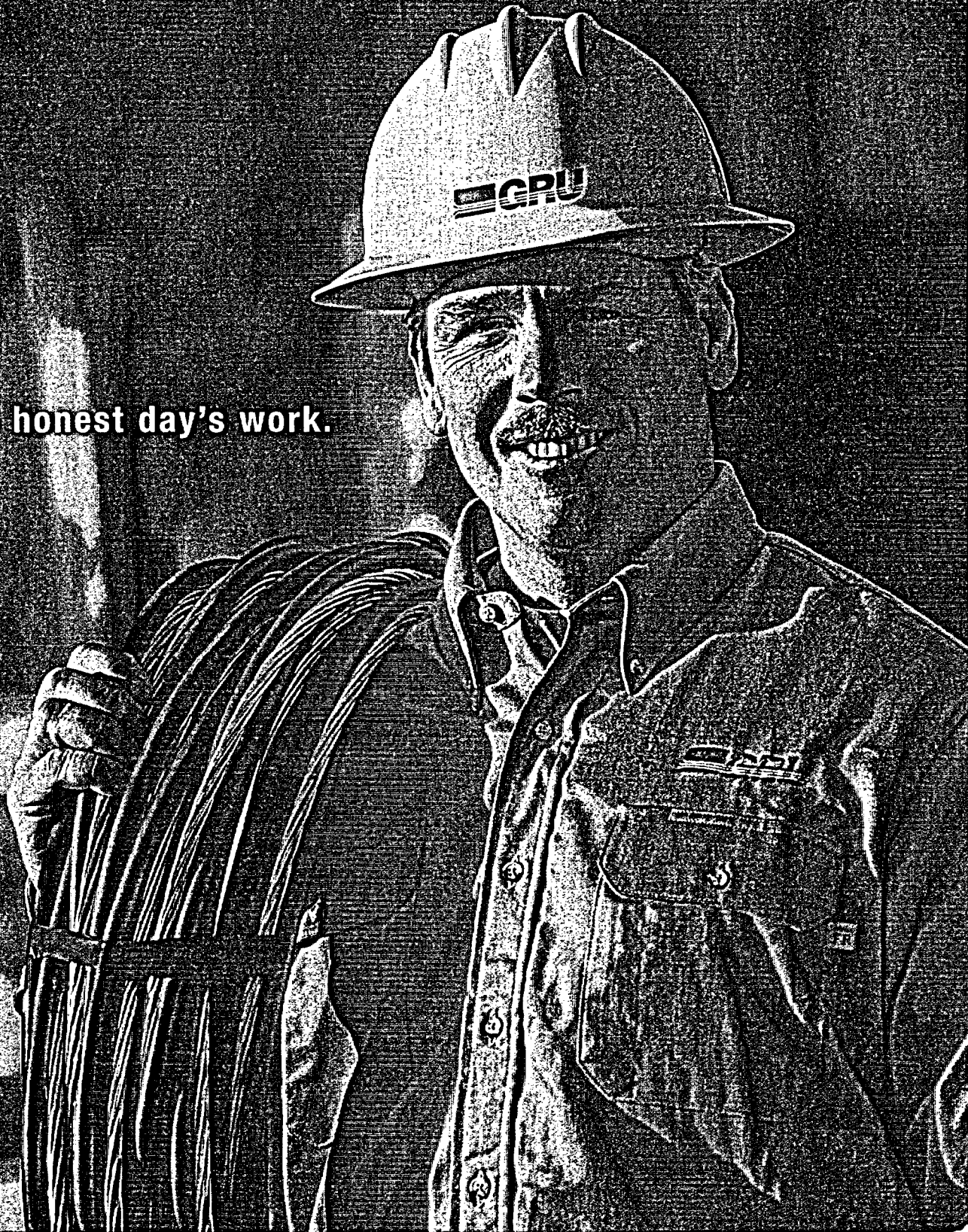


Gainesville Regional Utilities

2002-2003

Annual Report

An honest day's work.



In 1912, a \$7.30 streetlight dispute with a private electric company led local citizens to establish a municipal power system. Community-owned power was joined with community-owned water (created in 1891) to form a combined-services utility that has since evolved into Gainesville Regional Utilities.

GRU today is a multi-service utility serving Gainesville and surrounding portions of Alachua County, Florida. GRU offers competitively priced electricity, natural gas, water, wastewater and telecommunications services. The 790 GRU employees help deliver these services to more than 80,000 homes and businesses.

Through a designated formula, GRU transfers monies to the general fund of the City of Gainesville to support vital services such as police and fire protection, parks, recreation and transportation. GRU provides approximately 35 percent of the funding for the City's annual budget.

**Our Vision:** to enable our community to live better and work smarter.

**Our Mission:** to deliver superior value to our customers and community by capitalizing upon our unique opportunities as a multi-service utility.



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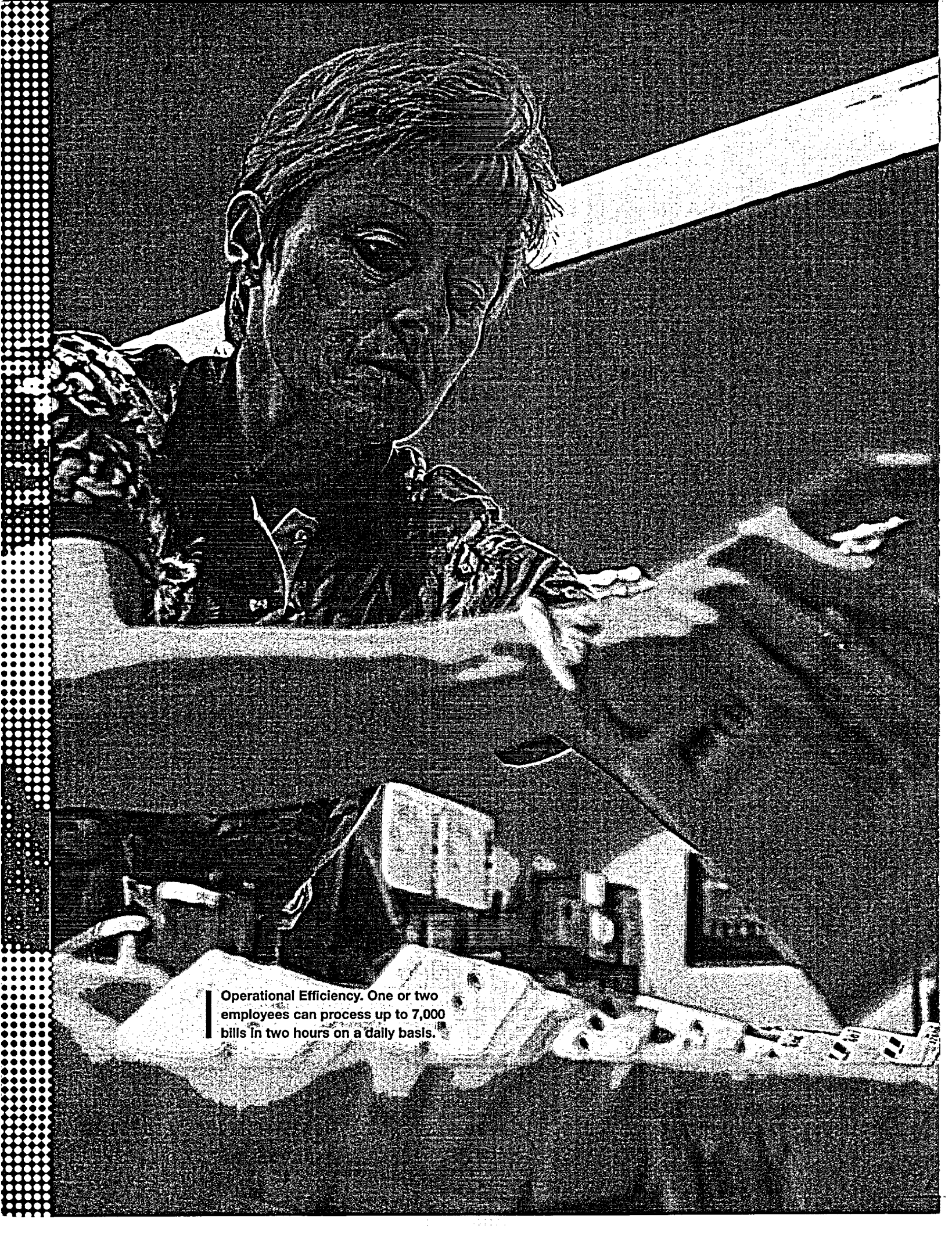
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**PRO INK Corporation**

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**Operational Efficiency.** One or two employees can process up to 7,000 bills in two hours on a daily basis.

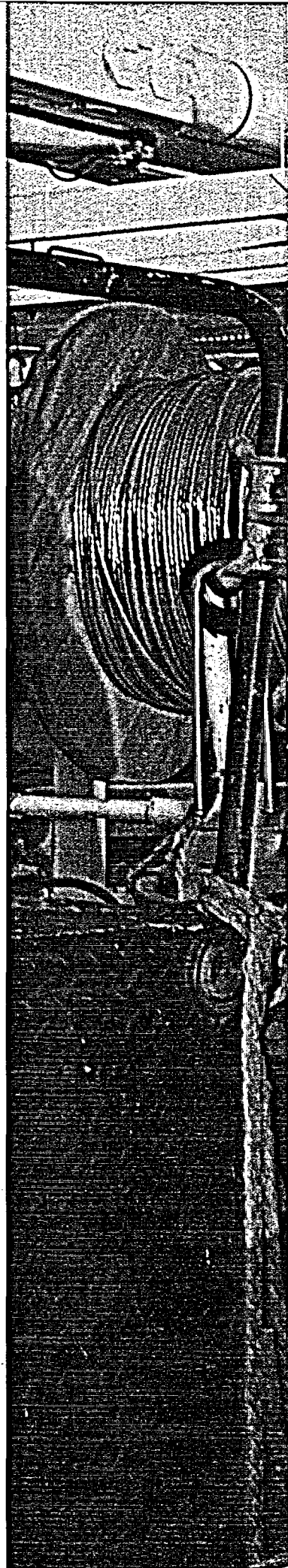


**An honest day's work  
means putting safety first**

**L**ineworkers gather in the ready room at a GRU fleet hangar. A pre-dawn meeting before the bucket trucks roll out. These folks work the seventh most dangerous job in America. Donning hardhats and tool belts. Working 50 feet in the air. Handling 12,000-volt power lines.

They review the rules for moving heavy power equipment. The meeting is closed with reminders to put safety first.

It's first light; time for another day in the field.



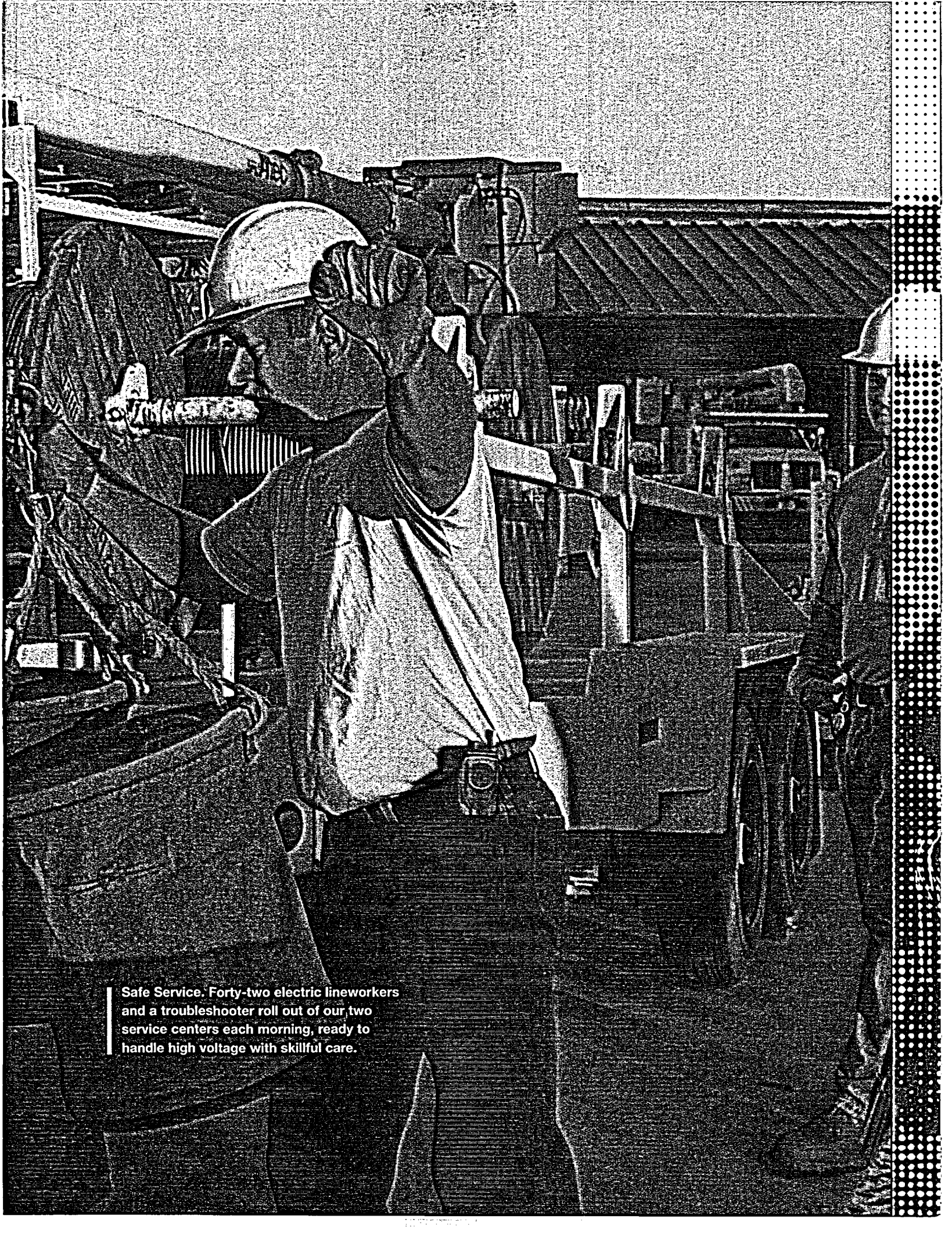
**An honest day's work  
is a daily commitment**

**S**orting mail. Perched on a power pole. Answering calls  
at the GRUCom help desk. Down in a trench. Tracking  
fuel prices at a computer. Making the midnight security  
rounds at a water plant.

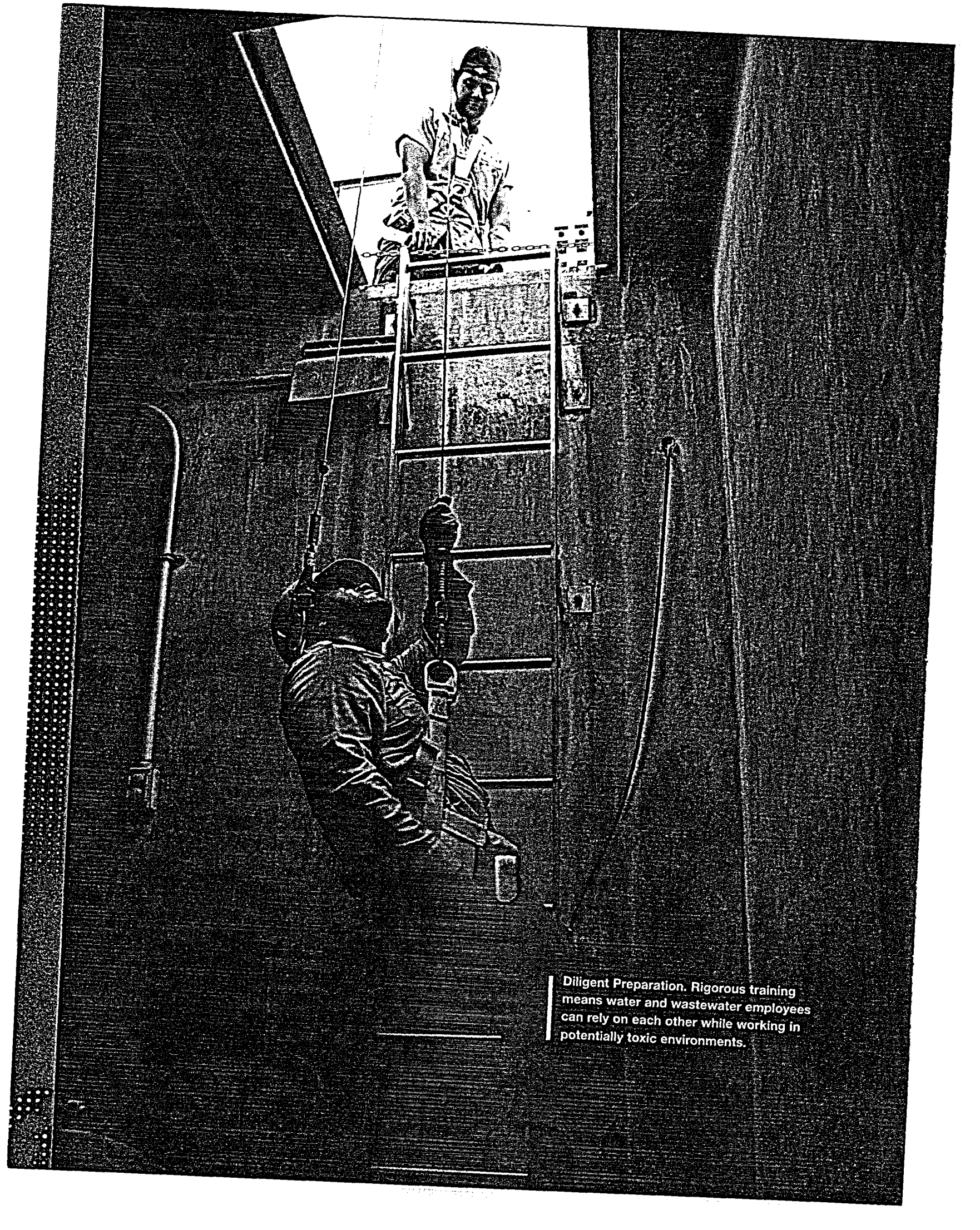
Every GRU employee doing his or her part to help provide  
our customers safe, reliable and competitively-priced utility  
services. Twenty-four hours a day. Every day. Week in, week  
out. In cold weather and hot weather. No exceptions.

An honest day's work. It's not just a job. It's our community.  
It's our neighbors. It's our commitment.





**Safe Service.** Forty-two electric lineworkers and a troubleshooter roll out of our two service centers each morning, ready to handle high voltage with skillful care.



**Diligent Preparation. Rigorous training means water and wastewater employees can rely on each other while working in potentially toxic environments.**



**An honest day's work  
is all about trust**

**T**hree first-year Water and Wastewater employees carefully retrieve a fallen co-worker from a 12-foot deep pump-containment pit. The potential danger: toxic chemicals and gases leaking from pipes.

Fortunately, this is a training exercise. The employees take turns playing victim and rescuer. They learn to trust their skills. Those entering the cramped pit wear protective jumpsuits connected to a lifeline, hard hats and a gas meter on a strap. The fallen co-worker is hooked to another lifeline and hoisted to the surface through a small manhole using a tripod-and-pulley rescue system. As part of a national award-winning safety program, every plant worker receives confined-space rescue training.

Real-world preparation. For real-world responsibilities.

**An honest day's work  
can be demanding but rewarding**

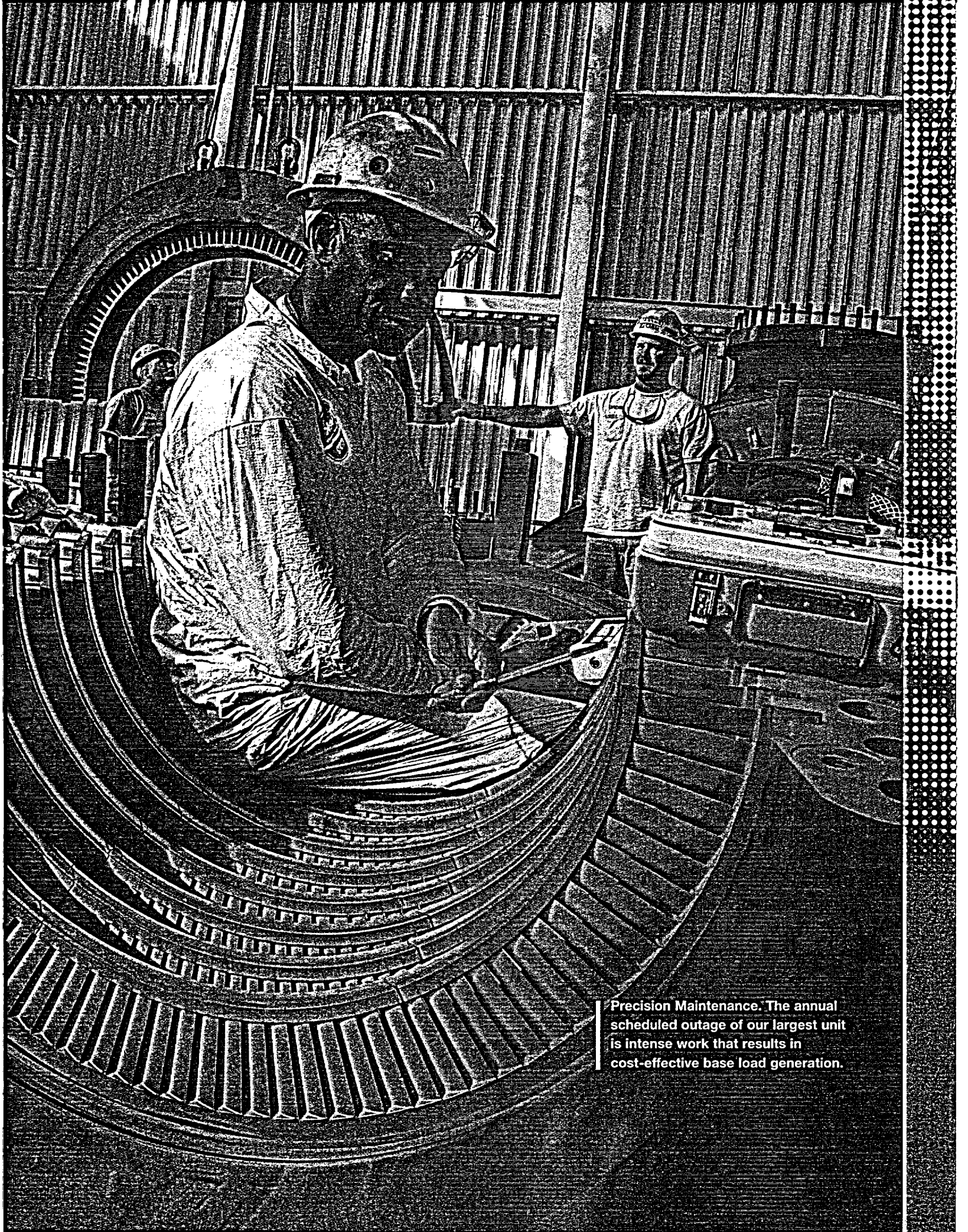
**I**nside GRU's Deerhaven Generating Station, mechanics dismantle Unit No. 2, a 235-megawatt generating unit. Its annual scheduled outage is underway.

