. 33, *"Accounting and Financial Reporting for Non-Exchange Transactions."* In the prior year OUC applied SFAS 71 and recorded contributions in aid of construction as donated utility plant. In conjunction with OUC's implementation of GASB No. 34, OUC adopted the provisions of GASB No. 33. Accordingly, contributions in aid of construction are recorded as revenue in the period in which they have been received on the Statements of Revenues, Expenses and Changes in Net Assets and are no longer recorded as a reduction to donated utility plant. Prior year donated utility plant has been reclassified to conform to the 2002 presentation (see "Recent Accounting Pronouncements").

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements: Statement of Governmental Accounting Standards (SGAS) No. 34, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* as amended by SGAS No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34* and SGAS No. 38, *Certain Financial Statement Note Disclosures."*

In conjunction with OUC's adoption of these pronouncements in 2002, the following key reporting changes have been implemented:

- The inclusion of a management's discussion and analysis as supplemental information
- Expansion of the footnote disclosures related to utility plant and long-term debt
- Presentation of the Statements of Cash Flows on the direct method
- Amounts previously reported as equity have been reclassified under the heading of Net Assets and categorized as either (a) Invested in capital assets, net of related debt, (b) Restricted or (c) Unrestricted. The following schedule summarizes these changes:

Total Equity at September 30, 2001, as previously reported	$619,783
Plus: Revenue from contributions in aid of construction for the year ended September 30, 2001	8,317
Less: Depreciation on donated utility plant for the year ended September 30, 2001	74
Total Net Assets at September 30, 2001	$628,026

Statement of Governmental Accounting Standards (SGAS) No. 39, *"Determining Whether Certain Organizations are Component Units."*

Based on management's review of the criteria provided in this pronouncement, OUC does not meet the requirements to be reported as a component unit and as such continues to report as a stand-alone entity.

Reclassifications: Certain amounts in 2001 have been reclassified to conform with the 2002 presentation.

(Dollars in Thousands)

NOTE C — UTILITY PLANT

Utility plant: Utility plant includes contract work, labor and materials. These costs are combined and recorded through construction work in progress and capitalized to fixed assets as a transfer from these accounts. Therefore, on the schedule below, the majority of utility plant in service additions are reflected as transfers. Activity for the years ended September 30, 2002 and September 30, 2001 are as follows:

Utility Plant (Net)	September 30 2001	Additions	Transfers	Retirements	September 30 2002
Utility Plant					
Electric (5-50 years)	$1,677,700	$ 4,676	$ 67,950	$ (1,523)	$1,748,803
Water (3-50 years)	335,459	2,738	24,789	(354)	362,632
Shared/Customer Service (3-50 years)	106,275	2,718	2,979	(358)	111,614
Total Utility Plant	2,119,434	10,132	95,718	(2,235)	2,223,049
Accumulated Depreciation					
Electric	(541,112)	(58,573)	(27)	679	(599,033)
Water	(67,231)	(8,273)	42	365	(75,097)
Shared/Customer Service	(40,989)	(7,866)	(15)	288	(48,582)
Total Accumulated Depreciation	(649,332)	(74,712)	–	1,332	(722,712)
Total Depreciable Utility Plant, Net	1,470,102	(64,580)	95,718	(903)	1,500,337
Land and Other Non-depreciable Assets	27,605	1,307	–	(260)	28,652
Allowance for Decommissioning	(22,745)	(2,637)	–	–	(25,382)
Construction Work in Progress	71,437	126,521	(95,718)	901	103,141
Utility Plant, Net	$1,546,399	$ 60,611	$ –	$ (262)	$1,606,748

Utility Plant (Net)	September 30 2000	Additions	Transfers	Retirements	September 30 2001
Utility Plant					
Electric (5-50 years)	$1,630,477	$ 4,218	$ 44,901	$ (1,896)	$1,677,700
Water (3-50 years)	316,281	3,094	17,174	(1,090)	335,459
Shared/Customer Service (3-50 years)	89,369	2,119	15,310	(523)	106,275
Total Utility Plant	2,036,127	9,431	77,385	(3,509)	2,119,434
Accumulated Depreciation					
Electric	(484,726)	(58,843)	2,181	276	(541,112)
Water	(58,946)	(9,587)	(19)	1,321	(67,231)
Shared/Customer Service	(31,427)	(7,939)	(2,162)	539	(40,989)
Total Accumulated Depreciation	(575,099)	(76,369)	–	2,136	(649,332)
Total Depreciable Utility Plant, Net	1,461,028	(66,938)	77,385	(1,373)	1,470,102
Land and Other Non-depreciable Assets	27,614	10	65	(84)	27,605
Allowance for Decommissioning	(19,284)	(3,461)	–	–	(22,745)
Construction Work in Progress	43,305	112,676	(77,450)	(7,094)	71,437
Utility Plant, Net	$1,512,663	$ 42,287	$ –	$ (8,551)	$1,546,399