Tool carts sport giant wrenches and other oversized tools, some a yard long and 50 pounds heavy. Boxes of doughnut-sized valve nuts, rubber seals, and steel bolts. This is not your grandfather's workshop.

An overhead crane hoists a 35-ton turbine rotor for inspection and cleaning. For five straight weeks, two crews of eight mechanics and machine operators log separate 10-hour shifts, six days a week. They painstakingly inspect, dust, brush, scrub, test and reassemble or replace every part. After the makeover, Deerhaven Unit No. 2 is greased and primed for another year of service. This ensures reliability.

Seamless utility service. It's not magic. It's a lot of long hours.



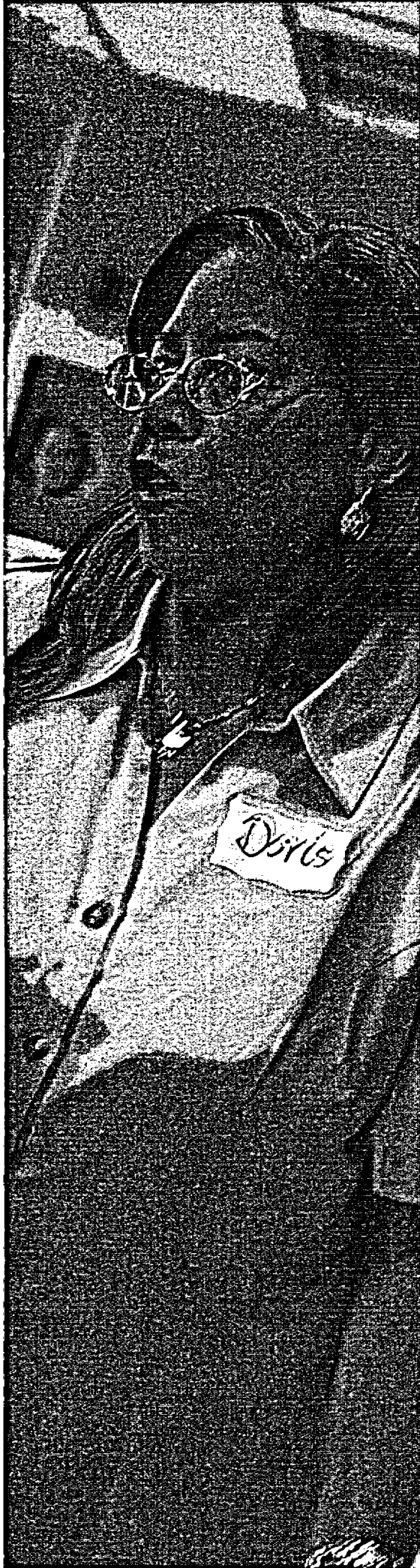


**Precision Maintenance.** The annual scheduled outage of our largest unit is intense work that results in cost-effective base load generation.



**Personal Involvement.** Our employees are part of the community that owns this utility, and are eager to talk with customers about their needs.





**An honest day's work  
means listening to our neighbors**

**W**hile many people are heading home from work, 11 GRU employees load their cars and drive through traffic to a local elementary school cafeteria. Armed with flipcharts, PowerPoint slides and trays of sandwiches and cookies. They set up tables, fill out name badges and greet their neighbors. Neighbors who will help decide their community's energy future.

The GRU employees listen as their neighbors offer ideas and voice concerns about how their community-owned utility should grow.

For GRU, community forums like this one are an essential part of building an honest dialogue between customers and company. A way to incorporate customer ideas into policy making. A way to earn public trust.

## From the General Manager

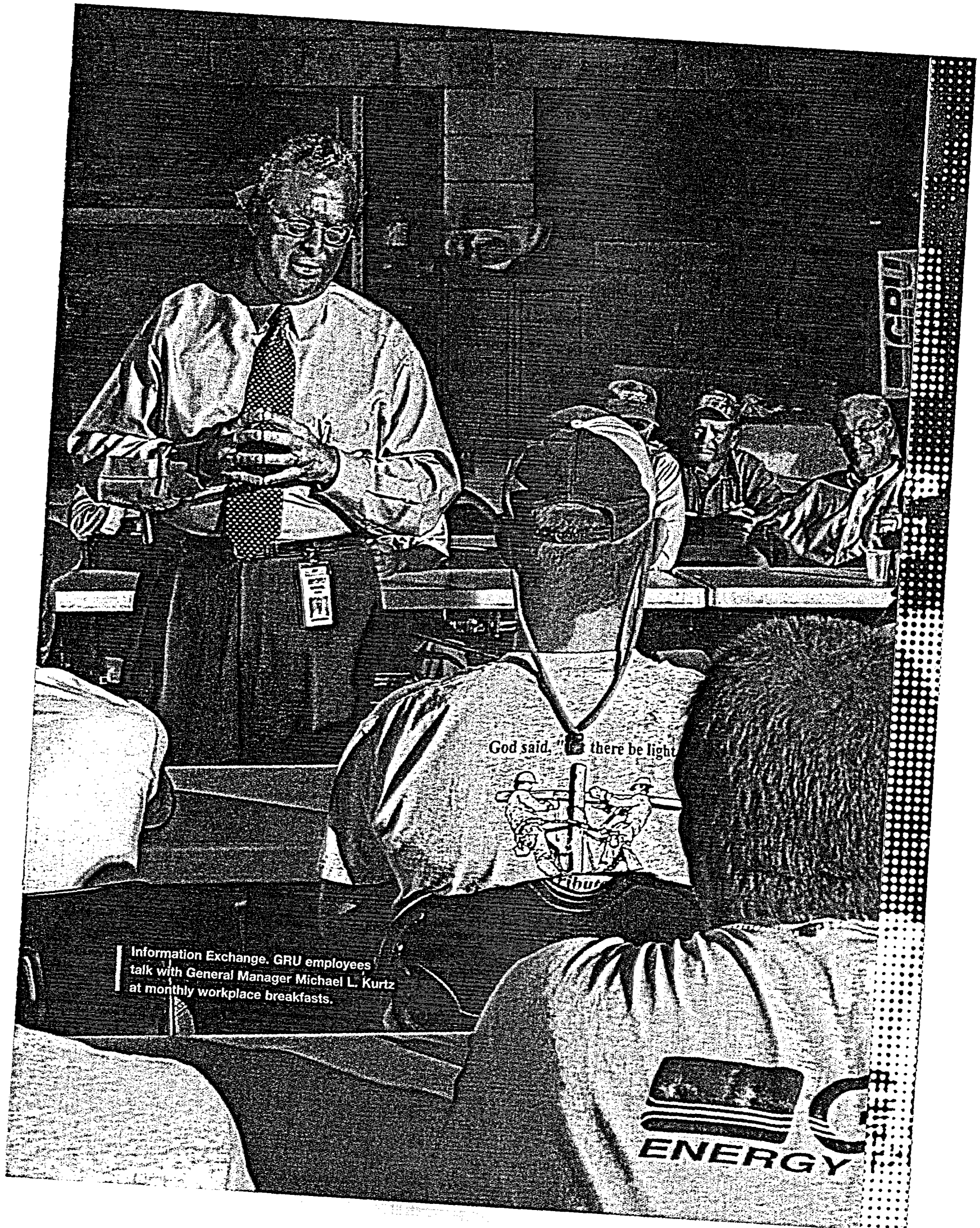
**W**hile a tight economy and uncertain energy marketplace made fiscal 2002-03 a challenging year, it also provided a golden opportunity for exceptionally strong utilities to shine. GRU took full advantage, posting measurable progress in customer service, product innovation, infrastructure and technology, while delivering healthy financial results. We also heightened customer and employee involvement in decision-making to improve our operational strategies and plan for future energy demands. By successfully executing these initiatives, GRU is strategically positioned for continued long-term growth and profitability.

**Customer Confidence.** According to a recent customer satisfaction and loyalty survey, 78 percent of residential customers indicated they were satisfied with our service. Satisfaction for business customers was even higher. Customers gave GRU particularly high marks for courtesy, knowledge, problem-solving and willingness to work with customers. The findings indicated both residential and commercial customers value corporate traits such as honesty and integrity even higher than pricing, billing and other service attributes.

**Investor Confidence.** The nation's two most prominent credit rating agencies have assigned the premier Double A rating to every GRU bond since 1987, a testimony to our continued financial strength. Our Double A rating, shared by only 14 public power utilities in the U.S., was reaffirmed in 2003 for the sale of more than \$115 million in new bonds, issued at a lower interest rate to refinance current outstanding bonds. The transaction will save us \$10.6 million in borrowing costs over 10 years, helping us keep customers' utility bills low. The rating report by Moody's Investor Service said GRU's "focus on customer retention through competitive pricing and good service delivery has been beneficial and speaks well of management's long-term planning."

Investor confidence in GRU is reflected in the fact that the nation's two most prominent credit-rating agencies have assigned the premier Double A rating to every GRU bond since 1987, a testimony to our continued financial strength.





Information Exchange. GRU employees talk with General Manager Michael L. Kurtz at monthly workplace breakfasts.

God said, "Let there be light"

**ENERGY**

**Revenue.** Our net revenues remain extremely strong, with debt service coverage ratios of 3.34. That's well above the 1.25 ratio required under the bond resolution. Because we are owned by the citizens of Gainesville, we contribute a significant portion of our revenues to fund vital services such as police and fire protection, parks and recreation, and transportation. The designated transfer formula last year generated nearly \$26 million, or 35 percent of the City's general fund. A new electric territorial agreement with Clay Electric Cooperative brought 1,100 new utility customers to GRU. The transfer will eliminate duplication of power lines and other infrastructure and generate additional revenue.

**Upgrades.** We continue to improve and expand our facilities and technology to maintain our competitive advantage. Numerous upgrades and expansion of our water, wastewater and reclaimed water facilities ensure that our systems are operating as efficiently as possible and will meet future capacity demands.

**Power.** Based on population forecasts, GRU must increase electric generating capacity by 2010 to meet rising demand. Because of the lengthy lead time required to permit and construct new capacity, we are acting now. We sought public input through a series of community workshops to help us brainstorm and evaluate future energy options and we will soon recommend possible solutions to city commissioners.

**Rates.** Through ongoing cost-reducing efforts, we were once again able to pass along electric rate savings last year to our residential and business customers. This marks the tenth consecutive year that our electric rates have declined or remained stable. Natural gas, water and wastewater rates all increased between 2 and 2.25 percent due to increasing costs, yet remain among the lowest in the state. To hedge against future spikes in natural gas

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prices, we are purchasing long-term futures contracts and call options on the New York Mercantile Exchange (NYMEX) that lock in prices for specific volumes of natural gas. Our "price-hedging" practices saved our natural gas customers more than \$2.3 million over a recent 16-month period.



**Energetic Cooperation.** GRU is an equity owner of The Energy Authority (TEA), a public power organization that buys and sells electricity and natural gas for its members.

**Reliability.** In order to protect our customers from the financial risk of lengthy, unplanned generation outages, we crafted an innovative mutual-aid pact for backup generation — at a fixed price — with seven prominent municipal utilities. The so-called "Good Guys Agreement" serves as an insurance policy, with no premiums, for catastrophic generation failure.

**Stability.** Maintaining business stability begins at the top. The 11 members of our executive management team have been on the job, on average, for nearly a decade. The GRU business model, more than 90 years in the making, has proven its worth in both the best and worst of times. While vested in our past, we are vaulting toward the future using a new management approach called the "Balanced Scorecard" that

lets all employees see their company more clearly and make wiser long-term decisions. We will continue to focus on value, cost-efficiency and simplifying customers' lives. New tactics will emerge to help our business partners boost their profitability. We will always conduct our business with the highest level of honesty and integrity. At GRU, anything else is unacceptable.

## **An honest day's work makes life easier for everyone**

**W**e owe our very existence as a municipal utility to the Gainesville community's historical insistence on getting exceptional value for its dollar. Besides maintaining competitive prices, GRU strives to provide the types and levels of service that are of value to our customers.

We continue to create more convenient ways for customers to pay their bills. Budget Pay is a new service that lets residential customers pay the same amount for utilities each month, leveling seasonal highs and lows in their bills. The amount is based on the average bill of a customer's residence for the previous 12 months. Additionally, Click-2-Pay is available online at [www.gru.com](http://www.gru.com) for customers making a one-time payment from their checking or savings accounts. The online payment service became an instant hit, garnering nearly 30,000 payments in its first 10 months of operation. We also launched a new way to pay bills with a credit card through Speedpay® service, a third-party processor. Payment can be charged online at our Web site, or by credit card or check over the phone using an automated phone system available 24/7. Speedpay also enhances our bottom line by improving cash flow due to receipt of immediate payment and reducing costs associated with collection.

Our GRUCom telecommunications division, created in 1996, is delivering new services that increase our value to customers and enhance our business success. We have quickly become one of the largest local Internet providers through our GRU.Net and Gator.Net dial-up access services, and we recently acquired technology that gives us direct control over our Internet operations. The special network software phone switch connects callers to our own dial-up access telephone lines — a feature that saves us \$30,000 a month in carrier fees. The new switch quickly paid for itself and now generates significant operational savings and revenue.

Facing eventual competition in a deregulated electric industry, we are building alliances with our commercial customers by helping them boost their profitability. Our Business Partners program offers rate reductions of 7, 10 and 13 percent when companies agree to purchase electricity from GRU for 10 years. Today, nearly 800 commercial Business Partners have signed 10-year con-



tracts, including 90 of the area's top 100 companies. Our Business Partners represent 70 percent of our commercial electric revenue. Account representatives for each partner coordinate key value-added services including energy efficiency surveys and advice, green energy purchases, backup power generation, infrared scanning to detect power "hot spots" in our customers' facilities and rebates for gas cooling and solar water heating.

### **An honest day's work safeguards our future**

**W**e always strive to do whatever it takes to meet our customers' daily utility needs. We also keep an eye on the future, continually improving and expanding our products and services to maintain our competitive edge in the changing marketplace.



**Sharing Efficiency.** Energy Supply joined with Water and Wastewater Systems to buy a single vacuum truck. Neither system needs a full time truck, so the dual usage is both cost-effective and time-efficient.

In 2003, we purchased the remaining 40 acres of a 2,286-acre tract of timberland bordering our Deerhaven Generating Station. The acquired property provides a half-mile buffer between our largest power plant and any future development, protecting our ability to expand to meet increasing energy demands. We also are negotiating to acquire 37 acres of state-owned land for a proposed Eastside Operations Center in Gainesville to improve operations and deliver better service.

Electric energy use in our service area has increased by one-third in the past decade. By 2010, the community will need additional generation capacity to serve our growing population.

We sponsored a series of "community dialogue" workshops last year so our customer-owners could help us decide how best to meet our electric generation needs. We also have been working through the Florida Municipal Power Agency with neighboring public utilities to investigate the feasibility of building a shared power plant.

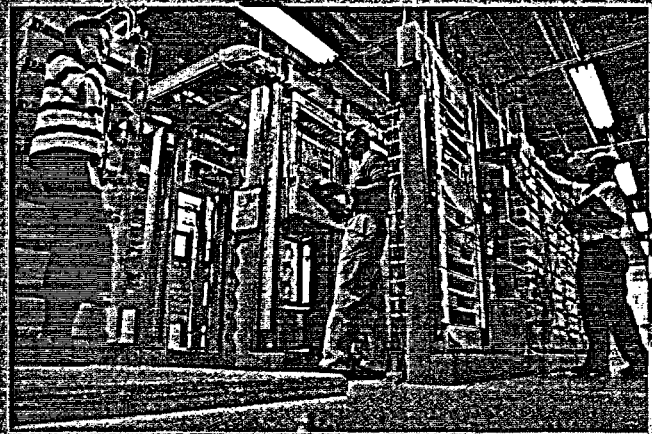
We often partner with other utilities when it serves our common interests. We recently finalized a landmark 10-year agreement with Seminole Electric Cooperative, Inc., to continue providing wholesale electric power service to its North Central Florida substation. Seminole Electric is one of our largest wholesale customers, generating \$3 million in annual revenues.

There promises to be much "More than Energy™" in our future. Major improvements in our telecommunications and reclaimed water facilities illustrate our status as a diversified, multi-service utility.

Our telecom business is expanding at such a rapid pace that we've relocated our principal equipment space to the new GRUCom Central Equipment Office. The 3,900-square-foot building is designed as a carrier class facility with backup generation, climate control, security and fire suppression systems. We lease some space to other telecom carriers and commercial customers to connect their server or router to our broadband fiber-optic backbone.

We completed a \$10.1 million expansion of our Kanapaha Water Reclamation Facility that improves system reliability and gives us adequate treatment capacity through 2017.

Some positive changes on the "people" side of our business should reap long-term benefits in customer service and employee training. Lobby renovations in our downtown Administration Building will enhance service, improve handicap accessibility and tighten building security for our customers and employees. To secure a diverse and skilled workforce for today and tomorrow, we formalized internship programs in engineering and information systems that draw students from the University of Florida, Florida A&M University and Bethune Cookman College. With the valuable training and experience they gain, these interns are much better prepared to enter the workforce after graduation.



**Protecting Service.** Our new GRUCom Central Office is a carrier class facility with back up generation.



## **An honest day's work is sharing in success**

**W**e are using a "Balanced Scorecard" to clarify our vision and strategies and balance our customer, operational and financial performance. This approach emphasizes measurement-based management to align employee goals with organizational goals. We chartered an employee implementation team to develop strategic goals for four key areas — financial, customer, employee and business process. We are implementing these strategies across our entire organization, so every employee knows how he or she contributes to the big picture.

It may not sound as exciting as going live with Leno or Letterman, but our numbers crunchers and work management staff were nonetheless pleased when we went "live" at our Murphree Water Treatment Plant with our first integrated asset management system. We are using this computer system, called MIMS, or Mincom Information Management System, to more effectively schedule equipment maintenance, track materials and automate work order costing. We will soon go live with MIMS at our wastewater facilities and lift stations. We will upgrade to the newest MIMS software in 2004 for our construction management activities, which should help us realize a savings of more than \$4 million over the next five years.

Ongoing cost-reduction efforts help maintain long-term financial stability that's reassuring to customers and stakeholders. Last year, our Energy Supply and Water/Wastewater systems split the cost of a \$189,000 vacuum truck. The shared truck is used to vacuum at our Deerhaven Generating Station's coal pile and also is used for Water/Wastewater applications. We previously paid \$60,000 yearly to rent similar equipment. The new truck will easily pay for itself in less than four years.

With the right approach, certain costly operational activities can become revenue-producing opportunities. Our Vegetation Management program, which prevents tree limbs and unwanted plants from growing into power lines on GRU rights-of-way, has transformed into a profitable business operation by marketing its special expertise to other municipal utilities and electric coop-

eratives throughout the state. The program has grossed more than \$1 million over the past four years — including \$600,000 from management of our Deerhaven forest. Good forest management also helps reduce fire risk.

GRU's 12-member diversity team is one of several small employee work teams we use to improve the way we conduct our business. The team last year completed a company-wide "diversity assessment," conducting internal surveys and focus groups and recommending ways we can manage diversity successfully in our workforce. Having a workforce that reflects the diverse nature of our community boosts our competitive advantage by letting us respond effectively to the unique needs of all customers.

### **An honest day's work preserves neighborhoods**

**A**s a multi-service utility, we provide one-stop shopping for electric, natural gas, water, wastewater and telecommunications services. Because GRU is More than Energy,™ we are always creating new opportunities to better serve our community.

When we built our Ironwood Power Delivery System (PDS) last year to help provide power to the homes and businesses of about 4,000 customers in northeast Gainesville, we gave the electric facility the smallest possible "footprint" to preserve neighborhood aesthetics. The PDS unit is small enough to fit in many suburban backyards, with attractive landscaping and pre-cast, earth-toned walls effectively screening the installation. The mini-substation is the third of four planned PDS installations — all being built adjacent to existing transmission lines to minimize community impact and reduce costs.

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We serve public safety and service agencies in Alachua County through GRUCom telecommunications' trunked radio system (TRS). In 2003, we activated our fifth and final transmitting tower in High Springs to carry the

radio signals to the rural northern boundary of the county. Our 29-channel system provides voice and mobile data communications to City, County and University of Florida law enforcement agencies, fire departments and other public service agencies, covering 900 square miles. TRS user fees are expected to generate more than \$1.6 million in yearly revenue. Ours was the first utility-owned TRS in the state and third in the nation to fully integrate all emergency agencies.



**Effective Planning.** In a single day, field services employees convert an entire neighborhood to our natural gas system.

GRU.Net, our residential Internet access service, now has a sporty cousin — our new Gator.Net service that's designed for University of Florida supporters and fans who like everything Gator. Gator.Net offers Florida Gator and national sports information, UF-related news and links; GRU.Net offers local and national news and promotes community events. Both dial-up plans come with five e-mail accounts and Internet search options, and are loaded

with extra features. We also offer faster ISDN service. Our fastest connection, GRU.Net's high-speed Internet access, and our wireless Ethernet, also are available at selected apartment complexes.

We teamed up with local community organizations on two "green construction" service projects. GRU was a principal sponsor in the construction of the Summer House welcome center at the Kanapaha Botanical Gardens in Gainesville and developed an interactive kiosk for the facility. The touch-screen kiosk provides information about the Cracker-style house's environmentally friendly features and also offers a layout of the

gardens, GRU conservation tips and links to our Web site. We also worked with the U.S. Environmental Protection Agency and the University of Florida to “deconstruct” an abandoned house in southeast Gainesville and reuse the materials to renovate The Reichert House, a nearby facility for at-risk teenage boys. GRU donated the clapboard home for use in the project.

### **An honest day’s work helps you sleep better at night**

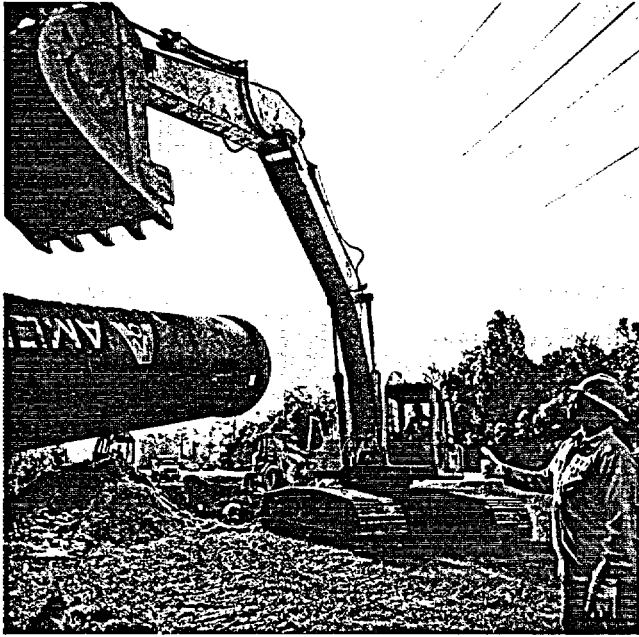
**A**t GRU, we work around-the-clock, in the trenches and behind the scenes, to ensure reliable, top-quality service so each day — and restful night — goes as smoothly as possible for our customers.

Because we generate our own electricity, a widespread power outage like last summer’s northern blackout is less likely to affect Gainesville. Nevertheless, given tropical weather and our lush tree canopy, some outages are inevitable; so we are installing a new, computerized Outage Management System that will speed the restoration of power to our customers. The automated system, due to go live in 2004, will instantly display the location of outage problems on our electric distribution network. Other computer-aided features will speed the rerouting of power, operations dispatch and maintenance scheduling. An interactive voice response program, which will link with the new system, relays information about a caller’s location and the reported problem more quickly than if we used live operators — all to provide better service to our customers.

We understand the importance of keeping businesses powered. However, bad weather or a car accident still can cause unavoidable power outages and downtime.

That is why we developed AttenGen!™, our new on-site standby generating service. GRU designs, installs, manages and maintains a generating unit on site to provide vital standby power to participating businesses, minimizing the effects of severe weather and lengthy service interruptions.

**We understand the importance of keeping businesses powered. However, bad weather or a car accident still can cause unavoidable power outages and downtime. That is why we developed AttenGen!™, our new on-site standby generating service.**



**GRU's water construction employees work diligently in the second phase of a multi-year program to extend a 36-inch water main into the rapidly growing western portion of our service area.**

On the "water front," GRU customers can rest assured that 28 years of testing every single day continues to confirm that our drinking water is of the highest quality. Since mid-2000, we have increased the number of water production wells at our Murphree Water Treatment Plant wellfield from 11 to 15, which will keep us ahead of the local water demand through 2013. We also have partnered with area water management districts and the U.S. Department of Agriculture to purchase the development rights to 7,100 acres located in our wellfield, providing space for additional wells to meet future needs and protecting the water supply from possible contamination through commercial development.

We remain vigilant about the security of our facilities and the community's utility infrastructure.

We have tightened building security for our customers and employees in our downtown Administration Building. All GRU facilities, including our power and water plants, have benefited from additional security measures to ensure the safety of our customers and employees.

### **An honest day's work protects our natural resources**

**G**RU is an essential part of a forward-thinking community, and that encourages us to make the best use of our natural resources.

We have helped the Gainesville area maintain one of Florida's purest water supplies, and we're working hard to keep it that way. Although no contamination has ever been found in our wellfield, we are planning to add eight more sentinel monitoring wells to our existing formation of 18 testing wells. The 26 wells will form a ring of monitoring protection around our Murphree Water



Treatment Plant, making it the most comprehensive water supply monitoring system in the state. Murphree's 60-acre wellfield is the source of drinking water for more than 135,000 Alachua County residents. The improvements will provide us with an early detection system for pollutants and allow us to ensure groundwater quality long before it could be pumped to area homes.

What better way to reduce the increasing demand for precious groundwater than to offer reclaimed water for irrigation and community beautification. GRU eventually will supply treated wastewater to irrigate a public stormwater park planned on 32 acres south of downtown Gainesville. The city-owned Depot Park site is undergoing mandatory cleanup efforts for severe contamination caused years ago by a private coal gasification plant that operated there. Our engineers are working with the Community Redevelopment Agency to transform the property into an inviting recreation and greenspace center, with amenities such as a skateboard park, boardwalk, bird sanctuary and fountain. We will finance the cleanup with a small surcharge on GRU residential gas utility bills — and our natural gas rates will remain among the lowest in the state. Besides capturing and retaining stormwater for the entire downtown area, the park will transform one of Gainesville's worst contamination sites into an elegant recreational centerpiece in a neighborhood that welcomes the makeover.



**Besides capturing and retaining stormwater for the entire downtown area, the park will transform one of Gainesville's worst contamination sites into an elegant recreational centerpiece in a neighborhood that welcomes the makeover.**

When is trash beautiful? When it's helping to save our environment, of course. We are converting landfill-derived gas into "green energy" for purchase by our customers. The initiative, known as GRUgreen<sup>SM</sup> Energy, allows customers to contribute a few dollars more on their monthly utility bills to buy "green electricity" generated from renewable resources. The methane gas produced from garbage degradation at the closed Southwest Landfill generates enough electricity to power about 1,500 homes. The landfill's "biomass" energy is combined with solar energy produced locally and purchased wind energy to power our GRUgreen Energy program.

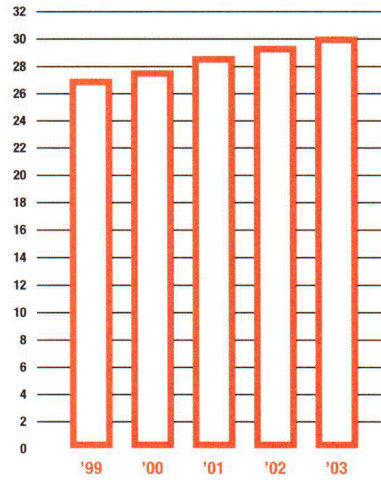
## 2002-03 Highlights

	2003	2002	% chg
<b>Financial</b>			
Net revenues	85,190,476	90,462,263	-5.8%
Aggregate debt service	25,502,972	29,312,587	-13.0%
Aggregate bond coverage ratio	3.34	3.09	8.1%
Total debt service coverage ratio	2.53	2.65	-4.5%
Long-term debt	435,566,480	404,421,721	7.7%
Net utility plant	682,739,844	656,058,267	4.1%
Cash and investments:			
Rate stabilization fund and revenue fund	70,482,184	82,590,027	-14.7%
<b>Customers</b>			
Residential electric	74,164	73,522	0.9%
Non-residential electric	8,912	8,754	1.8%
<b>Total electric</b>	<b>83,076</b>	<b>82,276</b>	<b>1.0%</b>
Water	61,078	60,348	1.2%
Wastewater	54,310	53,427	1.7%
Natural gas	30,206	29,482	2.5%
<b>Sales of energy (gigawatt-hours)</b>			
Residential	866.1	807.6	7.2%
General service/large power	907.7	879.7	3.2%
Lighting	24.2	23.6	2.4%
<b>Total retail</b>	<b>1,797.9</b>	<b>1,710.9</b>	<b>5.1%</b>
Sales for resale (wholesale)	148.8	135.7	9.7%
<b>Total native (retail +wholesale)</b>	<b>1,946.8</b>	<b>1,846.6</b>	<b>5.4%</b>
Interchange	108.7	275.6	-60.6%
<b>Grand Total</b>	<b>2,055.5</b>	<b>2,122.2</b>	<b>-3.1%</b>
<b>Sales of Water (million gallons)</b>	<b>7,814.0</b>	<b>8,311.3</b>	<b>-6.0%*</b>
<b>Wastewater billed (million gallons)</b>	<b>5,211.6</b>	<b>5,306.4</b>	<b>-1.8%</b>
<b>Natural gas (million therms)</b>	<b>23.8</b>	<b>20.6</b>	<b>15.4%</b>

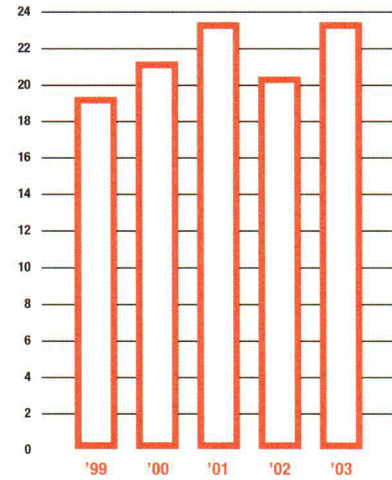
\*Includes power plants

## 2002-03 Statistics

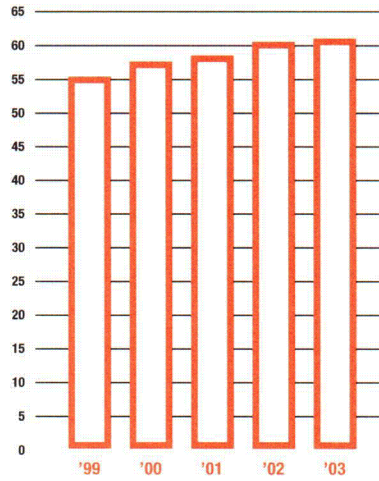
**Natural Gas Customers**  
(thousands of customers)



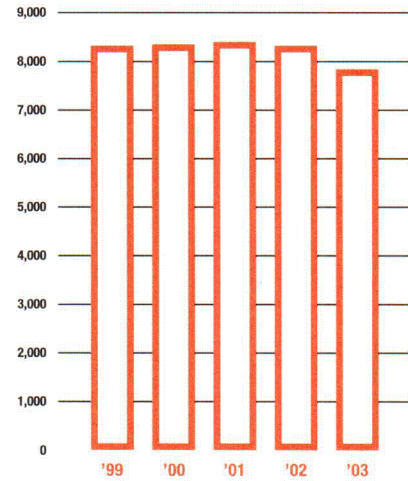
**Natural Gas Sales**  
(millions of therms)



**Water Customers**  
(thousands of customers)



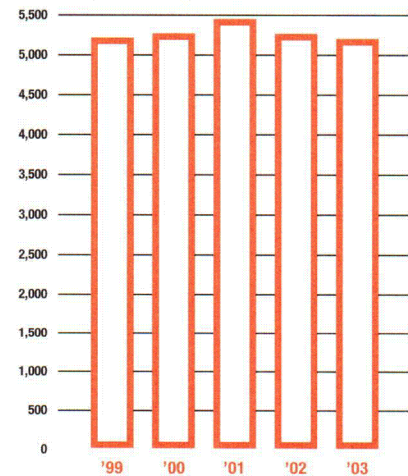
**Water Sales**  
(millions of gallons)



**Wastewater Customers**  
(thousands of customers)



**Wastewater Billings**  
(millions of gallons)





# 2002-03 Statistics

## Energy Supply

Deerhaven Generating Station	
Net Capability	422 megawatts (MW)
Kelly Generating Station	
Net Capability	177 MW
Share Ownership of Crystal River 3	Net Capability 12 MW
Combined System	Net Capability 611 MW

## Energy Delivery — Electric System

Service Area	127 sq. miles
Transmission	240.4 circuit miles
Distribution	
Overhead (48%)	611 circuit miles
Underground (52%)	719 circuit miles
Total	1,330 circuit miles
Distribution Substations	9 (138 kV/12kV)

## Energy Delivery — Natural Gas System

Service Area	108 sq. miles
Distribution Mains	637 miles
Delivery Points	5

## Water System

Walter E. Murphree Water Treatment Plant	
Treatment Capacity	54 million gallons/day (MGD), peak day
Storage Capacity	19.5 million gallons (MG)
Supply Wells	15
Water Service Area	118 sq. miles
Distribution Mains	1,003 miles

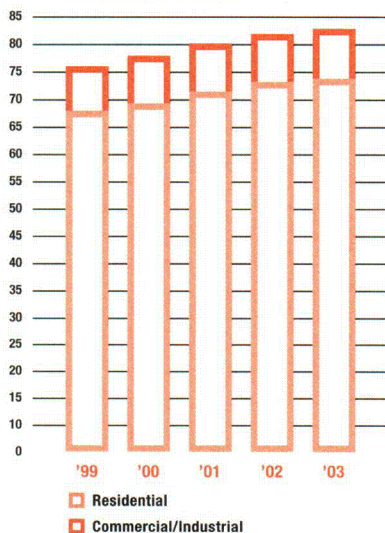
## Wastewater System

Kanapaha Water Reclamation Facility	
Treatment Capacity	14.9 MGD, Avg. Annual Daily Flow (AADF)
Main Street Wastewater Treatment Plant	
Treatment Capacity	7.5 MGD, AADF
Combined Treatment Capacity	22.40 MGD, AADF
Collection Service Area	115 sq. miles
Gravity Mains	553 miles
Force Mains	126 miles
Lift Stations	156

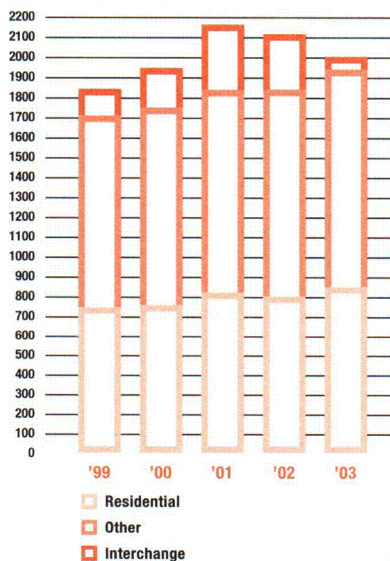
## Telecommunications

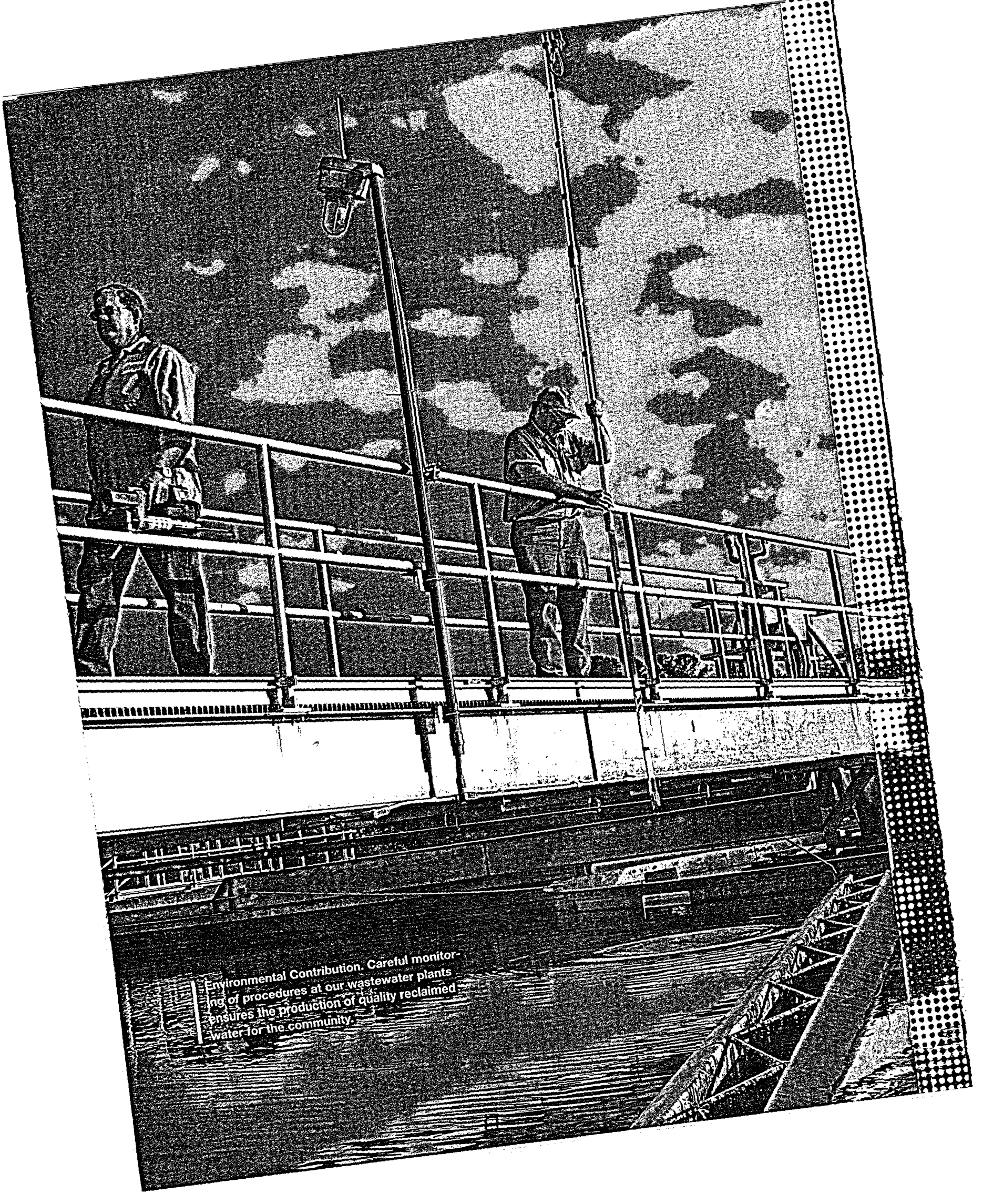
Miles of Fiber Optic Cable	234 miles
On-net Locations	248
Maximum Bandwidth	0C-48 (2.5 gigabits/second)

**Electric Customers**  
(thousands of customers)



**Electric Sales**  
(gigawatt hours)





Environmental Contribution. Careful monitoring of procedures at our wastewater plants ensures the production of quality reclaimed water for the community.

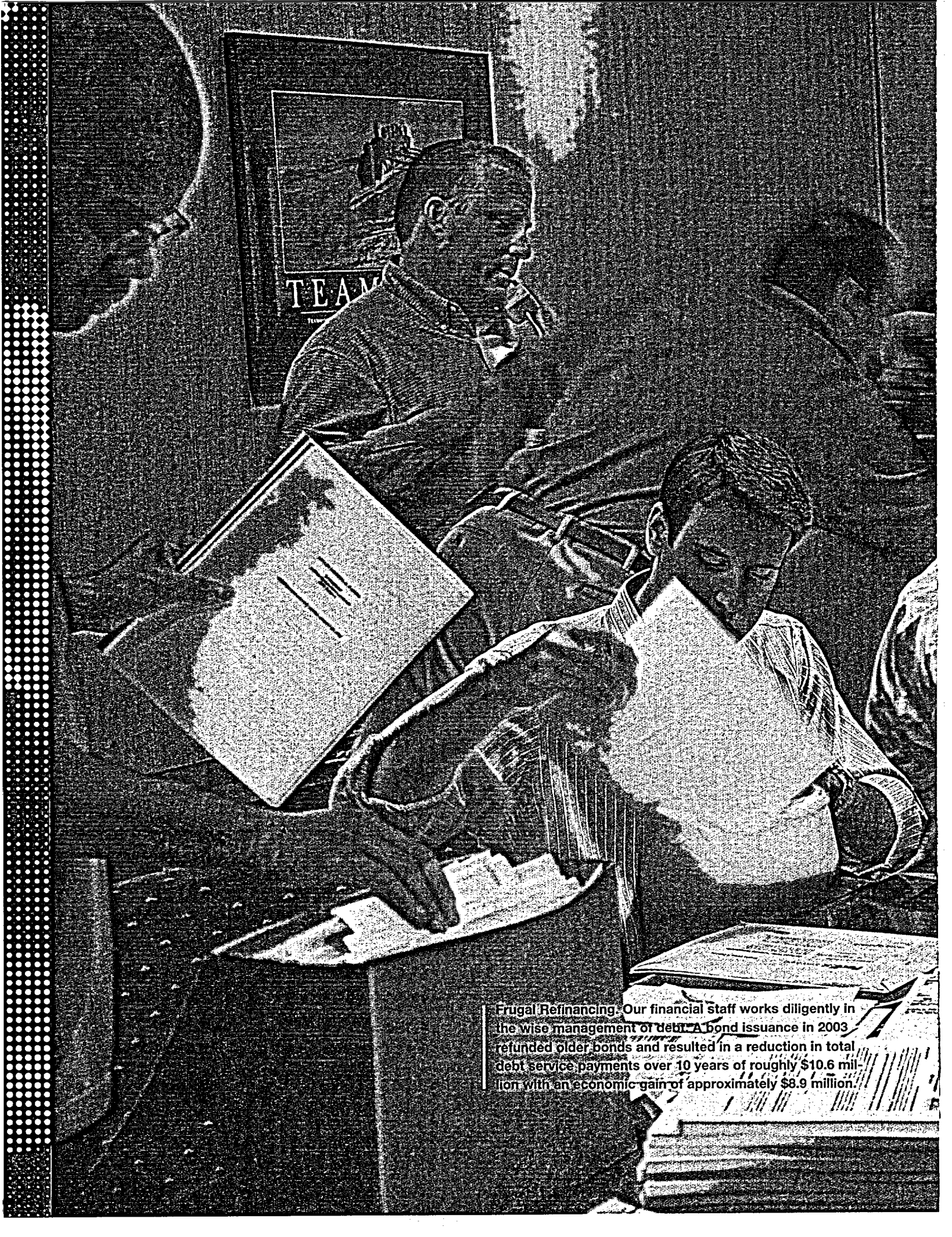


**Gainesville Regional Utilities**

**Financial Statements**

**Years ended September 30, 2003 and 2002  
with Report of Independent Certified  
Public Accountants**





**Frugal Refinancing.** Our financial staff works diligently in the wise management of debt. A bond issuance in 2003 refunded older bonds and resulted in a reduction in total debt service payments over 10 years of roughly \$10.6 million with an economic gain of approximately \$8.9 million.