(Dollars in Thousands)

NOTE C — UTILITY PLANT (continued)

Nuclear Decommissioning: OUC funds nuclear decommissioning costs 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. The following amounts represent the total obligation, the funded amounts (the amount included in the Statements of Net Assets under the heading of Construction and related funds as well as reduction to net utility plant) and the future funding requirements as of September 30:

	September 30	
	2002	2001
St. Lucie Unit No. 2		
Total obligation	$26,725 **	$22,495 *
Funded amounts		
Investments	19,355	17,267
Other amounts	483	–
Future funding requirements	$ 6,887	$ 5,228
Crystal River Unit No. 3		
Total obligation	$ 8,566 **	$ 8,260 **
Funded amounts		
Investments	6,027	5,478
Other amounts	155	–
Future funding requirements	$ 2,384	$ 2,782

* In 1995 dollars. ** In 2000 dollars.

The license expiration dates for St. Lucie Unit No. 2 and Crystal River Unit No. 3 are April 2023 and December 2016, respectively.

NOTE D — 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, 2002 and 2001 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%

In addition, OUC operates a wastewater treatment facility at the SEC1 and SEC2 sites through an agreement with Orange County.

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

NOTE D — JOINTLY OWNED OPERATIONS (continued)

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 capacity of 633 megawatts, of which OUC's undivided share will be 28% or approximately 177 units of net megawatt capacity and be available for commercial operations in October 2003.

These agreements and the related ownership have remained consistent for the years ending September 30, 2002 and 2001 and are as follows:

Facility Name	Agreement Year	Total Facility Net Megawatt Capacity	OUC Undivided Ownership interest	Net OUC Megawatt Capacity
St. Lucie Unit No. 2 (SL2)	1980	853	6.0895%	52
McIntosh Unit No. 3 (MAC3)	1978	340	40.0000%	136
Crystal River Unit No. 3 (CR3)	1975	835	1.6015%	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 is determined by each participant based on their depreciation methods and rates relating to their share of the plant. During fiscal years 2002 and 2001, OUC authorized an additional $7,200 and $10,600, respectively, in depreciation of its interest in the SL2 nuclear generating plant.

The following is a summary of OUC's recorded net share of each jointly owned plant including allowances for nuclear decommissioning:

	September 30	
	2002	2001
Stanton Energy Center Unit No. 1	$ 194,420	$ 197,221
Stanton Energy Center Unit No. 2	305,470	313,176
McIntosh Unit No. 3	60,617	62,387
Indian River Combustion Turbines	40,066	44,125
St. Lucie Unit No. 2	33,864	40,234
Stanton Energy Center Unit A	55,662	13,613
Crystal River Unit No. 3	3,629	3,602
Allowance for Decommissioning of Nuclear Plants	(25,382)	(22,745)
Total	$ 668,346	$ 651,613

NOTE E — CASH, CASH EQUIVALENTS, AND INVESTMENTS

OUC's cash deposits, including deposits held in an interest-bearing qualified public depository account, are held in institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. Governmental securities, per the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes. 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
- interest-bearing qualified public depository accounts
- 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.

(Dollars in Thousands)

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

Investments in repurchase agreements are secured transactions 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 10 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.

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 0.70% and 1.0% of the Surplus Funds Investment Pool portfolio at September 30, 2002 and 2001, 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, OUC considers the risk of loss of principal to be remote.