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## Management's Discussion and Analysis

SEPTEMBER 30, 2003 AND 2002

### Management's Discussion and Analysis

The City of Gainesville, Florida owns and operates a combined utility system (System) doing business as Gainesville Regional Utilities (GRU) which provides five separate utility functions. The utility functions consist of an electric generation, transmission and distribution system (Electric System), water production and distribution system (Water System), a wastewater collection and treatment system (Wastewater System), a natural gas distribution system (Gas System) and a telecommunication system (GRUCom). Each of these systems is accounted for internally as a separate enterprise fund but reported as a combined utility system for external financial reporting purposes.

We offer readers of GRU's financial statements this management discussion and analysis of GRU's financial statements for the fiscal year ended September 30, 2003. It should be read in conjunction with the financial statements that follow this section.

#### Required Financial Statements

**Balance Sheet.** This statement includes all of GRU's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to GRU's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System and assessing the liquidity and financial flexibility of GRU.

**Statement of Revenues, Expenses and Changes in Net Assets.** All of the current year's revenues and expenses are accounted for in this statement. This statement measures the success of the combined utility system's operations over the past year.

**Statement of Cash Flows.** The primary purpose of this statement is to provide information about the combined utility system's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities.

**Notes to Financial Statements.** The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 41-54 of this report.

#### Financial Analysis of the Combined Utility System

The Utilities' System net assets increased from last year by \$ 8.3 million. Table 1 below focuses on the net assets.

**Table 1**  
**Combined Utility System Net Assets**  
(In thousands)

September 30	2003	2002 (Restated)
Current and other assets	\$ 420,434	\$ 428,616
Capital assets, net	<u>682,740</u>	<u>656,058</u>
Total assets	<u>1,103,174</u>	<u>1,084,674</u>
Long-term debt outstanding	435,566	404,422
Current and other liabilities	<u>322,399</u>	<u>343,373</u>
Total liabilities	<u>757,965</u>	<u>747,795</u>
Net assets:		
Invested in capital assets, net of related debt	263,207	252,236
Restricted	83,815	88,657
Unrestricted	<u>(1,813)</u>	<u>(4,014)</u>
Total net assets	<u>\$ 345,209</u>	<u>\$ 336,879</u>

Changes in net assets can be further explained using the following condensed statement of revenues, expenses and changes in net assets.



**Table 2**  
**Combined Utilities System Changes in Net Assets**  
*(In thousands)*

September 30	2003	2002 <i>(Restated)</i>
Operating revenues	\$225,624	\$213,252
Interest income	<u>6,298</u>	<u>7,152</u>
Total revenues	<u>231,922</u>	<u>220,404</u>
Operating expenses	180,972	163,796
Interest expense, net	<u>20,362</u>	<u>19,676</u>
Total expenses	<u>201,334</u>	<u>183,472</u>
Income before contributions and transfers	30,588	36,932
Capital contributions, net	3,657	4,834
Operating transfer to City of Gainesville	<u>(25,915)</u>	<u>(25,695)</u>
Change in net assets	<u>8,330</u>	<u>16,071</u>
Net assets - beginning of year, as originally reported	412,314	403,639
Prior period adjustment	<u>(75,435)</u>	<u>(82,831)</u>
Net assets, beginning of year, restated	<u>336,879</u>	<u>320,808</u>
Net assets, end of year	<u>\$345,209</u>	<u>\$336,879</u>

The prior period adjustment reflected above results from a change in accounting policy in the accounting and reporting of Rate Stabilization funds. See note 1 on page 41 of this report for further explanation of this accounting change.

**Capital Asset and Debt Administration**

**Capital Assets.** GRU's investment in capital assets as of September 30, 2003, amounts to \$682.7 million (net of accumulated depreciation). This investment in capital assets includes land, generation, transmission and distribution systems, buildings and fixed equipment, and furniture, fixtures and equipment. The net increase in the investment in capital assets (net of accumulated depreciation) for the current fiscal year was 4.1%.

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the year ended September 30, 2003.

**Combined Utilities System Capital Assets**  
**(net of accumulated depreciation)**  
*(In thousands)*

September 30	2003	2002
Generation	\$168,365	\$175,020
Transmission, distribution and collection	331,446	326,095
Treatment	48,528	49,128
General plant	31,152	31,549
Plant held for future use	6,054	6,054
Plant unclassified	25,737	6,154
Construction work in progress	<u>71,458</u>	<u>62,058</u>
Total net utility plant	<u>\$682,740</u>	<u>\$656,058</u>

Major capital asset events during the current fiscal year included the following:

- The expansion of the Kanapaha Reclamation Facility's wastewater treatment capacity by 5 million gallons per day (MGD). Costs added to this year's expansion project were \$7.3 million.
- Electric transmission and distribution net expansion of \$3.3 million.
- Fiber optic service expansion of \$1.8 million.

The Utility's 2004 capital budget plans for investing approximately \$53 million in capital projects. These projects will be funded from a combination of cash reserves, excess operating revenue, and additional debt.

**Long-Term Debt.** At the end of the 2003 fiscal year, GRU had total long-term debt outstanding of \$467.4 million, comprised of revenue bonds and other long-term debt.

**Outstanding Debt at September 30**  
*(In thousands)*

	2003	2002
Senior Lien revenue bonds	\$318,620	\$293,750
Subordinated revenue bonds	77,300	77,300
Tax-exempt Commercial Paper	53,700	56,262
Taxable Commercial Paper	<u>17,815</u>	<u>18,549</u>
Total	<u>\$467,435</u>	<u>\$445,861</u>

On January 30, 2003 the City issued Utilities System Revenue Bonds, Series 2003A and 2003B in the amounts of \$33,000,000 and \$7,625,000 respectively. The 2003 A Bonds mature on various dates from October 1, 2015 through October 1, 2024. The 2003 B Bonds mature on various dates from October 1, 2004 through October 1, 2013. The 2003 A Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the City on or after October 1, 2013 at 100%. The 2003 B Bonds maturing are not subject to redemption prior to maturity.

On March 20, 2003, the City entered an interest rate swap agreement with an August 28, 2003 effective date with JP Morgan Chase Bank (JP Morgan) for an initial notional amount of \$121,525,000 amortizing down to zero on October 1, 2013. Under the terms of this swap, the City would pay JP Morgan 3.41% interest on certain payment dates and, in return, JP Morgan would pay the City a floating rate based on a specified index. On August 20, 2003, the City issued Utilities System Revenue Bonds, Series 2003C in the amount of \$115,320,000. The proceeds of these Bonds were used to refund the 1993 Series A and 1993 Series B Bonds outstanding after October 1, 2003 and \$ 6,235,000 of the 1996A Bonds maturing October 1, 2004 through October 1, 2008 and to pay an amount to terminate this swap agreement with JP Morgan.

The System maintains an AA rating from Standard & Poor's Corporation, but received a rating upgrade from Moody's Investors Service for its revenue bonds from AA3 to AA while maintaining an A-1+ and P-1 rating for its commercial paper.

Additional information on long-term debt can be found in Note 4 on pages 46-50 of this report.

**Financial Highlights.** The most significant changes in GRU's financial condition are summarized below:

- Operating revenue increased \$12.4 million, or approximately 5.8%. The increase is offset by higher fuel costs in fiscal 2003 of approximately \$14.6 million, or about 21.6%, which are passed directly through to our customers.
- Net capital contributions from developers and connection fees in fiscal 2003 were down approximately \$1.2 million from fiscal 2002 due to a drop in housing development in the area in the current year.
- Gross utility plant in service increased \$22.4 million, or 2.4%, and net capital assets increased \$26.7 million, or 4.0%, as summarized under "Capital Assets," on page 45.
- Long-term debt increased \$21.6 million, or 4.8%, because of debt issued for capital projects during the year net of principal payments, as reflected under "Long-Term Debt" on page 33, and the refunding of debt, as shown in footnote 4, on pages 46-50.
- The number of customers for electric, water, wastewater and gas services increased .7%, 1.3%, 1.6% and 2.2%, respectively in fiscal 2003.
- Gainesville Regional Utilities is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$1.8 million and GRU estimates that remaining costs of the project will be \$9.9 million. GRU has accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. Further explanation of this activity is presented in note 13, page 52 of this report.

#### **Currently Known Facts or Conditions that May Have a Significant Effect on GRU's Financial Condition or Results of Operations**

The primary factors affecting the utility industry include environmental regulations, restructuring of the wholesale and retail energy markets, and the formation of independent bulk power transmission systems.

Utilities, and particularly electric utilities, are subject to increasing federal, state and local statutory and regulatory requirements with respect to the siting and licensing of facilities, safety and security, air and water quality, land use and other environmental factors. The industry is subject to claims asserting health effects from electric and magnetic fields associated with power lines, home appliances and other sources.

The business, affairs and financial condition of GRU could be affected by the efforts now taking place on both the federal and state levels to restructure the electric utility industry. The goal of this restructuring effort is to change from a traditionally monopolistic industry to one in which there is open competition among electric suppliers on both the wholesale and retail levels.

Changes in federal law and regulations dealing with transmission access have already improved competition at the wholesale level, which wholesale competition is expected to increase retail competition. Past legislation seeks (or sought) to complete this restructuring by providing for competition at the retail level. No state legislation is pending or proposed at this time for retail competition in Florida. Any such restructuring of the Florida retail electric utility industry is expected to affect the System.

On October 1, 2003, GRU increased its natural gas base rates by 2.0% and the Cost Recovery Factor (CFR) by 1.1% per therm. Additionally, GRU increased water and wastewater base rates by 2.5% and 2.25%, respectively. There were no changes in electric rates. Such increases may affect the financial condition and results of operations. To meet increased costs of service, GRU also increased connection fee charges by slightly more than 3.0% and 8.0%, for the water and wastewater systems, respectively.

GRU currently forecasts the need for new electric supply by around 2010. With this in mind and the potential long lead time to install certain types of generation, GRU has initiated an Integrated Resource Planning process to investigate options to satisfy its customer demand and supply needs. GRU is currently in the evaluation process and is holding community workshops to discuss this issue. It is anticipated that GRU will further solidify its direction in the next year or so.

#### **Requests for Information**

This financial report is designed to provide a general overview of the Utility System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Gainesville Regional Utilities, P.O. Box 147117, Station A-105, Gainesville, FL 32614-7117.

## Report of Independent Certified Public Accountants

The Honorable Mayor and  
Members of the City Commission  
City of Gainesville

We have audited the accompanying balance sheets of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of September 30, 2003 and 2002 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Gainesville Regional Utilities' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Gainesville Regional Utilities (the Combined Utility Fund of the City of Gainesville, Florida) and are not intended to present fairly the financial position of the City of Gainesville, Florida, and the changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States.

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

As discussed in Note 1 to the financial statements, in 2003 Gainesville Regional Utilities changed its method of accounting for rate stabilization funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003 on our consideration of the Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance

with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, as identified 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 methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Financial statements for the years ended September 30, 2000 and 1999 were audited by other auditors. The supplementary information included in the accompanying schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that pertaining to the years ended September 30, 2000 and 1999, on which we express no opinion, 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.

*Ernst & Young LLP*  
Ernst & Young LLP  
Orlando, Florida

November 7, 2003



**Balance Sheets**

SEPTEMBER 30, 2003 AND 2002

	2003	2002 <i>(Restated)</i>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,860,688	\$ 5,223,597
Investments	392,886	514,235
Accounts receivable, net of allowance for uncollectible accounts of \$704,865 in 2003 and \$805,126 in 2002	26,917,521	25,035,819
Prepaid rent — lease/leaseback	10,686,909	10,686,909
Fuels contracts	369,210	82,950
Deferred charges	2,740,206	3,514,523
Inventories:		
Fuel	6,987,400	10,782,212
Materials and supplies	6,947,008	7,474,597
Total current assets	<u>56,901,828</u>	<u>63,314,842</u>
<b>Restricted assets:</b>		
Utility deposits — cash and investments	3,761,742	3,728,281
Debt service — cash and investments	60,004,798	59,897,416
Rate stabilization — cash and investments	68,228,610	76,852,195
Construction Fund — cash and investments	22,121,649	8,803,549
Utility plant improvement fund — cash and investments	27,747,412	28,634,776
Investment in The Energy Authority	3,215,002	3,101,508
Decommissioning reserve — cash and investments	5,113,431	4,634,322
Total restricted assets	<u>190,192,644</u>	<u>185,652,047</u>
Prepaid rent — lease/leaseback	151,397,877	162,084,786
Other noncurrent assets	21,942,164	17,564,061
<b>Capital assets:</b>		
Utility plant in service	959,374,085	936,948,021
Plant unclassified	25,737,464	6,153,812
Less: accumulated depreciation and amortization	<u>379,884,092</u>	<u>355,155,899</u>
	605,227,457	587,945,934
Plant held for future use	6,053,926	6,053,926
Construction in progress	71,458,461	62,058,407
Net capital assets	<u>682,739,844</u>	<u>656,058,267</u>
Total assets	<u>\$1,103,174,357</u>	<u>\$1,084,674,003</u>

**Balance Sheets**  
**SEPTEMBER 30, 2003 AND 2002**

	2003	2002 <i>(Restated)</i>
<b>Liabilities and fund equity</b>		
<b>Current liabilities:</b>		
Fuel payable	\$ 2,970,088	\$ 6,554,687
Accounts payable and accrued liabilities	1,854,362	4,938,009
Operating lease — lease/leaseback	12,461,916	12,461,916
Deferred credits	3,878,407	2,480,066
Due to\from) other funds	<u>3,160,611</u>	<u>3,242,918</u>
Total current liabilities	<u>24,325,384</u>	<u>29,677,596</u>
<b>Payable from restricted assets:</b>		
Utility deposits	3,728,795	3,635,718
Rate stabilization deferred credit	71,628,813	75,434,820
Construction fund:		
accounts payable and accrued liabilities	2,116,878	1,002,854
Revenue bonds payable — current portion	12,385,000	11,520,000
Accrued interest payable	<u>7,089,021</u>	<u>8,118,211</u>
Total payable from restricted assets	<u>96,948,507</u>	<u>99,711,603</u>
<b>Long-term debt:</b>		
Utilities system revenue bonds	309,035,000	282,230,000
Subordinated utilities system revenue bonds	74,500,000	77,300,000
Commercial paper notes	71,515,000	74,811,000
Unamortized loss on refinancing	(30,372,079)	(26,778,452)
Unamortized bond premium\discount	<u>10,888,559</u>	<u>(3,140,827)</u>
Total long-term debt	<u>435,566,480</u>	<u>404,421,721</u>
Operating lease — lease/leaseback	176,530,733	188,991,041
Other noncurrent liabilities	<u>24,594,323</u>	<u>24,992,981</u>
Total liabilities	<u>757,965,427</u>	<u>747,794,942</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	263,206,801	252,236,347
Restricted	83,814,681	88,656,895
Unrestricted	<u>(1,812,552)</u>	<u>(4,014,181)</u>
Total net assets	<u>345,208,930</u>	<u>336,879,061</u>
Total liabilities and net assets	<u>\$1,103,174,357</u>	<u>\$1,084,674,003</u>

See accompanying notes.

**Statements of Revenues, Expenses and Changes in Net Assets**  
**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002 <i>(Restated)</i>
<b>Operating revenue:</b>		
Sales and service charges	\$211,651,345	\$198,930,821
Other operating revenue	<u>13,972,493</u>	<u>14,320,930</u>
Total operating revenue	<u>225,623,838</u>	<u>213,251,751</u>
<b>Operating expenses:</b>		
Operation and maintenance	121,983,071	104,155,618
Administrative and general	22,706,274	23,798,182
Depreciation and amortization	<u>36,283,237</u>	<u>35,842,269</u>
Total operating expenses	<u>180,972,582</u>	<u>163,796,069</u>
Operating income	<u>44,651,256</u>	<u>49,455,682</u>
<b>Non-operating income (expense):</b>		
Interest income	6,297,965	7,152,201
Interest expense, net of AFUDC	<u>(20,361,569)</u>	<u>(19,676,070)</u>
Total non-operating expense	<u>(14,063,604)</u>	<u>(12,523,869)</u>
Income before contributions and transfers	<u>30,587,652</u>	<u>36,931,813</u>
<b>Capital contributions:</b>		
Contributions from developers	3,893,622	5,868,631
Reduction of plant costs recovered through contributions	<u>(236,145)</u>	<u>(1,034,708)</u>
Net capital contributions	3,657,477	4,833,923
Operating transfer to City of Gainesville General Fund	<u>(25,915,260)</u>	<u>(25,694,788)</u>
Change in net assets	<u>8,329,869</u>	<u>16,070,948</u>
Net assets — beginning of year, as originally reported	412,313,881	403,639,224
Prior period adjustment (See note 1)	<u>(75,434,820)</u>	<u>(82,831,111)</u>
Net assets — beginning of year, as restated	<u>336,879,061</u>	<u>320,808,113</u>
Net assets -- end of year	<u>\$345,208,930</u>	<u>\$336,879,061</u>

*See accompanying notes.*



**Statement of Cash Flows**  
YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002 <i>(Restated)</i>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$209,555,527	\$202,196,045
Cash payments to suppliers for goods and services	(122,291,913)	(102,454,444)
Cash payments to employees for services	(39,495,623)	(36,930,494)
Cash payments for operating transactions with other funds	(4,661,739)	(5,295,612)
Other operating receipts	<u>15,052,285</u>	<u>12,546,727</u>
Net cash provided by operating activities	58,158,537	70,062,222
<b>Cash flows from noncapital financing activities</b>		
Transfers to other funds	<u>(25,915,260)</u>	<u>(25,694,788)</u>
Net cash used in noncapital financing activities	(25,915,260)	(25,694,788)
<b>Cash flows from capital and related financing activities</b>		
Principal repayments on long-term debt	(134,976,000)	(70,352,000)
Interest paid on long-term debt	(21,390,758)	(21,293,656)
Other receipts	10,180	178,634
Acquisition and construction of fixed assets (including allowance for funds used during construction)	<u>(54,343,220)</u>	<u>(42,324,379)</u>
Proceeds from new debt and commercial paper	170,579,386	80,115,806
Cash received for connection charges	<u>3,311,449</u>	<u>1,789,383</u>
Net cash used in capital and related financing activities	(36,808,963)	(51,886,212)
<b>Cash flows from investing activities</b>		
Interest received	6,511,894	8,816,629
Purchase of investments	(550,179,848)	(489,101,705)
Investment in The Energy Authority	(1,181,417)	(1,131,925)
Distributions from The Energy Authority	1,067,922	663,041
Proceeds from investment maturities	<u>543,697,899</u>	<u>517,486,938</u>
Net cash (used in)/provided by investing activities	<u>(83,550)</u>	<u>36,732,978</u>
Net (decrease)/increase in cash and cash equivalents	(4,649,236)	29,214,200
Cash and cash equivalents, beginning of year	<u>37,517,537</u>	<u>8,303,337</u>
Cash and cash equivalents, end of year	<u>\$ 32,868,301</u>	<u>\$ 37,517,537</u>

**Statement of Cash Flows, continued**  
**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002 <i>(Restated)</i>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$44,651,256	\$49,455,682
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	36,283,237	35,842,269
Operating lease — lease/leaseback revenue	(1,774,203)	(1,774,203)
Receivables	(2,188,895)	3,322,596
Prepaid expenses	(286,260)	3,954,165
Inventories	4,322,401	(7,540,418)
Deferred charges	(879,881)	3,849,752
Accounts payable and accrued liabilities	(5,554,222)	317,277
Due to other funds	(82,307)	1,323,302
Utility deposits	93,077	(57,372)
Other liabilities and deferred credits	<u>(16,425,666)</u>	<u>(18,630,828)</u>
Net cash provided by operating activities	<u>\$58,158,537</u>	<u>\$70,062,222</u>

**Noncash, investing, capital and financing activities**

Utility plant contributed by developers in aid of construction was \$3,657,477 and \$5,562,000 in 2003 and 2002, respectively.

*See accompanying notes.*

## 1. Summary of Significant Accounting Policies

### Organization

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility system operating electric, natural gas, water, wastewater, and telecommunications (GRUCom) utilities. GRU consists of the combined Utility Funds of the City of Gainesville, Florida (City). GRU is a unit of the City and, accordingly, the financial statements of GRU are included in the annual financial reports of the City.

### Basis of Accounting

The financial statements are presented on the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred. GRU applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting for and reporting its operations. In accordance with government accounting standards, GRU has elected not to apply FASB pronouncements issued after that date. In accordance with the Utilities System Revenue Bond Resolution as Supplemented and Amended (Bond Resolution), rates are designed to cover operating and maintenance expense, debt service and other revenue requirements, which exclude depreciation expense and other noncash expense items. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. The effect of these differences are recognized in the determination of net income in the period that they occur, in accordance with GRU's accounting policies. GRU has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and substantially all provisions of the National Association of Regulatory Utility Commissioners (NARUC). Rates are approved annually by the City Commission.

### Accounting Changes

#### Reporting Model

In connection with a recent reexamination of its accounting policies related to Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, GRU determined that regulatory basis accounting, as described in Note 2, could be applied to its rate stabilization fund transactions. As a result, in periods when funds are deposited to the rate stabilization fund (restricted cash and investments), pursuant to bond covenants, operating revenues would be reduced by the amount deposited and a related regulatory liability would be established; conversely, the future periods when such rate stabilization's funds are applied, the

regulatory liability would be reduced and operating revenues would be increased by the amount applied. Under GRU's previous accounting policy, in previous periods, rate stabilization fund assets were reported as restricted assets on the balance sheet, but the corresponding regulatory liabilities were not recorded and the balance was instead reported as part of restricted net assets.

In the 2003 fiscal year, management has elected to change the accounting policy for its rate stabilization fund by restating the comparative 2002 financial statements and disclosing the accounting change in notes to the financial statements. The treatment as a restatement, instead of as a cumulative effect adjustment, is supported by GASB Codification Section 1600.104, footnote 3, which states "changes in accounting principles addressed in APB Opinion No. 20, as amended, should be reported as restatements of beginning net assets." Management believes that this accounting change will result in more consistency between the accounting for rate stabilization fund transactions and the rate-setting model, and that the change is to a preferable method of accounting for these transactions, as permitted under SFAS No. 71.

The results of the retroactive application of this accounting change are as follows:

- In the 2002 financial statements, \$82,831,111 in beginning restricted net assets were reclassified to a regulatory liability, payable from restricted assets; and operating revenues and change in net assets were both increased by \$7,396,291 to reflect the reduction in the regulatory liability during the 2002 fiscal year.
- Beginning net assets in the 2003 financial statements were reduced by \$75,434,820 to reflect the reclassification of the rate stabilization fund regulatory liability balance as of the beginning of the fiscal year.

During the 2002 fiscal year, GRU adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (Statement 34); GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus* (Statement 37); and GASB Statement No. 38, *Certain Financial Statement Disclosures* (Statement 38). Statements 34, 37 and 38 established standards for external financial reporting and disclosure for all state and local government entities, which for GRU includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. The most significant change related to the implementation of Statement 34 for GRU was the requirement that net assets be classified into three components — invested in capital assets, net of related debt; restricted; and unrestricted, on a retroactive basis. Previously, GRU's net assets were reported



as fund equity, as either retained earnings or contributions in aid of construction. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* — This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other long-term 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 is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* — This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* — This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The adoption of Statements 34, 37, and 38 had no effect on the financial statements except for the classification of net assets, changes in financial statement presentation and modification of certain financial statement note disclosures.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassifications

Certain amounts for the prior year have been reclassified to conform with current year presentation.

#### Investments

Investments are reported at fair value in the balance sheet and on quoted market prices. All short-term commercial paper with maturities less than one year have been reported at cost which approximates fair value.

#### Risk Management/Futures & Options Contracts

GRU conducts a risk management program with the intent of reducing the impact of fuel price spikes for its customers. The program utilizes futures and options contracts that are traded on the New York Mercantile Exchange (NYMEX) so that prices may be fixed for given volumes of gas that the utility intends to consume during a given production month. Through the use of an internal oversight group, consultation from reputable risk management sources, and close monitoring of the market on a daily basis, GRU makes every effort to take reasonable steps to lessen customers' exposure to fuel spikes while, at the same time, attempting to minimize costs.

As a result of risk management activity GRU had, on September 30, 2003 and 2002, deposits of \$2,300,000 and \$1,600,000, respectively, with brokers for margin accounts. GRU has \$369,210 and \$82,950 for outstanding options and estimates approximately \$13,300,000 in futures contracts at September 30, 2003 and estimated \$-0- for September 30, 2002. At contract maturity date, gains or losses on hedging transactions are recognized into operation and maintenance expense. On September 30, 2003, \$889,500 was held in deferred gains, inclusive of options, from outstanding contracts. On September 30, 2002 there was \$104,500 in deferred gains from outstanding contracts.

#### Inventories

Inventories are stated at cost using the weighted average unit cost method for materials, and the last-in, first-out (LIFO) method for fuel. Obsolete and unusable items are reduced to estimated salvage values. The cost of fuel used for electric generation is charged to expense as consumed.

#### Capital Assets

Property and equipment are recorded at cost. Maintenance and repairs are charged to operating expense as incurred. The average cost of depreciable plant retired is eliminated from the plant accounts and charged to accumulated depreciation. Associated cost of removal is charged to depreciation expense.

Plant unclassified includes property and equipment of capital projects placed into service that have not been classified in the related asset category within utility plant in service.

#### Depreciation and Nuclear Generating Plant Decommissioning

Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. Depreciation was equivalent to 3.24% and 3.34% of average depreciable property for 2003 and 2002, respectively. Depreciation expense includes a provision for decommissioning costs related to the jointly-owned nuclear power plant (see Note 6).

#### Amortization of Nuclear Fuel

The cost of nuclear fuel, including estimated disposal cost, is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core. These costs are charged to customers through the fuel adjustment clause.

#### Revenue Recognition

Revenue is recorded as earned. GRU accrues for services rendered but unbilled, which amounted to approximately \$12,100,000 and \$9,200,000 for 2003 and 2002, respectively. Fuel adjustment revenue is recognized based on the actual fuel costs. Amounts charged to customers for fuel are based on estimated costs, which are adjusted for any differences between the actual and estimated costs once actual fuel costs are known. If the amount recovered through billings exceeds actual fuel costs, GRU records deferred fuel as a liability. If the amount recovered through billings are less than the actual fuel costs, GRU records deferred fuel as an asset, for amounts to be collected through future rates. As of September 30, 2003 and 2002, deferred fuel charges were \$(1,851,000) and \$1,716,000, respectively. The Fuel charges are reported as either part of current deferred charges or current deferred credits on the balance sheet.

#### Transactions with the City of Gainesville

As an enterprise fund of the City of Gainesville, transactions occur between GRU and the City's governmental funds throughout the year in the ordinary course of operations. Below is a summary of significant transactions:

**Administrative Services** — GRU is billed monthly for various administrative and insurance services provided by the City's governmental functions.

**Nonmetered and Metered Service Charges** — GRU bills the City's governmental funds on a monthly basis for all nonmetered, metered and other administrative services.

**Transfers to the General Fund** — GRU budgets an annual transfer to the General Fund based on a City Commission approved formula. See Note 11 for details.

#### Funds in Accordance with Bond Resolutions

Certain restricted funds of GRU are administered in accordance with bond resolutions. These funds are as follows:

- Debt Service Fund
- Subordinated Indebtedness Fund
- Rate Stabilization Fund
- Construction Fund
- Utility Plant Improvement Fund

The Debt Service Fund accounts for funds accumulated to provide payment of principal and interest on or redeem outstanding debt.

The Subordinated Indebtedness Fund, grouped in the Debt Service Fund for financial reporting purposes, accounts for funds accumulated to pay principal and interest on subordinated indebtedness.

The Rate Stabilization Fund accounts for funds accumulated to stabilize rates over future periods through the transfer of funds to and from operations as necessary and to provide operating reserves for the Utility.

The Construction Fund accounts for funds accumulated for the cost of acquisition and construction of the system.

The Utility Plant Improvement Fund accounts for funds used to pay for certain capital projects or debt service, the purchase or redemption of bonds, or otherwise provide for the repayment of bonds.

When both restricted and unrestricted resources are available for use, it is GRU's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Operating, Non-Operating Revenues

GRU has defined operating revenue as that revenue which is derived from customer sales or service while non-operating revenues include interest on investments and any gain from the sale of such investments.

#### Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of \$112,000 and \$0 in 2003 and 2002, respectively, is included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.23%.

## Notes to Financial Statements

SEPTEMBER 30, 2003 AND 2002

### Contributions in Aid of Construction

GRU recognizes capital contributions from developers and other third parties as revenues in the period received. Contributions to the electric and gas divisions are also reported as capital contribution revenues; however, the related capital asset amounts are also expensed in the same period consistent with the requirements of the FERC Uniform System of Accounts.

### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, and overnight repurchase agreements.

### Unamortized Loss on Refinancing

Losses resulting from the refinancing of bonds are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

## 2. Rates and Regulation

GRU's rates are established in accordance with the Utilities System Bond Resolution and the Utilities System Subordinated Bond Resolution as adopted and amended. Under these documents, rates are set to recover Operation and Maintenance Expenses, Debt Service, Utility Plant Improvement Fund contributions and costs for any other lawful purpose such as the General Fund Transfer.

Each year during the budgeting process, and at any other time necessary, the City Commission approves rate changes and other changes to GRU's charges.

GRU's cost of fuel for the electric and natural gas systems is passed directly through to its customers. Each month, GRU staff estimates the cost of fuel and consumption for both the electric and natural gas systems. These estimates are combined with a true-up for actual costs from previous months into a current-month electric fuel adjustment and natural gas purchased gas adjustment. Amounts overbilled or underbilled are passed along to customers and are either accrued or deferred at year-end.

The Florida Public Service Commission does not regulate rate levels in any of GRU's utilities. They do, however, have jurisdiction over rate structure for the electric system.

Currently, GRU prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, and records various regulatory assets and liabilities. For a company to report under SFAS No. 71, the company's rates must be designed to recover its costs of providing services, and the company must be able to collect those rates from customers. If it were determined, whether due to competition or regulatory action, that these standards no longer applied, GRU could be required to write off its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of SFAS No. 71, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.



### 3. Capital Assets and Changes in Accumulated Depreciation

A summary of capital assets, changes in accumulated depreciation and related depreciation provisions expressed as a percentage of average depreciable plant follows:

	<u>Treatment</u>	<u>Generation</u>	<u>Transmission, and Distribution Collection</u>	<u>General</u>	<u>Unclassified</u>	<u>Combined</u>
Balance, October 1, 2002	\$83,325,774	\$333,011,693	462,285,767	\$58,324,788	\$ 6,153,811	\$943,101,833
Capital additions	2,087,320	3,462,947	18,021,004	5,446,193	48,601,116	77,618,580
Sales, retirements	40,111	110,843	1,092,359	5,348,088	29,017,463	35,608,864
Balance, September 30, 2003	<u>\$85,372,983</u>	<u>\$336,363,797</u>	<u>479,214,412</u>	<u>\$58,422,893</u>	<u>\$25,737,464</u>	<u>\$985,111,549</u>
Accumulated depreciation, October 1, 2002	\$34,198,595	\$157,989,642	136,190,991	\$26,776,671	n/a	\$355,155,899
Depreciation expense	2,686,430	10,119,476	12,578,094	5,842,312	n/a	31,226,312
Retirements	40,111	110,844	999,075	5,348,089	n/a	6,498,119
Accumulated depreciation, September 30, 2003	<u>\$36,844,914</u>	<u>\$167,998,274</u>	<u>147,770,010</u>	<u>\$27,270,894</u>	<u>n/a</u>	<u>\$379,884,092</u>
Average depreciation rate	<u>3.18%</u>	<u>3.02%</u>	<u>2.67%</u>	<u>10.01%</u>	<u>n/a</u>	<u>3.24%</u>

	<u>Treatment</u>	<u>Generation</u>	<u>Transmission, and Distribution Collection</u>	<u>General</u>	<u>Unclassified</u>	<u>Combined</u>
Balance, October 1, 2001	\$81,371,071	\$288,946,495	\$422,147,317	\$54,159,664	\$62,142,573	\$908,767,120
Capital additions	2,245,159	56,623,471	45,514,094	11,029,223	58,004,920	173,416,867
Sales, retirements	290,456	12,558,273	5,375,644	6,864,099	113,993,682	139,082,154
Balance, September 30, 2002	<u>\$83,325,774</u>	<u>\$333,011,693</u>	<u>\$462,285,767</u>	<u>\$58,324,788</u>	<u>\$ 6,153,811</u>	<u>\$943,101,833</u>
Accumulated depreciation, October 1, 2001	\$31,870,077	\$160,001,587	\$128,547,379	\$28,717,006	n/a	\$349,136,049
Depreciation expense	2,618,974	10,501,563	12,894,877	4,918,757	n/a	30,934,171
Retirements/adjustments	290,456	12,513,508	5,251,265	6,859,092	n/a	24,914,321
Accumulated depreciation, September 30, 2002	<u>\$34,198,595</u>	<u>\$157,989,642</u>	<u>\$136,190,991</u>	<u>\$26,776,671</u>	<u>n/a</u>	<u>\$355,155,899</u>
Average depreciation rate	<u>3.18%</u>	<u>3.38%</u>	<u>2.92%</u>	<u>8.75%</u>	<u>n/a</u>	<u>3.34%</u>

**Notes to Financial Statements**  
**SEPTEMBER 30, 2003 AND 2002**

**4. Long-Term Debt**

Long-term debt outstanding at September 30, 2003 and 2002, consisted of the following:

	2003	2002
<b>Utilities System Revenue Bonds:</b>		
Series 1983 (1983 Bonds) — interest payable semi-annually to October 1, 2014 at a rate of 6.0%	\$ 4,675,000	\$ 4,675,000
1992 Series A (1992 A Bonds) — interest payable semi-annually to October 1, 2002 6.1%	-	1,555,000
1992 Series B (1992 B Bonds) — interest payable semi-annually to October 1, 2013 at various rates between 6.1% and 7.5%	24,630,000	24,960,000
1993 Series A (1993 A Bonds) — interest payable semi-annually to October 1, 2006 at various rates between 5.0% and 5.3%	4,175,000	17,795,000
1993 Series B (1993 B Bonds) — interest payable semi-annually to October 1, 2013 at various rates between 5.0% and 5.5%	2,015,000	110,280,000
1996 Utilities System Revenue Bonds — 1996 Series A (1996 Series A) — interest payable semi-annually to October 1, 2026 at rates between 4.2% and 5.75%	126,575,000	134,485,000
2002 Utilities System Subordinated Utilities System Revenue Bonds — 2002A (2002 Series A) interest at variable rates	37,300,000	37,300,000
2002 Utilities System Subordinated Utilities System Revenue Bonds — 2002B (2002 Series B) interest at variable rates	40,000,000	40,000,000
2003 Series A (2003 A Bonds) — interest payable semi-annually to October 1, 2024 at rates between 4.625% and 5.25%.	33,000,000	-
2003 Series B (2003 B Bonds) — interest payable semi-annually to October 1, 2013 at a 4.4% interest rate (Federally Taxable).	7,625,000	-
2003 Series C (2003 C Bonds) — interest payable semi-annually to October 1, 2013 at rates between 4.0% and 5.0%.	115,925,000	-
Utilities System Commercial Paper Notes, Series C (C Notes) — interest at variable market rates	53,700,000	56,262,000
Utilities System Taxable Commercial Paper Notes, Series D (D Notes) — interest at variable market rates	17,815,000	18,549,000
	<u>467,435,000</u>	<u>445,861,000</u>
Current portion of long-term debt	(12,385,000)	(11,520,000)
Unamortized loss on refinancing	(30,372,079)	(26,778,452)
Unamortized premium\discount	10,888,559	(3,140,827)
Total long-term debt	<u>\$435,566,480</u>	<u>\$404,421,721</u>

The 1983 Bonds mature on October 1, 2014. Those Bonds are subject to redemption at the option of the City as a whole at any time or in part on any interest payment date, at a redemption price of 100% plus accrued interest to the date of redemption.

The 1992 A Bonds matured October 1, 2002.

The 1992 B Bonds mature at various dates from October 1,

2001 to October 1, 2017. Those Bonds maturing on or after October 1, 2003 to October 1, 2007, amounting to \$14.3 million were redeemed at the option of the City on October 1, 2002.

The 1993 A and B Bonds mature at various dates through October 1, 2013. Those Bonds maturing on or after October 1, 2004, amounting to \$113.9 million, were redeemed at the option of the City on October 1, 2003.

The 1996 A Bonds mature at various dates through October 1, 2026. Those Bonds maturing on or after October 1, 2010 are subject to redemption at the option of the City on or after October 1, 2006 as a whole or in part at any time at a redemption price of 102% in 2006, 101% in 2007, and 100% thereafter. A portion of the Bonds maturing from October 1, 2004 through October 1, 2008 (\$6.2 million) were advance-refunded to the maturity dates.

On July 20, 2002, the City issued Subordinated Utilities System Revenue Bonds, Series 2000A and 2002B in the amounts of \$37,300,000 and \$40,000,000 respectively. The proceeds from the Series 2002A Bonds were used to refund a portion (\$36,645,000) of the 1992B Bonds in order to reduce its total debt service payments over the next 16 years by approximately \$4.9 million and to obtain an economic gain of approximately \$3.4 million. Of the 2002B Series Bonds, \$20 million was used to pay principal of Series C Tax-exempt Commercial Paper Notes and \$20 million was issued to fund the Costs of Acquisition and Construction of the utility system. The 2002A and 2002B Series Subordinated Bonds were issued as multi-modal variable interest-rate Bonds, initially issued as variable-rate auction notes. As such, interest rates are reset by an auction process each 35 days based on market rates. Payment of principal and interest of the 2002A and 2002B Series Subordinated Bonds when due are insured by a municipal bond insurance policy issued by Financial Security Assurance. While in the variable auction-rate mode, the Bonds may be redeemed at the option of the City in whole or in part on any interest payment date immediately following the end of an auction period without premium.

On January 30, 2003 the City issued Utilities System Revenue Bonds, Series 2003A and 2003B in the amounts of \$33,000,000 and \$7,625,000 respectively. The 2003 A Bonds mature on various dates from October 1, 2015 through October 1, 2024. The 2003 B Bonds mature on various dates from October 1, 2004 through October 1, 2013. The 2003 A Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the City on or after October 1, 2013 at 100%. The 2003 B Bonds maturing are not subject to redemption prior to maturity.

On March 20, 2003, the City entered an interest rate swap agreement with an August 28, 2003 effective date with JP Morgan Chase Bank (JP Morgan) for an initial notional amount of \$121,525,000 amortizing down to zero on October 1, 2013. Under the terms of this swap, the City would pay JP Morgan 3.41% interest on certain payment dates and, in return, JP Morgan would pay the City a floating rate based on a specified index. On August 20, 2003, this agreement was terminated and the City issued Utilities System Revenue Bonds, Series 2003C in the amount of \$115,925,000. The proceeds of these

Bonds were used to refund the 1993 Series A and 1993 Series B Bonds outstanding after October 1, 2003 and a portion of the 1996 Series A Bonds maturing October 1, 2004 through October 1, 2008 and to pay an amount to terminate the swap agreement with JP Morgan referenced in the previous paragraph. This refunding resulted in a reduction in total debt service payments over 10 years of approximately \$10.6 million and an economic gain of approximately \$8.9 million and allowed for sufficient votes to effectuate certain material amendments to the Utilities System Bond Resolution.

Utilities System Commercial Paper Notes, Series C Notes (tax-exempt) in a principal amount not to exceed \$85 million may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement dated as of March 1, 2000 with Bayerische Landesbank Girozentrale. The obligation of the bank may be substituted by another bank which meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to \$85 million with same day availability ending on the termination date, as defined in the agreement. Series C Notes of \$ 3.3 million and \$2.7 million were redeemed during 2003 and 2002, respectively.

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25 million. Liquidity support for the Series D Notes is provided under a long-term credit agreement dated June 1, 2000 with SunTrust Bank. The obligation of the bank may be substituted by another bank that meets certain credit standards and is approved by GRU. Under the terms of the agreement, GRU may borrow up to \$25 million with same day availability ending on the termination date, as defined in the agreement.

On July 3, 2002 the City of Gainesville d/b/a Gainesville Regional Utilities (GRU) started an interest rate swap with Merrill Lynch Capital Services (the Counterparty) in a notional amount of \$37.3 million which amortizes down over time. Under the terms of the swap agreement, GRU will pay the Counterparty a fixed annual interest rate of 4.10% payable on April 1 and October 1 of each year, beginning October 2, 2002 and will receive a variable rate payment each month beginning August 1, 2002. The variable-rate will be equal to the Bond Market Association (BMA) Municipal Swap Index. The Counterparty has the right, but not the obligation, to terminate the swap if the BMA Municipal Swap Index exceeds 7% for any immediate preceding rolling consecutive 180 calendar day period. As of September 30, 2003, the termination value of the swap, if exercised, would have resulted in a payment to the counter party of approximately \$3.7 million.



**Notes to Financial Statements**  
**SEPTEMBER 30, 2003 AND 2002**

GRU is required to make monthly deposits into separate accounts for an amount equal to the required share of principal and interest becoming payable for the revenue bonds on the payment dates of April 1 and October 1.

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2003:

Period ending September 30	Principal	Interest	Total Debt Service Requirements <sup>(1)</sup>
2004	\$ 12,385,000	\$ 18,656,124	\$ 31,041,124
2005	15,459,000	17,643,599	33,102,599
2006	14,944,000	16,787,725	31,731,725
2007	15,474,000	16,352,509	31,826,509
2008	20,264,000	15,833,307	36,097,307
2009-2013	129,841,715	63,665,162	193,506,877
2014-2018	100,539,525	35,623,832	136,163,357
2019-2023	60,234,525	22,312,895	82,547,420
2024-2028	42,299,525	12,121,041	54,420,566
2029-2033	53,388,710	7,493,183	60,881,893
2034-2038	2,605,000	1,158,073	3,763,073
Total	<u>\$467,435,000</u>	<u>\$227,647,450</u>	<u>\$695,082,450</u>

<sup>(1)</sup> Interest rates on variable-rate long-term debt were valued to be equal to .85% for the 2002A and 2002B Series Subordinated Bonds, .85% for Series C Tax-exempt Commercial Paper and 1.23% for Series D Taxable Commercial Paper. These are the rates in effect as of September 30, 2003.

**Notes to Financial Statements**  
**SEPTEMBER 30, 2003 AND 2002**

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2003 and 2002.

	2003	2002
Long-term debt outstanding at beginning of year	\$404,421,721	\$394,398,221
Changes in long-term debt:		
2002A Series Subordinated Bonds issued	-	37,300,000
2002B Series Subordinated Bonds issued	-	40,000,000
2003A Series Bonds issued	33,000,000	-
2003B Series Bonds issued	7,625,000	-
2003C Series Bonds issued	115,925,000	-
1992A Series Bonds refunded	-	(36,645,000)
1993A Series Bonds refunded	(9,645,000)	-
1993B Series Bonds refunded	(104,280,000)	-
1996A Series Bonds refunded	(6,235,000)	-
Fixed rate debt redeemed - Senior Lien and Subordinated	(12,385,000)	(11,520,000)
TECP redeemed as part of Series 2002B issuance	-	(20,000,000)
TECP redeemed during the year	(2,562,000)	(2,178,000)
Taxable CP issued	-	2,000,000
Taxable CP redeemed	(734,000)	(544,000)
Change in unamortized loss/bond discount	<u>10,435,759</u>	<u>1,610,500</u>
Long-term debt outstanding at end of year	<u>\$435,566,480</u>	<u>\$404,421,721</u>
Current portion of long-term debt	<u>\$ 12,385,000</u>	<u>\$ 11,520,000</u>

Under the terms of the Bond Resolution relating to the sale of the Utilities System Revenue Bonds, payment of the principal and interest is secured by an irrevocable lien on GRU's net revenue (exclusive of any funds which may be established pursuant to the Bond Resolution for decommissioning and certain other specified purposes), including any investments and income thereof.

The Bond Resolution contains certain restrictions and commitments, including GRU's covenant to establish and maintain rates and other charges to produce revenue sufficient to pay operation and maintenance expenses, amounts required for deposit in the debt service fund, and amounts required for deposit into the utility plant improvement fund.

**Derivatives**

GRU is a party to certain interest rate swap agreements, which are not recorded in the financial statements. Following is a disclosure of key aspects of the agreements.

**Objective of the interest rate swap.** On July 3, 2002, the City of Gainesville entered into an interest rate swap with Merrill Lynch Capital Services (see footnote 4) in connection with its variable rate 2002A Subordinated Bonds. The objective was to lower borrowing costs by synthetically fixing an interest rate.