The following are the cash, cash equivalents and investment deposits held by OUC:

	September 30	
Cash, cash equivalents & investments	**2002**	**2001**
Cash	$113,134	$114,689
Investments - Category 1		
(Insured or registered & held by OUC or agent in OUC's name)		
Repurchase agreements	9,576	11,022
U. S. government securities	45,415	167,442
Other U. S. and agency backed securities	454,710	421,101
Total Category 1 Investments	509,701	599,565
Investments - Category 3		
(Uninsured & Unregistered and Held by Banks Trust or Agent Not in OUC's Name):		
Repurchase agreements	305	10,663
Total cash, cash equivalents and investments	623,140	724,917
Restricted Assets:		
Debt Service and Related Funds		
Principal and interest funds	61,935	63,085
Debt service reserve funds	102,948	114,294
Total Debt Service and Related Funds	164,883	177,379
Construction and related funds:		
Nuclear generation facility decommissioning funds	27,730	24,144
Construction funds	18,792	413
Total construction and related funds	46,522	24,557
Renewal and replacement fund	48,939	47,522
Customer meter deposits	19,161	15,008
Total Restricted Assets	279,505	264,466
Internally Designated Assets:		
Liability reduction fund	187,260	328,917
Stabilization funds	95,392	73,024
Self-insurance fund	4,759	4,527
Total Internally Designated Assets	287,411	406,468
Other Funds:		
Cash and investments	57,186	55,294
Less: Accrued interest receivable from restricted assets	(962)	(1,311)
Total cash, cash equivalents and investments	$623,140	$724,917

(Dollars in Thousands)

NOTE F — 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 Charges:*** Included in this account are deferred interest costs on Series 1993 and 1993B bonds which are in excess of interest costs that would have been incurred on short-term debt at the time of issuance. In 2002 a portion of these bonds was refunded and as such $2.9 of deferred charges have been reclassified and are included under the caption of deferred amount on refunding. OUC's total regulatory costs for these deferred interest costs are $5,344 and $8,569 at September 30, 2002 and 2001, respectively. Deferred charges are currently amortized to interest expense over the remaining life of the Series 1993 and 1993B bonds, amounting to an annual expense of $279 and $408 at September 30, 2002 and 2001, 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 began systematically recognizing a portion of this amount ($45,000) to offset generating facility demand payments included as a portion of OUC's purchase power commitments (Note K). These gains, $13,433 and $11,178, were systematically recognized in the Statements of Revenues, Expenses and Changes in Net Assets in 2002 and 2001, 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 E). Each of these funds earns the same interest rate as OUC's operating investment portfolio.

OUC's total regulatory liabilities are as follows:

	September 30	
Description	**2002**	**2001**
Deferred Wholesale Trading Profits	$ 39,232	$ 43,464
Rate Stabilization	41,308	39,437
Fuel Stabilization	36,565	15,978
Customer Retention Stabilization	1,518	1,610
Total Regulatory Liabilities Included in Deferred Revenue	118,623	100,489
Deferred Gain on Sale of Assets	110,000	123,437
Health Insurance Reserve	468	427
Total Regulatory Liabilities	$ 229,091	$ 224,353

(Dollars in Thousands)

NOTE G — 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 Statements of Net Assets under the caption, Accounts payable and accrued expenses. Changes in the balances of the self-insurance program liability during fiscal years 2002 and 2001 were as follows:

	September 30	
	2002	2001
Balance, Beginning of Year	$ 353	$ 388
Claims and Changes in Estimates	683	264
Payments of Claims	(375)	(299)
Balance, End of Year	$ 661	$ 353

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. The maximum amounts at September 30 are as follows:

	September 30	
	2002	2001
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 judgments 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 public liability of nuclear reactor owners for a single nuclear incident, to a combination of private insurance and retrospective assessments. 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. The owners of a nuclear power plant could be assessed to pay up to $88,100 per unit per incident, but not more than $10,000 per unit in a calendar year. 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. See Note D for OUC's ownership interest in St. Lucie Unit No. 2 and Crystal River Unit No. 3.

(Dollars in Thousands)

NOTE H — LONG-TERM DEBT

Long-term debt principal outstanding for the years ended September 30, 2002 and September 30, 2001 are as follows:

Long Term Debt	Final Principal Payment	Interest Rates (%)	Balance Outstanding Oct. 1, 2001	Additions	Decreases	Balance Outstanding Sept. 30, 2002
SENIOR LIEN:						
1992 Bonds	2010	5.30 - 6.00%	$310,440	$ –	$24,000	$286,440
1993 Bonds	2023	4.75 - 5.125%	139,020	–	43,420	95,600
1996A Bonds	2023	4.10%	60,000	–	–	60,000
1996B Bonds	2011	5.10%	39,995	–	–	39,995
2001 Bonds	2023	3.00 - 5.25%	–	258,815	–	258,815
Total Senior Lien Debt			549,455	258,815	67,420	740,850
JUNIOR LIEN:						
1989D Bonds	2023	5.00 - 6.75%	253,945	–	177,560	76,385
1991A Bonds	–	5.50%	115,380	–	115,380	–
1992A Bonds	2027	5.50%	39,420	–	–	39,420
1993A Bonds	2023	4.90 - 5.50%	85,425	–	425	85,000
1993B Bonds	2023	4.75 - 5.60%	128,435	–	55,735	72,700
1994A Bonds	2020	4.25 - 5.00%	134,225	–	685	133,540
2001A Bonds	2020	4.00 - 5.25%	37,040	–	–	37,040
2002A Bonds	2017	Variable Rate*	–	120,000	–	120,000
Total Junior Lien Debt			793,870	120,000	349,785	564,085
OTHER DEBT:						
Line of Credit - Note J		LIBOR + 1.50%	25,965	4,411	30,376	–
1998 Private Placement Notes	2003	3.25	60,000	–	–	60,000
1999A Tax Exempt Commercial Paper	2004	Variable Rate*	100,000	–	–	100,000
Total Other Debt			185,965	4,411	30,376	160,000
Less Current Portion			(54,190)	(91,155)	(54,190)	(91,155)
Total Long Term Debt			$1,475,100	$292,071	$393,391	$1,373,780

Long Term Debt	Final Principal Payment	Interest Rates (%)	Balance Outstanding Oct. 1, 2000	Additions	Decreases	Balance Outstanding Sept. 30, 2001
SENIOR LIEN:						
1992 Bonds	2010	5.30 - 6.00%	$333,255	$ –	$ 22,815	$310,440
1993 Bonds	2023	4.75 - 5.125%	139,020	–	–	139,020
1996A Bonds	2023	4.10%	60,000	–	–	60,000
1996B Bonds	2011	5.10%	39,995	–	–	39,995
Total Senior Lien Debt			572,270		22,815	549,455
JUNIOR LIEN:						
1989D Bonds	2023	5.00 - 6.75%	253,945	–	–	253,945
1991A Bonds	2026	5.50%	115,380	–	–	115,380
1992A Bonds	2027	5.50%	74,520	–	35,100	39,420
1993A Bonds	2023	4.90 - 5.50%	85,830	–	405	85,425
1993 B Bonds	2023	4.75 - 5.60%	131,190	–	2,755	128,435
1994A Bonds	2020	4.25 - 5.00%	134,885	–	660	134,225
2001A Bonds	2020	4.00 - 5.25%	–	37,040	–	37,040
Total Junior Lien Debt			795,750	37,040	38,920	793,870
OTHER DEBT:						
Line of Credit - Note J		LIBOR + 1.50%	11,701	25,965	11,701	25,965
1998 Private Placement Notes	2003	3.25%	60,000	–	–	60,000
1999A Tax Exempt Commercial Paper	2004	Variable Rate*	100,000	–	–	100,000
Total Other Debt			171,701	25,965	11,701	185,965
Less Current Portion			(38,336)	(54,190)	(38,336)	(54,190)
Total Long Term Debt			$1,501,385	$ 8,815	$ 35,100	$1,475,100

* Variable rates ranged from 1.05% to 2.28% for the year ended September 30, 2002 and from 1.81% to 5.52% for the year ended September 20, 2001.

NOTE H — 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, 2002:

Fiscal Year Ending	Principal	Interest	Total
2003	$ 93,120	$ 70,124	$ 163,244
2004	134,850	66,406	201,256
2005	36,820	60,988	97,808
2006	38,850	58,956	97,806
2007	40,965	56,774	97,739
2008-2012	275,435	244,488	519,923
2013-2017	288,030	173,978	462,008
2018-2022	399,910	94,735	494,645
2023-2027	125,800	9,629	135,429
Total	$1,433,780	$836,078	$2,269,858

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 (1) 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 (2) 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.

NOTE H — 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.

Other Bond Information: On October 9, 2001, OUC adopted a General Bond Resolution. The terms of this new general bond resolution do not become effective until in excess of 51% of OUC's outstanding Senior and Junior debt obligations have been issued under this resolution. The new resolution modifies several of the existing provisions with the following being the most significant:

- ***Rate Covenant:*** The net revenue requirement for annual debt service has been set at 100% or funds plus net revenues at 125% of annual debt service; the existing covenants required 125% for senior lien obligations and 100% for junior lien obligations.