**Terms.** The swap, with a notional amount of \$37.3 million, became effective on July 3, 2002. The swap amount decreases over time, matching the amount of the variable rate debt. The first notional decrease for both is October 1, 2003, with the final maturity of October 1, 2017. Under the terms of the swap agreement, GRU will pay the Counterparty a fixed annual interest rate of 4.10%. GRU will receive from the Counterparty a variable payment based on the Bond Market Association Municipal Swap Index (BMA). GRU will also pay the interest rate resulting from the 35-day remarketing of the auction rate notes.

**Fair Value.** As of September 30, 2003, the fair value of the swap was \$(1.9) million, based on quoted market prices. This negative fair value is a result of changes in interest rates and reflects the fact that at year end, GRU would have to pay this amount to terminate the swap agreement.

**Notes to Financial Statements**  
**SEPTEMBER 30, 2003 AND 2002**

**Swap payments and associated debt.** Assuming interest rates remain the same as September 30, 2003, debt service

requirements on the auction rate notes and the interest rate swap would be as follows:

Fiscal Year Ending Sept 30	Auction-Rate Notes		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2004	\$ 2,900,000	\$ 280,925	\$ 1,074,125	\$ 4,255,050
2005	3,100,000	301,487	1,126,966	4,528,453
2006	3,200,000	298,499	1,088,715	4,587,214
2007	3,300,000	295,537	1,051,706	4,647,243
2008	—	307,050	1,071,151	1,378,201
2009–2013	—	1,496,543	4,855,652	6,352,195
2014–2017	<u>22,000,000</u>	<u>1,059,724</u>	<u>3,005,377</u>	<u>26,065,101</u>
Total	<u>\$34,500,000</u>	<u>\$4,039,766</u>	<u>\$13,273,692</u>	<u>\$51,813,458</u>

**Credit Risk.** As of September 30, 2003, the fair value of the swap was negative, therefore the City is not subject to credit risk. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa3, A+ and AA- by Moody's, S&P and Fitch respectively as of September 30, 2003. To mitigate the potential for credit risk, if the counterparty's credit quality assigned by any two of Moody's, S&P and Fitch shall be suspended or withdrawn or lower than "Aa3" in the case of Moody's, "AA-" in the case of S&P and "AA-" in the case of Fitch, the City shall have the right to require that the counterparty's obligations under the Agreement be collateralized. Failure to deliver the Collateral Agreement to the City on or before the third business day after receipt of the written request will constitute an Event of Default with respect to the counterparty.

**Basis Risk.** The swap exposes GRU to the difference between a weekly BMA index and a 35-day rollover based on current market conditions. As a result, savings could not be realized. As of September 30, 2003, BMA was 1.08% for the week of September 24, 2003, while the last 35-day reset was .85%.

**Termination Risk.** The swap agreement will be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The swap can be terminated due to illegality, a credit event upon merger, or an event of default and illegality. The swap can also be terminated if credit ratings fall below established levels.

**5. Deposits and Investments**

Deposits are held in a qualified public depository institution insured by the Federal Depository Insurance Corporation and as required by the Bond Resolution in a bank, savings and loan association or trust company of the United States or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10 million.

In accordance with state laws and the Bond Resolution, GRU is authorized to invest in obligations which are unconditionally guaranteed by the United States of America or its agencies or instrumentalities, repurchase agreement obligations unconditionally guaranteed by the United States of America or its agencies, corporate indebtedness, direct and general obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (provided such obligations are rated by a nationally recognized bond rating agency in either of its two highest rating categories), public housing bonds, and certain certificates of deposit. Investments in corporate indebtedness must be rated in the highest rating category of a nationally recognized rating agency and in one of the two highest rating categories of at least one other nationally recognized rating agency.

Investments are categorized in the following table in accordance with GASB Statement No. 3. All of GRU's investments fall under category 1, which include investments that are insured or registered or held by the Utility or its agent in GRU's name.



	Fair (Carrying Amount) Value
<b>September 30, 2003</b>	
U.S. government securities	\$ 66,231,222
U.S. government bonds	23,530,828
Corporate debt securities	<u>68,657,112</u>
Total	<u>\$158,419,162</u>
<b>September 30, 2002</b>	
U.S. government securities	\$ 88,518,585
U.S. government bonds	24,250,061
Corporate debt securities	<u>31,674,331</u>
Total	<u>\$144,442,977</u>

Cash and investments are contained in the following balance sheet accounts as of September 30:

	2003	2002 (Restated)
Restricted assets	\$190,192,644	\$185,652,047
Current assets:		
Cash and cash equivalents	1,860,688	5,223,597
Investments	392,886	514,235
Total cash and investments	192,446,218	191,389,879
Less cash and cash equivalents	(32,868,301)	(37,517,537)
Less accrued interest receivable and accounts receivable	<u>(1,158,755)</u>	<u>(9,429,365)</u>
Total investments	<u>\$158,419,162</u>	<u>\$144,442,977</u>

#### 6. Jointly-Owned Electric Plant

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in the Crystal River Unit 3 (CR3) nuclear power plant operated by Florida Power Corporation. GRU's net investment in CR3 at September 30, 2003 and 2002 is approximately \$7,100,000 and \$7,400,000, respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to Florida Power Corporation in accordance with the CR3 participation agreement.

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by Florida Power Corporation in May 2003, estimated GRU's share of total future decommissioning costs to be \$7,100,000. At September 30, 2003, GRU has funded \$5,113,000 of this cost.

#### 7. Restricted Net Assets

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net assets at September 30, 2003 and 2002, and the restricted purposes of the net asset balances:

	Year ended September 30	
	2003	2002 (Restated)
Restricted net assets:		
Total restricted assets	\$ 190,192,644	\$185,652,047
Unspent debt proceeds	(21,814,456)	(8,803,549)
Payable from restricted assets	<u>(84,563,507)</u>	<u>(88,191,603)</u>
Restricted net assets	<u>\$ 83,814,681</u>	<u>\$ 88,656,895</u>

Net assets are restricted as follows:

	2003	2002
Debt covenants:		
Debt service	\$ 47,738,836	\$ 52,286,289
Utility plant improvement	<u>27,747,412</u>	<u>28,634,776</u>
Total restricted pursuant to debt covenants	<u>75,486,248</u>	<u>80,921,065</u>
Other restrictions:		
Investment in The Energy Authority <sup>(1)</sup>	3,215,002	3,101,508
Nuclear decommissioning reserve	<u>5,113,431</u>	<u>4,634,322</u>
Total other restrictions	<u>8,328,433</u>	<u>7,735,830</u>
Restricted net assets	<u>\$ 83,814,681</u>	<u>\$ 88,656,895</u>

<sup>(1)</sup>Includes trade guarantee deposits.

#### 8. Retirement Plans

The City sponsors and administers one defined benefit pension plan and two defined contribution plans (collectively, the Plans) that include GRU and other City employees. The Plans do not make separate measurements of assets and pension benefit obligations for individual units of the City. Such information is presented in the City of Gainesville, Florida, September 30, 2003, Comprehensive Annual Financial Report.

The General Employees Pension Plan (Employees Plan), a contributory defined benefit pension plan, covers all employees of GRU, except certain limited personnel who elect to participate only in a defined contribution plan.

The City accounts for and funds the costs of the Employee Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service

**Notes to Financial Statements**  
**SEPTEMBER 30, 2003 AND 2002**

costs, were \$1,800,000 for the years ended September 30, 2003 and 2002.

Certain limited employees are eligible to participate in defined contribution plans managed by outside fiscal agents for the City. Under the first plan, the City contributes a percentage of an employee's annual salary and employees contribute a specified percentage. All employees have the option to participate in the second defined contribution plan. The total defined contribution cost for GRU for the years ended September 30, 2003 and 2002, was \$200,000 and \$357,000, respectively.

### **9. Postretirement Benefits**

In addition to providing pension benefits, the City provides certain health care insurance benefits for retired employees of the City and GRU. The City also permits retirees to participate in the life insurance program. Most permanent full and part-time employees who are eligible for normal, early, or disability retirement are eligible for these benefits. Individual benefits are the same for all employees, but the cost to the City may vary. Contributions by the City to fund these benefits are neither mandated nor guaranteed. The actuarial costs of these plans are determined and funded by GRU. The City recognizes the cost of these benefits on a monthly basis by contributing a percentage of active payroll costs. The cost of providing these benefits for the GRU retirees for the fiscal years ended September 30, 2003 and 2002 was \$1,192,000 and \$1,167,000, respectively.

### **10. Disaggregation of Receivables and Payables**

#### **Receivables**

For the years ended September 30, 2003 and 2002 respectively, net accounts receivable represent 91.1% and 83.4% from customers for billed and unbilled utility services, and 8.9% and 16.6% from other receivables. There are no receivables expected to take longer than one year to collect.

#### **Payables**

As of September 30, 2003 and 2002 respectively, payable balances represent 29.4% and 41.6% related to fuels payable, 8.1% and 7.8% to standard vendor payables, 22.6% and 11.0% to accrued vacation payable, 31.3% and 20.6% to intergovernmental payables and 8.6% and 19.0% to other payables.

### **11. Transfers to General Fund**

GRU makes transfers to the City's general government based on a formula that ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys are not necessary to pay operating and maintenance expenses and to pay debt serv-

ice on the outstanding bonds and subordinated debt or to make other necessary transfers under the Bond Resolution. The formula-based fund transfer to the general fund for the years ended September 30, 2003 and 2002 was \$25,915,260 and \$25,694,788, respectively.

### **12. Deferred Charges**

Deferred charges are presented on the balance sheets under current assets and as other noncurrent assets.

The largest deferred charge is for estimated environmental costs of \$13,458,000 and \$10,100,000 at September 30, 2003 and 2002 respectively. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Also included in deferred charges is unamortized bond issuance costs of approximately \$6,600,000 and \$3,310,000, respectively, at September 30, 2003 and 2002. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

Other significant deferred charges include acquisition costs of \$2,765,000 and \$2,705,000 for September 30, 2003 and 2002, respectively, and fuel adjustment true-up of \$1,716,000 in 2002. In 2003, the fuel adjustment was \$(1,851,000), thus was reported as a deferred credit.

Remaining smaller items make up the balance of the deferred charges of \$1,859,000 and \$3,247,000, for 2003 and 2002, respectively.

### **13. Environmental Liabilities**

GRU is subject to numerous federal, state and local environmental regulations. Under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," GRU has been named as a potentially responsible party at one hazardous waste site. In addition, in January 1990, GRU purchased the natural gas distribution assets of a company and pursuant to the related purchase agreement, assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites, GRU has accrued a liability to reflect the costs associated with the cleanup effort. Fiscal year 2003 and 2002 expenditures which reduce the liability balance were \$1,804,000 and \$-0- respectively leaving the balance of \$9,896,000 and \$7,850,000 as of September 30, 2003 and 2002, respectively. GRU is recovering the costs of this clean-up through customer charges. A regulatory asset was established as a deferred charge in the accompanying balance sheet to represent the balance of customer charges. Fiscal 2003 and 2002 billings were \$492,000 and \$-0- respectively which reduced the deferred asset leaving the asset balance \$11,200,000 and \$7,850,000 as of September 30, 2003 and

2002, respectively. Although some uncertainties associated with environmental assessment and remediation activities remain, GRU believes that the current provision for such costs is adequate and additional costs, if any, will not have a material adverse effect on GRU's financial position, results of operations or liquidity.

**14. Lease/Leaseback**

On December 10, 1998, GRU entered into a lease/lease-back transaction for all of the Deerhaven Unit 1 and a substantial portion of the Deerhaven Unit 2 generating facilities. Under the terms of the transaction, GRU entered into a 38-year lease and simultaneously a 20-year leaseback. At the end of the lease-back period term, GRU has an option to buy out the remainder of the lease for a fixed purchase option amount.

Under the terms of the transaction, GRU continues to own, operate, maintain and staff the facilities.

The proceeds received by GRU from this transaction were approximately \$249 million. From these proceeds, GRU deposited \$142 million as a payment undertaking agreement and a second deposit of \$72 million in the form of a collateralized Guaranteed Investment Contract (GIC), both with an AAA rated insurance company. The deposit instruments will mature in amounts sufficient to meet the annual payment obligations under the leaseback including the end of term fixed purchase option if elected by GRU.

The net benefit of this transaction, after payment of transaction expenses, was approximately \$35 million and resulted in a deferred gain, which is being amortized as income on a straight-line basis over the leaseback period of 20 years.

Amortization of the net benefit was \$1,775,000 in both 2003 and 2002, respectively, and was reported as a component of other operating revenue.

**15. Investment in the Energy Authority**

In May 2000, GRU became an equity member of The Energy Authority (TEA), a power marketing joint venture. In May 2002, TEA began trading natural gas on behalf of GRU. As of September 30, 2002, this joint venture was comprised of six municipal utilities across the nation, all of which are participating in the electric marketing and five of which participate in the gas program. GRU's ownership interest was 7.1% in the electric venture and 7.7% in the gas venture, and it accounted for this investment using equity accounting. To become a member, GRU paid an initial capital contribution of \$1,000,000 and a membership fee of \$867,360. The membership fee was amortized over 24 months and, consequently, eliminated at September 30, 2002. GRU has reflected the capital contribution as an investment in TEA. The investment balance has been adjusted for GRU's subsequent share of TEA's net income or

loss. In calculating GRU's share of net income or loss, profit on transactions between GRU and TEA have been eliminated. Such transactions primarily relate to purchases and sales of electricity between GRU and TEA. GRU had electric purchase transactions with TEA of \$6,569,705 and \$6,710,926 and sales transactions of \$3,588,441 and \$2,945,944 in fiscal years 2003 and 2002, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense. As of September 30, 2003, GRU's investment in TEA was \$1,853,506.00. Additionally, in accordance with the membership agreement between GRU and its joint venture members, GRU has provided TEA with guarantees of \$9,600,000 to secure power marketing transactions. Of this amount, \$8,600,000 is represented by a trade guarantee with the balance through a TEA letter-of-credit supported by a cash deposit of \$428,571. GRU has also provided guarantees of \$13,800,000 to secure natural gas purchases. Of this amount, \$11,000,000 is represented by a trade guarantee with the balance through a TEA letter-of-credit supported by a cash deposit of \$899,000.

The following is a summary of the unaudited financial information of TEA for the twelve month periods ended September 30, 2003 and 2002:

	2003	2002
Condensed statement of operations:		
Total revenue	\$636,993,000	\$419,159,000
Total cost of sales and expenses	<u>522,615,000</u>	<u>358,160,000</u>
Operating income	<u>\$114,378,000</u>	<u>\$ 60,999,000</u>
Net revenue	<u>\$114,729,000</u>	<u>\$ 61,460,000</u>
Condensed balance sheet:		
Current assets	\$ 97,209,000	\$ 98,918,000
Noncurrent assets	<u>12,779,000</u>	<u>12,343,000</u>
Total assets	<u>\$109,988,000</u>	<u>\$111,261,000</u>
Current liabilities:		
Current liabilities	\$ 76,578,000	\$ 76,786,000
Noncurrent liabilities	10,163,000	10,704,000
Members' capital	<u>23,247,000</u>	<u>23,771,000</u>
Total equity and liabilities	<u>\$109,988,000</u>	<u>\$111,261,000</u>

TEA issues separate audited financial statements on a calendar-year basis.

**Notes to Financial Statements**  
**SEPTEMBER 30, 2003 AND 2002**

**16. Risk Management**

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City of Gainesville's General Insurance

Fund. GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion, in the amount of \$3,152,000, based on an actuarially computed liability. This reserve is recorded as a fully amortized deferred credit. GRU used \$730,000 of its reserve to meet fiscal 2003 claims, leaving \$422,000 to be paid from current year revenues. Changes in the claims liability for the last two years are as follows:

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Claims</b>	<b>Payments</b>	<b>Ending Balance</b>
2001-2002	\$3,152,000	\$ 970,000	\$970,000	\$3,152,000
2002-2003	\$3,152,000	\$1,152,000	\$422,000	\$2,422,000



Gainesville Regional Utilities

**Supplemental Schedules**

**Schedules of Combined Net Revenues in Accordance with Bond Resolution**  
**YEARS ENDED SEPTEMBER 30, 2003, 2002, 2001, 2000 AND 1999**

	2003	2002	2001	2000	1999
<b>Revenue</b>					
<b>Electric fund:</b>					
Sales of electricity	\$154,865,704	\$147,794,301	\$159,398,907	\$142,078,330	\$ 135,625,527
Lease/leaseback revenue	-	-	-	-	249,220,553
Other electric revenue	2,273,293	2,313,536	2,731,147	2,433,111	2,419,798
Transfers to rate stabilization	(401,377)	(267,583)	(6,311,744)	(6,790,929)	(12,199,403)
Interest income	4,197,325	4,873,647	5,712,572	5,106,585	6,405,429
Total electric fund revenue	160,934,945	154,713,901	161,530,882	142,827,097	381,471,904
<b>Gas fund:</b>					
Gas sales	22,926,678	15,913,737	21,638,160	15,275,788	12,309,930
Other gas revenue (expenses)	(29,329)	29,208	(11,333)	(95,558)	(5,839)
Transfers (to) from rate stabilization	(1,122,811)	(683,493)	(953,843)	(180,744)	306,100
Interest income	408,040	313,548	462,527	483,108	456,378
Total gas fund revenue	22,182,578	15,573,000	21,135,511	15,482,594	13,066,569
<b>Water fund:</b>					
Sales of water	12,533,489	13,350,022	12,879,286	12,356,275	12,183,647
Other water revenue	1,451,087	785,894	1,763,409	2,084,675	1,775,024
Transfers from (to) rate stabilization	2,620,711	3,400,560	1,083,493	43,359	(435,500)
Interest income	569,102	696,999	1,265,816	1,280,250	1,264,766
Total water fund revenue	17,174,389	18,233,475	16,992,004	15,764,559	14,787,937
<b>Wastewater fund:</b>					
Wastewater billing	15,957,966	16,038,915	15,696,526	15,363,519	15,115,652
Other wastewater revenue	2,055,284	1,218,747	2,413,499	1,967,796	2,370,807
Transfers from rate stabilization	3,252,677	5,089,796	1,893,022	1,672,756	468,024
Interest income	824,618	1,019,672	1,732,733	1,915,226	1,854,421
Total wastewater fund revenue	22,090,545	23,367,130	21,735,780	20,919,297	19,808,904
<b>GRUCom fund:</b>					
Sales to customers	5,367,509	5,833,892	4,167,542	2,001,610	1,226,409
Other GRUCom revenue	2,641,948	1,109,383	983,291	1,303,706	1,058,495
Transfers (to) from rate stabilization	(543,194)	(435,905)	(138,900)	-	-
Interest income	31,100	21,187	183,160	27,341	8,410
Total GRUCom fund revenue	7,497,363	6,528,557	5,195,093	3,332,657	2,293,314
Total revenue	\$229,879,820	\$218,416,063	\$226,589,270	\$198,326,204	\$431,428,628

**Schedules of Combined Net Revenues in Accordance with Bond Resolution, continued**  
**YEARS ENDED SEPTEMBER 30, 2003, 2002, 2001, 2000 AND 1999**

	2003	2002	2001	2000	1999
<b>Operation, maintenance and administrative</b>					
<b>Electric fund:</b>					
Fuel expense	\$ 69,667,757	\$ 60,010,484	\$ 67,450,729	\$ 53,477,676	\$ 44,564,775
Operation and maintenance	25,258,909	23,739,551	23,256,589	22,541,187	19,121,149
Administrative and general	<u>11,476,076</u>	<u>12,305,262</u>	<u>10,480,361</u>	<u>9,437,967</u>	<u>11,476,499</u>
Total electric fund expense	<u>106,402,742</u>	<u>96,055,297</u>	<u>101,187,679</u>	<u>85,456,830</u>	<u>75,162,423</u>
<b>Gas fund:</b>					
Fuel expense	12,950,876	7,926,883	13,658,209	7,723,731	5,800,620
Operation and maintenance	924,197	572,690	483,139	729,547	542,303
Administrative and general	<u>3,035,751</u>	<u>2,871,282</u>	<u>2,829,406</u>	<u>3,176,704</u>	<u>2,935,549</u>
Total gas fund expense	<u>16,910,824</u>	<u>11,370,855</u>	<u>16,970,754</u>	<u>11,629,982</u>	<u>9,278,472</u>
<b>Water fund:</b>					
Operation and maintenance	4,784,731	4,361,166	4,693,510	4,142,401	3,630,657
Administrative and general	<u>3,248,742</u>	<u>3,447,597</u>	<u>2,407,524</u>	<u>2,491,069</u>	<u>2,733,859</u>
Total water fund expense	<u>8,033,473</u>	<u>7,808,763</u>	<u>7,101,034</u>	<u>6,633,470</u>	<u>6,364,516</u>
<b>Wastewater fund:</b>					
Operation and maintenance	5,778,075	5,167,674	5,441,505	5,239,109	4,628,489
Administrative and general	<u>3,658,970</u>	<u>3,933,172</u>	<u>2,827,428</u>	<u>3,028,587</u>	<u>3,533,424</u>
Total wastewater fund expense	<u>9,437,045</u>	<u>9,100,846</u>	<u>8,268,933</u>	<u>8,267,696</u>	<u>8,161,913</u>
<b>GRUCom fund:</b>					
Operation and maintenance	2,618,525	2,377,170	2,033,441	1,419,468	655,707
Administrative and general	<u>1,286,735</u>	<u>1,240,869</u>	<u>742,638</u>	<u>453,264</u>	<u>650,379</u>
Total GRUCom fund expense	<u>3,905,260</u>	<u>3,618,039</u>	<u>2,776,079</u>	<u>1,872,732</u>	<u>1,306,086</u>
Total operation, maintenance and administrative	<u>\$144,689,344</u>	<u>\$127,953,800</u>	<u>\$136,304,479</u>	<u>\$113,860,710</u>	<u>\$100,273,410</u>
<b>Net revenue in accordance with bond resolution</b>					
Electric	54,532,203	58,658,604	60,343,203	57,370,267	306,309,481
Gas	5,271,754	4,202,145	4,164,757	3,852,612	3,788,097
Water	9,140,916	10,424,712	9,890,970	9,131,089	8,423,421
Wastewater	12,653,500	14,266,284	13,466,847	12,651,601	11,646,991
GRUCom	<u>3,592,103</u>	<u>2,910,518</u>	<u>2,419,014</u>	<u>1,459,925</u>	<u>987,228</u>
Total net revenue in accordance with bond resolution	<u>\$ 85,190,476</u>	<u>\$ 90,462,263</u>	<u>\$ 90,284,791</u>	<u>\$ 84,465,494</u>	<u>\$331,155,218</u>
Aggregate bond debt service	<u>\$ 25,502,972</u>	<u>\$ 29,312,587</u>	<u>\$ 29,765,188</u>	<u>\$ 29,458,515</u>	<u>\$ 29,899,917</u>
Aggregate debt service coverage ratio	3.34	3.09	3.03	2.87	11.08
Total debt service	<u>\$ 33,704,853</u>	<u>\$ 34,097,931</u>	<u>\$ 37,677,047</u>	<u>\$ 34,904,989</u>	<u>\$ 33,891,908</u>
Total debt service coverage ratio	2.53	2.65	2.40	2.42	9.77