- ***Additional Bonds:*** There are no limitations as long as OUC can certify that it expects to meet rate covenant; the existing covenants included net revenue thresholds.

- ***Flow of Funds:*** Monthly funding of interest and principal payments is no longer required. However, consistent with prior resolutions, OUC can determine whether to fund a debt service reserve account on an issue by issue basis.

- ***System Definition:*** OUC's system definition has been modified to utility system from water and electric system.

- ***Sale of Assets:*** System assets may be sold if the sale will not interfere with OUC's ability to meet rate covenants. Consistent with prior lien resolutions, proceeds must first be used to pay debt service.

Bonds issued after October 9, 2001 fall under the provisions of this new resolution. Currently, the consent percentages are 34.93% and 21.27% for the Senior and Junior liens, respectively.

Defeased Bonds: Refunding proceeds are invested in United States obligations in irrevocable Escrow Deposit Trust Funds. Each Escrow Deposit Trust is structured to mature at such time 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, 2002 and 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 is being amortized on a straight-line basis over the life of the Series 2001A Bonds.

In October 2001, OUC issued the Water and Electric Revenue Refunding Bonds Series 2001 (Series 2001 Bonds) in the amount of $258,815 to advance refund $43,420 of the Series 1993, $52,620 of the Series 1993B Bonds and current refund $65,370 of the Series 1989D and $115,380 of the Series 1991A 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 Series 1993, 1993B, 1989D and 1991A Bonds have remaining principal balance of $95,600, $72,700, $76,385 and $0 respectively at September 30, 2002. Present value savings of $19,157 or 6.92% of the Refunded Bonds resulted from the transaction. An economic loss of $38,297 is included in the accounts which comprise unamortized discount and deferred amount on refunding and is being amortized on a straight-line basis over the life of the Series 2001 Bonds.

NOTE H — LONG-TERM DEBT (continued)

In July 2002, OUC used proceeds from the Liability Reduction Fund (LRF) to defease $112,190 of the Water and Electric Subordinated Revenue Bonds Series 1989D (Defeased Bonds). LRF proceeds were invested in United States obligations in an irrevocable Escrow Deposit Trust Fund and 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 Defeased Bonds. The loss associated with this defeasance has been deferred ($15,511) and is being amortized over the life of the defeased debt. Intra-day trades designed to recoup this loss through the restructuring of the Escrow Deposit Trust Fund have and are anticipated to be executed. In August 2002, OUC realized $1,863 towards the recoup of this loss. All restructures are subject to a third party verification to ensure the Escrow Deposit Trust Fund will provide amounts sufficient to pay maturing principal and interest on the Defeased Bonds at all times. The net amount of these deferred charges are included in the Statement of Net Assets under the caption of Deferred charges.

Defeased debt principal outstanding is as follows:

Refunded Series	Refunding Series	Final Payment	Outstanding as of Refunding	Remaining Principal 9/30/02	Remaining Principal 9/30/01
1973	1978	4/1/2003	$ 13,525	$ 1,000	$ 2,000
1975B	1978	4/1/2005	9,730	4,270	4,525
1976	1978	4/1/2002	8,500	–	1,000
1978 (1)	1978	4/1/2008	94,650	625	1,100
1978	1985	4/1/2006	110,330	67,715	70,070
1978A	1985	4/1/2008	40,000	19,145	21,780
1978B	1985	4/1/2003	75,000	9,490	18,290
1982	1985	10/1/2003	110,000	27,740	37,100
1989D (4)	2001	10/1/2020	177,560	177,560	–
1991A (2)	1994A	10/1/2025	235,820	235,820	120,440
1992A (3)	2001A	10/1/2020	35,100	35,100	35,100
1993 (4)	2001	10/1/2015	43,420	43,420	–
1993B (4)	2001	10/1/2015	52,620	52,620	–
			$1,006,255	$674,505	$311,405

(1) Special Obligation Bonds, Series 1978.

(2) The Series 1994A bonds refunded a portion (120,440) of the Series 1991A Bonds, Series 2001 Bonds refunded a portion (115,380) of the Series 91A Bonds.

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

(4) The Series 2001 Bonds partially refunded the Series 1989D, 1991A, 1993B, and 1993 Bonds.