**Schedules of Combined Net Revenues in Accordance with Bond Resolution – Electric Utility Fund**  
**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>Revenue</b>		
<b>Sales of electricity:</b>		
Residential sales	\$ 47,080,019	\$ 45,762,959
General service and large power	36,122,193	38,066,683
Fuel adjustment	52,577,362	38,816,221
Street and traffic lighting	3,286,574	3,225,361
Utility surcharge	2,709,806	3,298,492
Sales for resale	6,860,577	6,488,731
Interchange sales	6,229,173	12,135,854
Total sales of electricity	<u>154,865,704</u>	<u>147,794,301</u>
<b>Other electric revenue:</b>		
Lease/leaseback revenue		
Service charges	1,069,464	1,852,642
Pole rentals	557,072	233,512
Miscellaneous	646,757	227,382
Total other electric revenue	<u>2,273,293</u>	<u>2,313,536</u>
Transfers (to)/from rate stabilization	(401,377)	(267,583)
Interest income	4,197,325	4,873,647
Total revenue	<u>160,934,945</u>	<u>154,713,901</u>
<b>Operation, maintenance and administrative expense</b>		
<b>Operation and maintenance:</b>		
Fuel expense:		
Retail and purchased power	65,477,800	53,150,252
Interchange	4,189,957	6,860,232
Total fuel expense	<u>69,667,757</u>	<u>60,010,484</u>
Power production	17,204,532	16,255,106
Transmission	801,727	679,283
Distribution	7,252,650	6,805,162
Total operation and maintenance	<u>94,926,666</u>	<u>83,750,035</u>
<b>Administrative and general:</b>		
Customer accounts	3,504,718	3,223,206
Administrative and general	7,971,358	9,082,056
Total administrative and general	<u>11,476,076</u>	<u>12,305,262</u>
Total operation, maintenance and administrative expense	<u>106,402,742</u>	<u>96,055,297</u>
<b>Net revenue in accordance with bond resolution</b>		
Retail	52,492,987	53,382,982
Interchange	2,039,216	5,275,622
Total net revenue in accordance with bond resolution	<u>\$ 54,532,203</u>	<u>\$ 58,658,604</u>



**Schedules of Combined Net Revenues in Accordance with Bond Resolution – Gas Utility Fund**  
**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>Revenue</b>		
<b>Sales of gas:</b>		
Residential	\$12,118,337	\$ 8,429,717
Interruptible/commercial	10,594,100	6,818,280
Other sales	<u>214,241</u>	<u>665,740</u>
Total sales of gas	22,926,678	15,913,737
Other gas revenue (expense)	(29,329)	29,208
Transfers to rate stabilization	(1,122,811)	(683,493)
Interest income	<u>408,040</u>	<u>313,548</u>
Total revenue	22,182,578	15,573,000
<b>Operation, maintenance and administrative expense</b>		
<b>Operation and maintenance:</b>		
Fuel expense	12,950,876	7,926,883
Operation and maintenance	<u>924,197</u>	<u>572,690</u>
Total operation and maintenance	13,875,073	8,499,573
<b>Administrative and general:</b>		
Customer accounts	1,885,194	1,695,536
Administrative and general	<u>1,150,557</u>	<u>1,175,746</u>
Total administrative and general	<u>3,035,751</u>	<u>2,871,282</u>
Total operation, maintenance and administrative expense	<u>16,910,824</u>	<u>11,370,855</u>
Total net revenue in accordance with bond resolution	<u>\$ 5,271,754</u>	<u>\$ 4,202,145</u>

**Schedules of Net Revenues in Accordance with Bond Resolution — Water Utility Fund**  
**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>Revenue</b>		
<b>Sales of water:</b>		
General customers	\$ 9,722,777	\$10,408,448
University of Florida	652,307	616,061
Fire protection	1,039,769	1,060,038
Generating stations	39,940	34,669
Utility surcharge	<u>1,078,696</u>	<u>1,230,766</u>
Total sales of water	12,533,489	13,349,982
<b>Other water revenue:</b>		
Connection charges	1,451,030	785,894
Miscellaneous	<u>57</u>	<u>40</u>
Total other water revenue	1,451,087	785,934
Transfers from rate stabilization	2,620,711	3,400,560
Interest income	<u>569,102</u>	<u>696,999</u>
Total revenue	17,174,389	18,233,475
<b>Operation, maintenance and administrative expense</b>		
<b>Operation and maintenance:</b>		
Source of supply	8,612	9,745
Pumping	1,100,056	951,658
Water treatment	2,139,972	2,063,739
Transmission and distribution	<u>1,536,091</u>	<u>1,336,024</u>
Total operation and maintenance	4,784,731	4,361,166
<b>Administrative and general:</b>		
Customer accounts	1,090,215	1,020,930
Administrative and general	<u>2,158,527</u>	<u>2,426,667</u>
Total administrative and general	3,248,742	3,447,597
Total operation, maintenance and administrative expense	<u>8,033,473</u>	<u>7,808,763</u>
Total net revenue in accordance with bond resolution	<u>\$ 9,140,916</u>	<u>\$10,424,712</u>

**Schedules of Net Revenues in Accordance with Bond Resolution — Wastewater Utility Fund**  
**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>Revenue</b>		
<b>Wastewater billings:</b>		
Billings	\$14,622,531	\$14,576,585
Utility surcharge	<u>1,335,435</u>	<u>1,462,330</u>
Total wastewater billings	15,957,966	16,038,915
<b>Other wastewater revenue:</b>		
Connection charges	1,860,419	1,003,489
Miscellaneous	<u>194,865</u>	<u>215,258</u>
Total other wastewater revenue	2,055,284	1,218,747
Transfers from rate stabilization	3,252,677	5,089,796
Interest income	<u>824,618</u>	<u>1,019,672</u>
Total revenue	22,090,545	23,367,130
<b>Operation, maintenance and administrative expense</b>		
<b>Operation and maintenance:</b>		
Collection	1,416,924	1,357,624
Treatment and pumping	<u>4,361,151</u>	<u>3,810,050</u>
Total operation and maintenance	5,778,075	5,167,674
<b>Administrative and general:</b>		
Customer accounts	894,576	823,015
Administrative and general	<u>2,764,394</u>	<u>3,110,157</u>
Total administrative and general	<u>3,658,970</u>	<u>3,933,172</u>
Total operation, maintenance and administrative expense	<u>9,437,045</u>	<u>9,100,846</u>
Total net revenue in accordance with bond resolution	<u>\$12,653,500</u>	<u>\$14,266,284</u>

**Schedules of Net Revenues in Accordance with Bond Resolution — GRUCom Utility Fund**  
**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

	2003	2002
<b>Revenue</b>		
Sales to customers	\$5,367,509	\$5,833,892
Other GRUCom revenue	2,641,948	1,109,383
Transfers to Rate Stabilization	(543,194)	(435,905)
Interest income	<u>31,100</u>	<u>21,187</u>
Total revenue	<u>7,497,363</u>	<u>6,528,557</u>
 <b>Operation, maintenance and administrative expense</b>		
Operation and maintenance	<u>2,618,525</u>	<u>2,377,170</u>
Total operation and maintenance	<u>2,618,525</u>	<u>2,377,170</u>
 <b>Administrative and general:</b>		
Customer accounts	142,826	131,124
Administrative and general	<u>1,143,909</u>	<u>1,109,745</u>
Total administrative and general	<u>1,286,735</u>	<u>1,240,869</u>
Total operation, maintenance and administrative expense	<u>3,905,260</u>	<u>3,618,039</u>
Total net revenue in accordance with bond resolution	<u>\$3,592,103</u>	<u>\$2,910,518</u>



**Notes to Schedules of Net Revenues in Accordance with Bond Resolution**  
**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

**Notes to Schedules of Net Revenues in Accordance with Bond Resolution**

“Net revenue in accordance with bond resolution” differs from “Net income,” which is determined in accordance with generally accepted accounting principles. Following are the more significant differences:

- Interest income does not include interest earned on construction funds.
- Operation and maintenance expense do not include depreciation, amortization or interest expense.
- Other water and wastewater revenue include fees for connection, installation, and backflow prevention.
- Transfers to the general fund are excluded.
- Revenue from lease/leaseback transaction (see Note 14).

**Combining Balance Sheet**  
**SEPTEMBER 30, 2003**

	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 594,465	\$ 12,694	\$ 71,327	\$ 1,074,472	\$ 107,730	\$ 1,860,688
Investments	392,886	-	-	-	-	392,886
Accounts receivable, net	21,110,005	1,821,296	1,432,611	1,855,423	698,186	26,917,521
Prepaid rent — LILO	10,686,909	-	-	-	-	10,686,909
Fuels contracts	138,892	230,318	-	-	-	369,210
Deferred charges	1,884,866	674,219	73,775	100,521	6,825	2,740,206
Inventories:						
Fuel	6,987,400	-	-	-	-	6,987,400
Materials and inventories	5,057,969	370,652	706,890	(253)	811,750	6,947,008
Total current assets	<u>46,853,392</u>	<u>3,109,179</u>	<u>2,284,603</u>	<u>3,030,163</u>	<u>1,624,491</u>	<u>56,901,828</u>
<b>Restricted assets:</b>						
Utility deposits —						
cash and investments	3,761,742	-	-	-	-	3,761,742
Debt service fund —						
cash and investments	41,139,873	3,741,084	6,111,768	8,210,692	801,381	60,004,798
Rate stabilization —						
cash and investment	51,584,768	4,204,685	5,086,183	6,772,005	580,969	68,228,610
Construction Fund —						
cash and investment	9,403,614	6,936,487	(2,923)	(104,660)	5,889,131	22,121,649
Utility plant improvement fund —						
cash and investments	18,211,517	3,934,220	62,672	4,695,227	843,776	27,747,412
Investment in The Energy Authority	2,301,175	913,827	-	-	-	3,215,002
Decommission reserve —						
cash and investments	5,113,431	-	-	-	-	5,113,431
Total restricted assets	<u>131,516,120</u>	<u>19,730,303</u>	<u>11,257,700</u>	<u>19,573,264</u>	<u>8,115,257</u>	<u>190,192,644</u>
Prepaid rent — LILO	151,397,877	-	-	-	-	151,397,877
Other noncurrent assets	<u>8,853,412</u>	<u>11,428,659</u>	<u>640,598</u>	<u>925,620</u>	<u>93,875</u>	<u>21,942,164</u>
<b>Capital assets:</b>						
Utility plant in service	600,132,572	39,254,209	132,444,131	163,950,441	23,592,732	959,374,085
Plant unclassified	12,278,395	844,214	3,098,691	7,870,847	1,645,317	25,737,464
Less: accumulated depreciation and amortization	<u>244,070,356</u>	<u>19,442,527</u>	<u>46,334,341</u>	<u>62,216,108</u>	<u>7,820,760</u>	<u>379,884,092</u>
	368,340,611	20,655,896	89,208,481	109,605,180	17,417,289	605,227,457
Plant held of future use	6,053,926	-	-	-	-	6,053,926
Construction in progress	<u>33,354,721</u>	<u>2,429,993</u>	<u>9,247,053</u>	<u>19,104,032</u>	<u>7,322,662</u>	<u>71,458,461</u>
Net capital assets	<u>407,749,258</u>	<u>23,085,889</u>	<u>98,455,534</u>	<u>128,709,212</u>	<u>24,739,951</u>	<u>682,739,844</u>
Total assets	<u>\$746,370,059</u>	<u>\$57,354,030</u>	<u>\$112,638,435</u>	<u>\$152,238,259</u>	<u>\$34,573,574</u>	<u>\$1,103,174,357</u>

**Combining Balance Sheet**  
**SEPTEMBER 30, 2003**

	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Liabilities and net assets</b>						
<b>Current liabilities:</b>						
Fuels payable	\$ 2,905,668	\$ 64,420	\$ -	\$ -	\$ -	\$ 2,970,088
Accounts payable and accrued liabilities	730,944	235,536	403,505	432,963	51,414	1,854,362
Operating lease — LILO	12,461,916	-	-	-	-	12,461,916
Deferred charges	2,757,511	1,112,610	4,036	4,250	-	3,878,407
Due (from) to other funds	<u>(6,609,061)</u>	<u>1,840,205</u>	<u>6,222,089</u>	<u>1,712,052</u>	<u>(4,674)</u>	<u>3,160,611</u>
Total current liabilities	<u>12,246,978</u>	<u>3,252,771</u>	<u>6,629,630</u>	<u>2,149,265</u>	<u>46,740</u>	<u>24,325,384</u>
<b>Payable from restricted assets:</b>						
Utility deposits	3,728,795	-	-	-	-	3,728,795
Rate stabilization deferred credit	54,128,258	5,781,840	4,641,559	5,956,509	1,120,647	71,628,813
Construction fund:						
accounts payable and accrued liabilities	736,701	116,020	857,277	237,683	169,197	2,116,878
Revenue bonds payable — principal	7,584,530	941,295	1,443,511	2,415,664	-	12,385,000
Accrued interest payable	<u>3,785,434</u>	<u>808,488</u>	<u>940,152</u>	<u>1,286,873</u>	<u>268,074</u>	<u>7,089,021</u>
Total payable from restricted assets	<u>69,963,718</u>	<u>7,647,643</u>	<u>7,882,499</u>	<u>9,896,729</u>	<u>1,557,918</u>	<u>96,948,507</u>
<b>Long-term debt:</b>						
Utilities system revenue bonds	189,145,648	21,961,935	40,619,722	47,682,895	9,624,800	309,035,000
Subordinated utilities system revenue bonds	36,270,150	13,680,480	7,226,750	17,322,620	-	74,500,000
Commercial paper notes	26,079,451	2,863,712	6,972,526	12,229,973	23,369,338	71,515,000
Unamortized loss on refunding	(21,576,716)	(1,188,902)	(3,753,777)	(3,852,685)	-	(30,372,080)
Unamortized bond prem\disc	<u>7,917,554</u>	<u>223,290</u>	<u>1,287,498</u>	<u>1,409,948</u>	<u>50,270</u>	<u>10,888,560</u>
Total long-term debt	<u>237,836,087</u>	<u>37,540,515</u>	<u>52,352,719</u>	<u>74,792,751</u>	<u>33,044,408</u>	<u>435,566,480</u>
Operating lease — LILO	176,530,733	-	-	-	-	176,530,733
Other noncurrent liabilities	<u>13,987,657</u>	<u>8,977,478</u>	<u>646,216</u>	<u>972,783</u>	<u>10,189</u>	<u>24,594,323</u>
Total liabilities	<u>510,565,173</u>	<u>57,418,407</u>	<u>67,511,064</u>	<u>87,811,528</u>	<u>34,659,255</u>	<u>757,965,427</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	175,838,863	(7,903,648)	45,362,549	52,405,868	(2,496,831)	263,206,801
Restricted	59,858,195	6,087,468	4,821,635	12,196,859	850,524	83,814,681
Unrestricted	<u>107,828</u>	<u>1,751,803</u>	<u>(5,056,813)</u>	<u>(175,996)</u>	<u>1,560,626</u>	<u>(1,812,552)</u>
Total net assets	<u>235,804,886</u>	<u>(64,377)</u>	<u>45,127,371</u>	<u>64,426,731</u>	<u>(85,681)</u>	<u>345,208,930</u>
Total liabilities and net assets	<u>\$746,370,059</u>	<u>\$57,354,030</u>	<u>\$112,638,435</u>	<u>\$152,238,259</u>	<u>\$34,573,574</u>	<u>\$1,103,174,357</u>

**Combining Statement of Revenue, Expenses and Changes in Net Assets**  
**YEAR ENDED SEPTEMBER 30, 2003**

	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Operating revenue:</b>						
Sales and service charges	\$154,865,704	\$22,926,677	\$12,533,489	\$15,957,966	\$5,367,509	\$211,651,345
Other operating revenue	3,646,120	(1,152,140)	4,071,798	5,307,961	2,098,754	13,972,493
Total operating revenue	158,511,824	21,774,537	16,605,287	21,265,927	7,466,263	225,623,838
<b>Operating expenses:</b>						
Operation and maintenance	94,926,665	13,875,072	4,784,733	5,778,076	2,618,525	121,983,071
Administrative and general	11,476,076	3,039,498	3,254,757	3,649,208	1,286,735	22,706,274
Depreciation and amortization	23,733,884	2,137,660	3,717,957	4,919,763	1,773,973	36,283,237
Total operating expenses	130,136,625	19,052,230	11,757,447	14,347,047	5,679,233	180,972,582
Operating income	28,375,199	2,722,307	4,847,840	6,918,880	1,787,030	44,651,256
<b>Non-operating income (expense):</b>						
Interest income	4,270,719	515,735	578,364	852,648	80,499	6,297,965
Interest expense	(11,535,558)	(1,847,702)	(2,752,367)	(3,565,124)	(660,818)	(20,361,569)
Loss on sale of investments	-	-	-	-	-	-
Total non-operating income (expense)	(7,264,839)	(1,331,967)	(2,174,003)	(2,712,476)	(580,319)	(14,063,604)
Income before contributions and transfers	21,110,360	1,390,340	2,673,837	4,206,404	1,206,711	30,587,652
<b>Capital contributions:</b>						
Contributions from developers	236,145	-	1,602,261	2,055,216	-	3,893,622
Reduction of plant cost recovered from contributions	(236,145)	-	-	-	-	(236,145)
Net capital contributions	-	-	1,602,261	2,055,216	-	3,657,477
Operating transfer to						
City of Gainesville general fund	16,901,442	1,095,527	3,310,901	4,318,825	288,565	25,915,260
Change in net assets	4,208,918	294,813	965,197	1,942,795	918,146	8,329,869
Net assets — beginning of year, as originally reported	285,322,850	4,299,839	51,424,444	71,693,122	(426,374)	412,313,881
Prior Period Adjustment (See note #1)	(53,726,882)	(4,659,029)	(7,262,270)	(9,209,186)	(577,453)	(75,434,820)
Net assets — beginning of year, as restated	231,595,968	(359,190)	44,162,174	62,483,936	(1,003,827)	336,879,061
Net assets — end of year	\$235,804,886	(\$64,377)	\$45,127,371	\$64,426,731	(\$85,681)	\$345,208,930



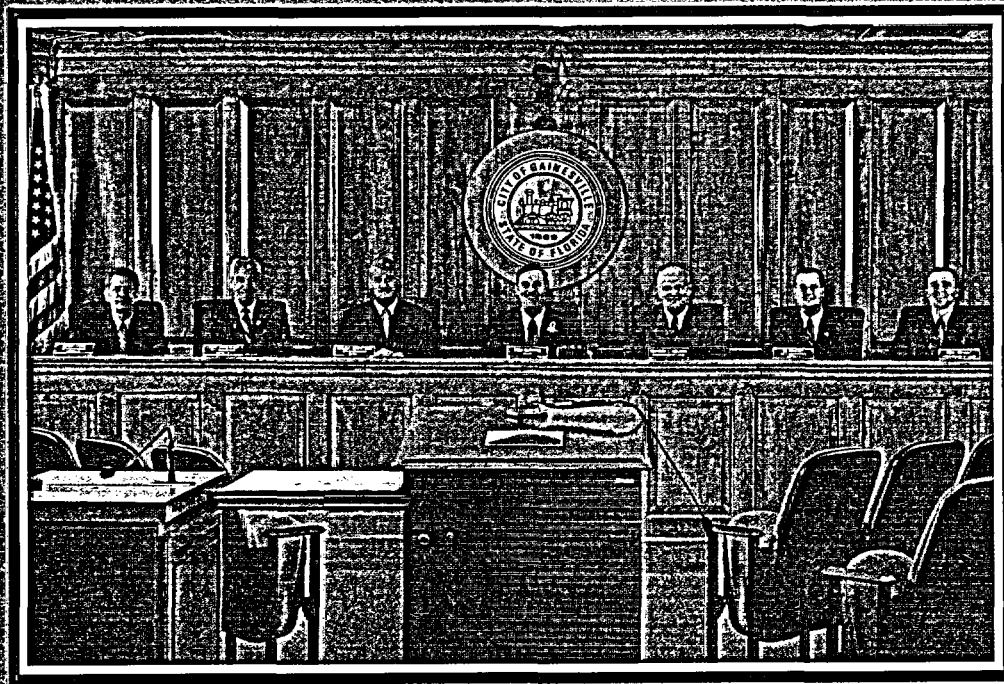
**Schedule of Utility Plant Properties — Combined Utility Fund**