All refunded bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statements of Net Assets.

Related Debt Information: On December 1, 1996, OUC entered into two 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.

On May 23, 2002, OUC entered into two interest rate swap agreements in the notional amounts of $72,000 and $48,000. These agreements provide that OUC receives interest calculated at a variable rate based on 67% of the one month LIBOR (London Interbank Offer Rate) and owes a fixed rate of 3.596%. The agreements are subject to an optional termination date which can be exercised on April 1, 2009. If the option is not exercised the agreements will terminate on October 1, 2017.

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.

(Dollars in Thousands)

NOTE I — 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	132	5	335
2003	3	182	2	134	5	316
2004	3	140	2	121	5	261
2005	1	43	1	128	2	171
2006	1	22	0	0	1	22
2007	1	7	0	0	1	7

NOTE J — MAJOR AGREEMENTS

City of Orlando: OUC pays a revenue-based payment and an income-based dividend payment to the City of Orlando. The revenue-based payment is calculated at 6% of gross retail electric and water billings to customers within the City and is classified as an operating expense. The income-based dividend payment is recorded as a reduction of net assets rather than as an operating expense. The dividend is calculated using 60% of income before contributions for all operating units except those operated under the agreement with Trigen Cinergy Solutions (as noted below). Dividends for operating units under the Trigen Cinergy Solutions agreement are calculated based on 50% of income before contributions up to $625 and 60% thereafter. Dividends for fiscal years 2002 and 2001 amounted to $28,200 and $32,091, respectively, including accrued dividends at September 30, 2002 and 2001 of $0 and $6,891, respectively.

Orange County: OUC pays a revenue-based payment to Orange County calculated at 1% of gross retail electric billings to customers within the County but outside the city limits of the City of Orlando.

City of St. Cloud: In April 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 gross retail electric billings to STC customers (a minimum of $2,361 annually, unless certain events occur) and to pay STC's electric system net debt service. The term of the agreement commenced May 1, 1997 and continues until September 30, 2022. OUC's revenue includes $33,039 and $33,446 from the interlocal agreement for the years ended September 30, 2002 and 2001, respectively.

Trigen Cinergy Solutions: In June 1998 OUC entered into an agreement with Trigen Cinergy Solutions (TCS) to construct and provide air conditioning cooling systems for buildings in the Orlando metropolitan area. The agreement provided for interim financing in the form of a line of credit from Trigen Cinergy (see note H). The line of credit was provided through April 2002, at which time, the outstanding financed balance ($30,376) was repaid based on the profit sharing percentages; OUC $14,884 and TCS $15,492. In accordance with the agreement, the repayment of the interim financing was replaced with contributions from OUC and TCS. TCS's contribution is netted against utility plant to reflect their entitlement to a share of the future revenue streams anticipated from these assets.

(Dollars in Thousands)

NOTE K — 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:

2003	$38,435
2004	$39,057
2005	$39,692
2006	$18,513

In addition to these minimum purchases, OUC has secured option rights from the supplier such that excess coal capacity can be sold to third parties. Proceeds generated from these sales are recorded as a reduction to fuel for generation and purchased power costs consistent with OUC's Energy Risk Management policy.

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 10-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 10 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:

2003	$ 4,685
2004	$20,594
2005	$20,594
2006	$20,700
2007	$20,700
2008-2014	$20,700

5. A purchase power commitment was executed in conjunction with the sale of the Indian River plant site (see Note F). In addition, in 2002 OUC executed a purchase power agreement in conjunction with the construction of the Stanton A plant site. These two agreements represent the primary purchase power commitments noted below:

Year	Number of Contracts	Amount of Megawatts
2003	2	593
2004	4	660*
2005	4	650*
2006	4	640*
2007	3	632*
2008-2012	2	332

* Includes megawatts available under an option agreement that renews annually for the purchase power agreement at the Indian River plant site.

(Dollars in Thousands)

NOTE L — PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

Defined Benefit Plan

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 five years of service.

OUC is the administrator of the plan and as such 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.

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/ obligation have been calculated using information obtained from actuarial documentation and are as follows:

	September 30	
	2002	2001
Current year contributions	$2,985	$2,076
Interest earnings on net pension asset	38	127
Total contributions and earnings to be applied towards current year annual required contribution (ARC)	3,023	2,203
Current year ARC	4,251	2,308
Adjustment to ARC	126	171
Increase (decrease) in net pension asset/obligation (NPA/NPO)	(1,354)	(276)
NPA beginning of year	1,081	1,357
NPA/NPO end of year	$ (273)	$1,081

Actuarial reports are prepared in February of each year for the prior year and include an estimate of the pension cost for the upcoming year. Actuarial amounts are calculated using the aggregate cost method which as noted in guidance does not identify or separately amortize unfunded actuarial assets/obligations. The actuarial value of assets/obligations are determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

In accordance with GASB Statement No. 27, the calculation above uses the following rates based on actuarial information:

	October 1	
	2002	2001
Investment rate of return	8.50%	8.50%
Projected salary increases	5.75%	5.75%
Inflation component	4.00%	4.00%

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of (APC) Contributed	Net Pension Asset/Obligation
September 30, 2002	$4,251	70%	$ (273)
September 30, 2001	$2,308	90%	$1,081
September 30, 2000	$2,152	107%	$1,491

NOTE L — PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

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, 2002 and September 30, 2001 were $1,598 ($753 employer and $845 employee) and $1,300 ($608 employer and $692 employee), respectively.

Other Post-Employment Benefits

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 476 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, 2002 and 2001, were $3,223 and $3,210, respectively. Post-employment life insurance costs during the same periods were $34 and $29.

NOTE M — REGULATION AND COMPETITION

The electric utility industry has been and will be, in the future, affected by a number of factors that could have an impact on OUC's operations. Although a handful of states have enacted legislation or issued orders designed to deregulate the production and sale of electricity, no legislative action has been executed in the State of Florida.

In 2000, the Governor of Florida signed an executive order creating the Energy 2020 Study Commission whose purpose was to design an energy strategy and plan for the state. To facilitate an effective plan, the Commission elected to split the study between wholesale and retail competition. In respect to the wholesale market, the Commission recommended opening the "statutory barriers to entry" to allow the construction of merchant plants within the state borders. As for retail competition, it was the Commission's recommendation that changes to this market be deferred until such time as an effective competitive wholesale market has been developed. To date no legislative actions have been taken on these recommendations.

In respect to federal legislation, the FERC issued order 2000, requiring the formation of regional transmission organizations. The intention of this FERC order was to develop market-driven congestion management as well as provide one stop shopping for all transmission and eliminate the layering of rates for each transmission trade which crosses a corporate boundary. The State of Florida began structuring the framework for a statewide transmission organization (Grid Florida), and although OUC is not required to be a member based on its municipal status, OUC has been involved with the formation of this organization. To date, the formation of this organization is on hold pending a ruling by the Supreme Court of Florida.

(Dollars in Thousands)

NOTE N — SUBSEQUENT EVENTS

In the month of November, 2002 OUC had two bond transactions. The first transaction, executed on November 7, 2002, related to the issue of the Series 2002B Water and Electric Subordinated (Multi-Modal) Revenue Bonds, in the amount of $100,000. The Series 2002B Bonds were issued in a variable rate mode of which the rate is reset weekly. The variable rate interest is payable on the first business day of the each month, beginning December 2, 2002. At the same time as the execution of the Series 2002B Bonds, OUC entered into two interest rate swap agreements in the notional amounts of $60,000 and $40,000. These agreements provide that OUC receives a variable rate of 67% of one month LIBOR (London Interbank Offer Rate) and pays a fixed rate of 3.53%. The agreement terminates October 1, 2022.

The second transaction in November, Series 2002C, related to the refunding of all or a portion of certain Series of Water and Electric Revenue Bonds, and Water and Electric Subordinated Revenue Bonds, in the amount of $70,995. Present value savings of $4,336 or 5.14% of the Refunded bonds resulted from the transaction. An economic loss of $5,473 will be included in the unamortized discount and deferred amount on refunding on the September 30, 2003 Statements of Net Assets.

The OUC Water and Electric Subordinated (Multi-Modal) Revenue Bonds Series 2002B and the Water and Electric Subordinated Revenue Refunding Bonds Series 2002C were issued under OUC's General Resolution adopted by OUC on October 9, 2001. The terms of this general bond resolution do not become effective until more than 51% of OUC's outstanding Junior and Senior debt obligations have been issued under this resolution. Including the effects of the above debt issuances, the consent percentages are 37.93% and 42.91% for the Senior and Junior Liens, respectively.

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