SEPTEMBER 30, 2003

	Balance September 30, 2002	Additions	Sales, Retirements & Transfers	Balance September 30, 2003
<b>Plant in service</b>				
<b>Electric utility fund:</b>				
Production plant	\$325,686,883	\$ 3,462,947	\$ 110,843	\$329,038,987
Nuclear fuel	7,324,809	-	-	7,324,809
Transmission and distribution plant	213,962,366	4,301,500	966,140	217,297,726
General and common plant	45,853,601	4,710,186	4,092,737	46,471,050
Plant unclassified	<u>3,717,527</u>	<u>21,035,501</u>	<u>12,474,633</u>	<u>12,278,395</u>
Total electric utility fund	<u>596,545,186</u>	<u>33,510,134</u>	<u>17,644,353</u>	<u>612,410,967</u>
<b>Gas utility fund:</b>				
Distribution plant	32,033,049	1,098,170	73,169	33,058,050
General plant	1,654,936	76,353	185,765	1,545,524
Plant acquisition adjustment	4,650,635	-	-	4,650,635
Plant unclassified	<u>596,744</u>	<u>1,421,993</u>	<u>1,174,523</u>	<u>844,214</u>
Total gas utility fund	<u>38,935,364</u>	<u>2,596,516</u>	<u>1,433,457</u>	<u>40,098,423</u>
<b>Water utility fund:</b>				
Supply, pumping and treatment plant	21,133,794	1,089,017	40,111	22,182,700
Transmission and distribution plant	97,826,798	8,251,010	23,824	106,053,984
General plant	4,342,711	171,568	306,832	4,207,447
Plant unclassified	<u>1,248,121</u>	<u>11,362,165</u>	<u>9,511,595</u>	<u>3,098,691</u>
Total water utility fund	<u>124,551,424</u>	<u>20,873,760</u>	<u>9,882,362</u>	<u>135,542,822</u>
<b>Wastewater utility fund:</b>				
Pumping and treatment plant	62,191,529	998,303	-	63,189,832
Collection plant	90,208,665	2,060,694	29,225	92,240,134
Reclaimed water plant	2,419,961	495,026	-	2,914,987
General plant	5,836,829	441,177	672,518	5,605,488
Plant unclassified	<u>577,301</u>	<u>11,288,746</u>	<u>3,995,200</u>	<u>7,870,847</u>
Total wastewater utility fund	<u>161,234,285</u>	<u>15,283,946</u>	<u>4,696,943</u>	<u>171,821,288</u>
<b>GRUCom utility fund:</b>				
Distribution plant	21,184,743	1,814,604	-	22,999,347
General plant	636,712	46,909	90,236	593,385
Plant unclassified	14,119	3,492,711	1,861,513	1,645,317
Total GRUCom utility fund	<u>21,835,574</u>	<u>5,354,224</u>	<u>1,951,749</u>	<u>25,238,049</u>
Total plant in service	<u>\$943,101,833</u>	<u>\$77,618,580</u>	<u>\$35,608,864</u>	<u>\$985,111,549</u>
Plant held for future use—electric	<u>\$ 6,053,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,053,926</u>
<b>Construction in progress</b>				
Electric utility fund	27,151,955	\$27,781,087	\$21,578,321	\$ 33,354,721
Gas utility fund	789,559	3,072,052	1,431,618	2,429,993
Water utility fund	10,982,610	9,631,923	11,367,480	9,247,053
Wastewater utility fund	16,934,647	13,458,132	11,288,747	19,104,032
GRUCom utility fund	<u>6,199,636</u>	<u>4,615,745</u>	<u>3,492,719</u>	<u>7,322,662</u>
Total construction in progress	<u>\$ 62,058,407</u>	<u>\$58,558,939</u>	<u>\$49,158,885</u>	<u>\$ 71,458,461</u>

**Schedule of Accumulated Depreciation and Amortization — Combined Utility Fund**  
**SEPTEMBER 30, 2003**

	Balance September 30, 2002	Additions	Sales, Retirements & Transfers	Balance September 30, 2003
<b>Electric utility fund:</b>				
Production plant	\$151,500,058	\$ 9,780,026	\$ 110,844	\$161,169,240
Nuclear fuel	6,489,580	339,450	-	6,829,030
Transmission and distribution plant	52,405,331	5,827,731	872,862	57,360,200
General and common plant	<u>18,276,484</u>	<u>4,528,139</u>	<u>4,092,737</u>	<u>18,711,886</u>
Total electric utility fund	<u>228,671,453</u>	<u>20,475,346</u>	<u>5,076,443</u>	<u>244,070,356</u>
<b>Gas utility fund:</b>				
Distribution plant	13,503,001	961,121	73,167	14,390,955
General plant	879,284	168,943	185,766	862,461
Plant acquisition adjustment	<u>3,842,971</u>	<u>346,140</u>	-	<u>4,189,111</u>
Total gas utility fund	<u>18,225,256</u>	<u>1,476,204</u>	<u>258,933</u>	<u>19,442,527</u>
<b>Water utility fund:</b>				
Supply, pumping and treatment plant	8,947,345	673,323	40,111	9,580,557
Transmission and distribution plant	31,519,308	2,214,876	23,821	33,710,363
General plant	<u>2,897,116</u>	<u>453,137</u>	<u>306,832</u>	<u>3,043,421</u>
Total water utility fund	<u>43,363,769</u>	<u>3,341,336</u>	<u>370,764</u>	<u>46,334,341</u>
<b>Wastewater utility fund:</b>				
Pumping and treatment plant	25,251,251	2,013,107	-	27,264,358
Collection plant	28,361,274	1,808,473	29,223	30,140,524
Reclaimed water plant	303,793	54,701	-	358,494
General plant	<u>4,515,718</u>	<u>609,533</u>	<u>672,519</u>	<u>4,452,732</u>
Total wastewater utility fund	<u>58,432,036</u>	<u>4,485,814</u>	<u>701,742</u>	<u>62,216,108</u>
<b>GRUCom utility fund:</b>				
Distribution plant	6,255,315	1,365,052	-	7,620,367
General plant	<u>208,070</u>	<u>82,560</u>	<u>90,237</u>	<u>200,393</u>
Total GRUCom utility fund	<u>6,463,385</u>	<u>1,447,612</u>	<u>90,237</u>	<u>7,820,760</u>
Total	<u>\$355,155,899</u>	<u>\$31,226,312</u>	<u>\$6,498,119</u>	<u>\$ 379,884,092</u>



**GAINESVILLE  
CITY COMMISSION**

(L-R)

**Craig Lowe**  
Commissioner

**Tony Domenech**  
Commissioner

**Chuck Chestnut**  
Mayor-Commissioner Pro Tem

**Thomas D. Bussing**  
Mayor

**Warren C. Nielsen**  
Commissioner

**Ed Braddy**  
Commissioner

**Rick Bryant**  
Commissioner

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Assistant General Manager  
Energy Delivery  
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**Randy Casserleigh**  
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Administrative Services  
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**Raymond O. Manasco, Jr.**  
Utilities Attorney  
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Chief Financial Officer  
Utility Finance  
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**Kathy E. Viehe**  
Director  
Marketing and Communications  
(352) 393-1035

**Albert White**  
Director  
Community Relations  
(352) 393-1297



**INVESTOR INFORMATION**

**Certified Public Accountants**

**Ernst & Young LLP**

**Revenue Bonds**

**Trustee/Registrar/Paying Agent**

**U.S. Bank Trust National Association**

**New York, NY**

**Tax Exempt & Taxable**

**Commercial Paper Dealer**

**Goldman Sachs and Company**

**New York, NY**

**Tax Exempt & Taxable**

**Commercial Paying Agent**

**Bankers Trust**

**a member of the Deutsche Bank group**

**New York, NY**

**Auction Agent & Trustee**

**Deutsche Bank**

**Jersey City, NJ**



**P.O. Box 147117**

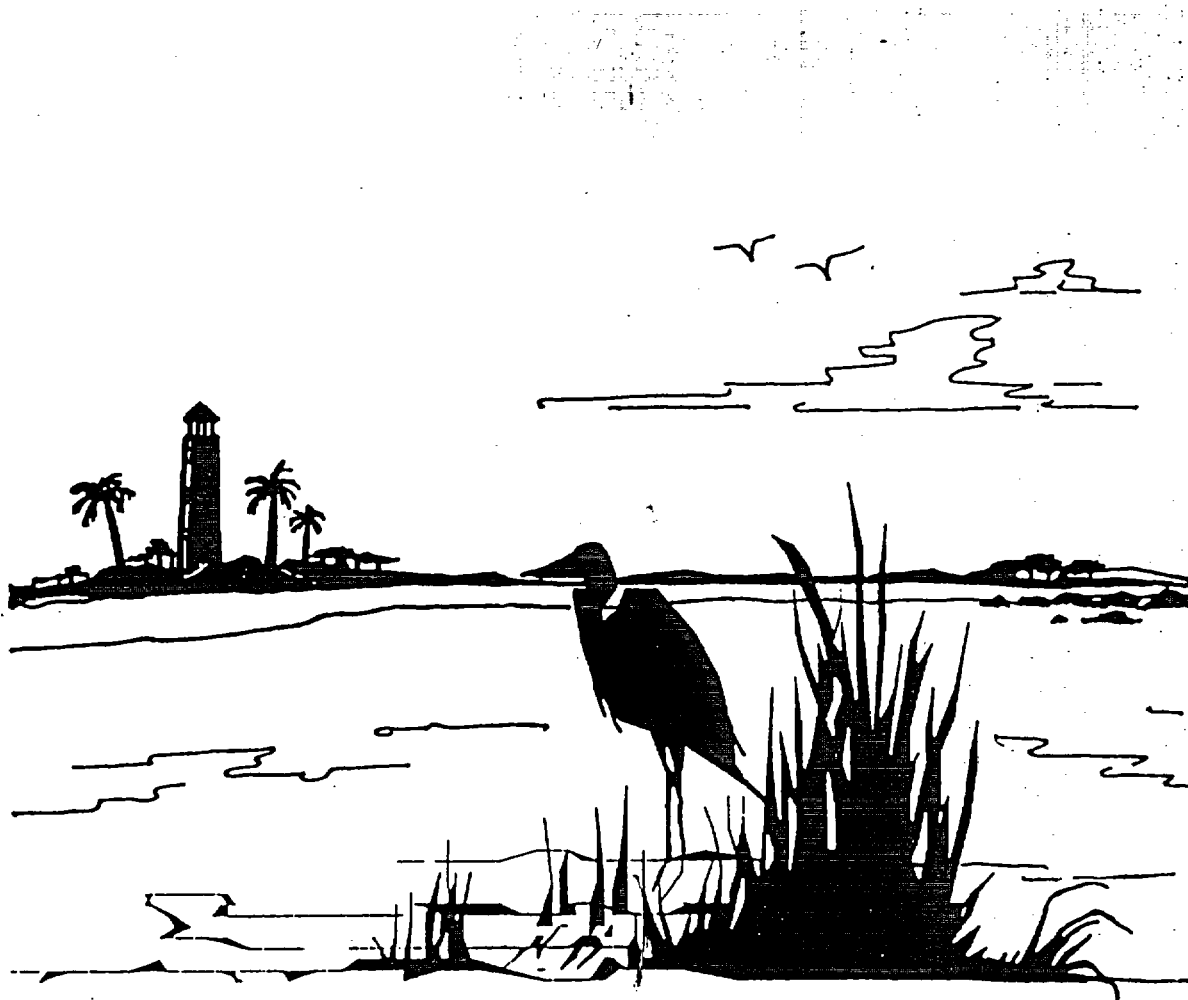
**Gainesville, FL 32614-7117**

**(352) 334-3400**

**www.gru.com**



**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, 2003 and 2002***

**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, 2003 AND 2002***

**UTILITIES COMMISSIONERS**

Walter H. Glenn, Jr., Chairman

Robert S. Thurlow, Vice Chairman

Jack S. Grasty, Secretary-Treasurer

Kenneth Taylor, Assistant Secretary-Treasurer

William J. Schneider, Commissioner

**GENERAL MANAGER/CHIEF EXECUTIVE OFFICER**

Ronald L. Vaden

**DIRECTOR OF FINANCE**

Roberto O. Montalvo, CPA

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**NEW SMYRNA BEACH, FLORIDA**

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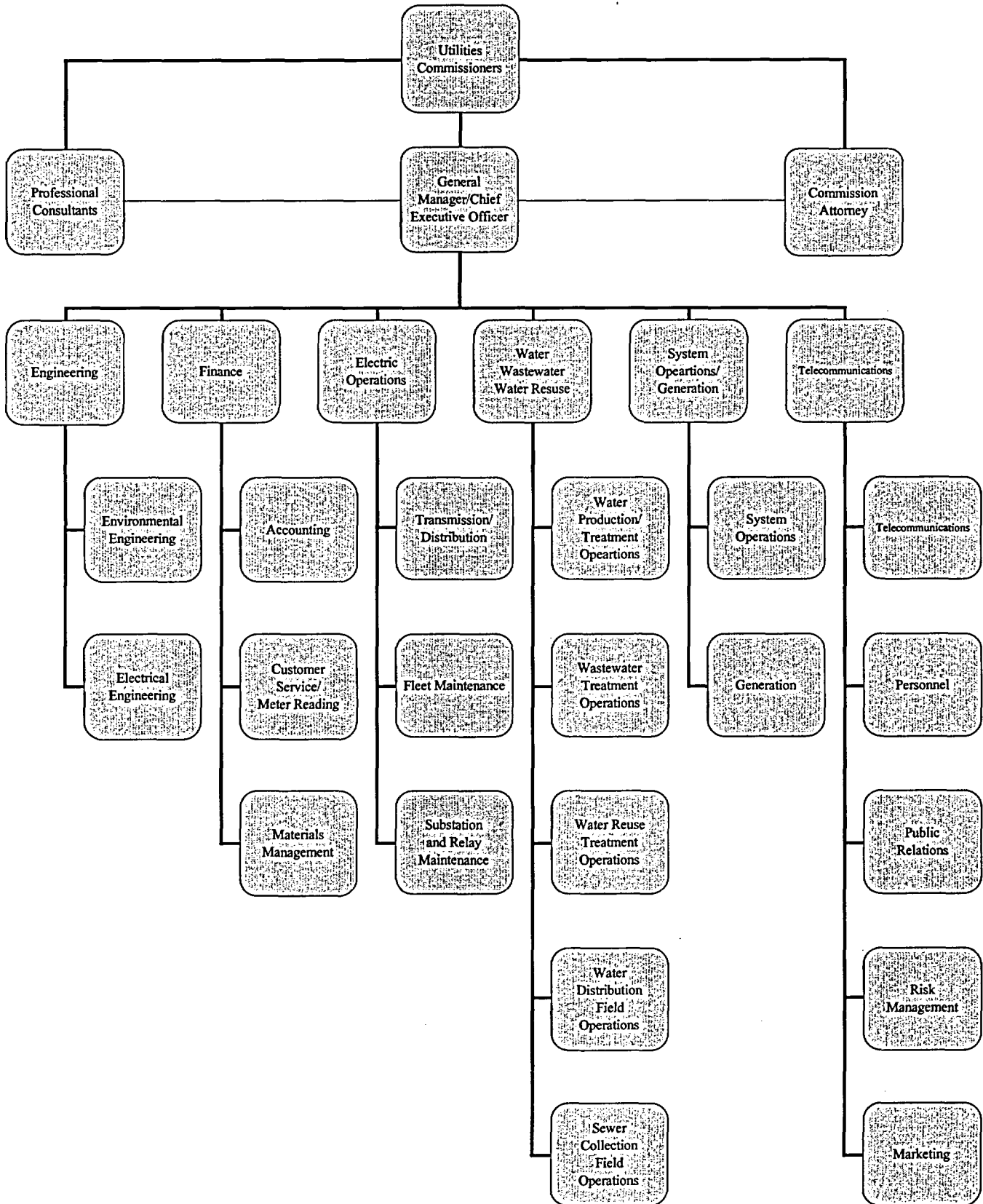
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## ***ORGANIZATION CHART***

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



# ***CERTIFICATE OF ACHIEVEMENT***

***FOR THE YEAR ENDED SEPTEMBER 30, 2002***

***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, 2002.***

***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 THE YEAR ENDED SEPTEMBER 30, 2002  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
NEW SMYRNA BEACH, FLORIDA

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# 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, 2002

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.



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 10, 2003

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, 2003 and 2002, 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 2002. 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 telecommunications 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 2008. It is the Commission's desire to fund the capital expenditures under this Plan through a combination of service capacity and 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 2006);
- 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 a second 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.

To the Chairman and Members  
of the Utilities Commission  
November 10, 2003  
Page 3

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 that have been converted, Richmond Drive and Venezia (Quay Assisi). There are also three additional areas planned for fiscal year 2004: 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 "Last Mile." The first, FTTH (fiber-to-the home), is being installed in conjunction with the Venetian Bay Subdivision with a customer base of 2,000 and 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 with Motorola is operational with initial customer based on the beachside.

#### *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 has been offering local and long distance service throughout Florida doing business under the name of "Sparks Communications."

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, water reuse, and telecommunications 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, 2003, the Utilities Commission served 22,126 electric customers, 20,111 water customers, 16,485 wastewater customers, 417 reclaimed water customers, 4,068 Internet dial-up, DSL, and broadband customers, and 10,870 telephone customers. Service totals for the last five years are summarized below:

<u>Fiscal Year</u>	<u>Electric Accounts</u>	<u>Water Accounts</u>	<u>Wastewater Accounts</u>	<u>Reclaimed Water Accounts</u>	<u>Telecommunications</u>	
					<u>Internet Accounts</u>	<u>Telephone Accounts</u>
1999.....	20,920	17,516	14,600	286	0	0
2000.....	21,134	17,937	14,940	306	0	0
2001.....	21,330	18,569	15,423	346	0	0
2002.....	21,734	19,507	16,066	385	3,215	4,555
2003.....	22,126	20,111	16,485	417	4,068	10,870

The current year's operating revenue and expenses from the combined utilities systems is presented in Management's Discussion and Analysis under the headings Financial Highlights and Entity-Wide Analysis on pages 3 to 8. A condensed budgetary comparison to actual results of operations by utility system is also presented in Management's Discussion and Analysis under the heading Budgetary Highlights on pages 9 and 10.

Cash management, capital assets, and debt administration are also presented in Management's Discussion and Analysis under headings relevant to these significant financial activities. In order to avoid duplication in analyzing these activities, reporting on significant transactions, events and fiscal policies governing the operations of the Commission here in the transmittal letter, please refer to Management's Discussion and Analysis on pages 10 and 11 of this report for more information regarding these financial matters.

*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.

To the Chairman and Members  
of the Utilities Commission  
November 10, 2003

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## 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, 2002. We are also quite proud of the fact that we have been awarded with this Certificate for the twenty-third 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.

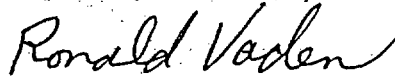
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

### *Acknowledgments*

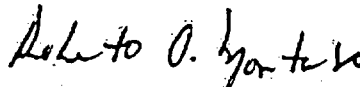
The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

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:***

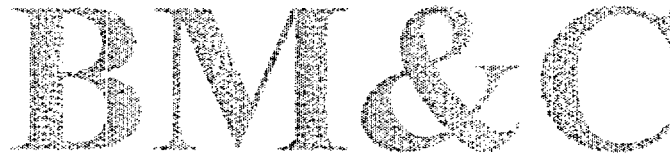
***INDEPENDENT AUDITORS' REPORT***

***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, 2003 and 2002, 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, 2003 and 2002, 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 10, 2003, 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.

The management's discussion and analysis on pages 3-14 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.



To the Honorable Chairman and Commissioners  
Utilities Commission, City of New Smyrna Beach, Florida  
New Smyrna Beach, Florida  
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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 Milliken & Co., P.A.*

November 10, 2003

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2003. 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 increased in 2003 at 370.7 million kWh sales compared to 342.8 million kWh sales in 2002. The sales revenue generated from those sales increased by 9.1% to \$33.0 million in 2003.
- The volume of treated potable water sold in 2003 increased by 4.6% and the volume of wastewater and reclaimed water treated in 2003 increased by 1.1% and 24.3%, respectively. Revenues for the water, wastewater and reclaimed water services revenues increased to \$5.1 million and \$5.7 million, respectively. The increase in the demand for potable water and increase in the amount of wastewater treated was anticipated by management in view of previous years' conservation efforts and the replenishment of Central Florida water resources.
- In 2003 the Commission has officially established the Telecommunications System division to account for Internet and Telephone related services to its customers and to customers outside the Commission's immediate customer base. The number of telecommunications customers has grown through a combined effort of reduction in the costs to provide Internet dial-up, DSL, and broadband services, which prompted a revision in the service rate schedules for these services, and through the effort of a marketing sales expansion campaign to grow the local and long distance telephone service to customers beyond the immediate vicinity of the City of New Smyrna Beach, Florida. Sales from Internet related services amounted to \$676,080 in 2003 and sales from telephone services totaled \$1,905,777 in 2003.
- Utilities Commission's assets exceeded its liabilities (*net assets*) at the end of September 30, 2003 by more than \$66.9 million. Of this amount, approximately \$18.2 million was unrestricted and available to be used to meet the Commission's ongoing obligations to its customers and creditors. Of the remaining \$48.6 million, approximately \$44.0 million was invested in utility plant assets and assets held for future use, while the remainder was restricted for utility plant expansion (\$4,123,835) and debt service (\$539,839).
- During the year, the Utilities Commission's net assets increased by \$7.7 million. In the prior year the change in net assets increased by 3.3% over the preceding year. Net assets totaled \$66.9 million in 2003 compared to approximately \$59.2 million at the end of 2002. The comparative increase in net assets in 2003 by contrast to 2002 is attributed primarily to an increase in capital contributions of \$3.5 million. Of this amount \$727,027 came from developers deeding property with in-ground improvements, with the remainder being received from charges for service capacity fees related largely to the westward expansion of the City in residential development.
- During 2003, the Commission's operating revenue increased by approximately \$5.7 million to over \$46.3 million, which was 12.4% more than last years operating revenue of \$40.6 million. Likewise, the Commission's operating expenses increased by \$4.7 million to \$39.9 million, which was 11.8% more than last year's \$35.1 million.

- Capital contributions received by the Commission increased significantly from almost \$1.0 million in 2002 to \$4.5 million in 2003, which is 78.5% more than last year. As mentioned above, amounts received for service capacity fees related to residential home development expansion in the City is the primary reason for this large increase.
- The Commission's long-term debt decreased to \$79.6 million in 2003, which is down \$4.5 million over last year's \$84.1 million. There were no new debt issues in 2003.

## 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)

	<u>FY 2003</u>	<u>FY2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets .....	\$ 15,382	\$ 13,423	\$ 1,959	14.6%
Restricted assets .....	18,429	17,225	1,204	7.0
Capital assets:				
Productive assets in service (net) .....	109,636	110,161	(525)	(0.5)
Held for future use .....	9,174	9,174	0	--
Construction in progress .....	3,584	3,005	579	19.3
Total assets .....	<u>156,205</u>	<u>152,988</u>	<u>3,217</u>	2.1
Long-term debt outstanding .....	79,575	84,075	(4,500)	(5.4)
Other liabilities .....	9,762	9,699	63	0.6
Total liabilities .....	<u>89,337</u>	<u>93,774</u>	<u>(4,437)</u>	(4.7)



	<u>FY 2003</u>	<u>FY2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Net assets:				
Invested in plant, net of related debt .....	43,970	39,242	4,728	12.0
Restricted .....	11,493	10,277	1,216	11.8
Unrestricted.....	<u>11,405</u>	<u>9,695</u>	<u>1,710</u>	17.6
Total net assets.....	\$ <u>66,868</u>	\$ <u>59,214</u>	\$ <u>7,654</u>	12.9%

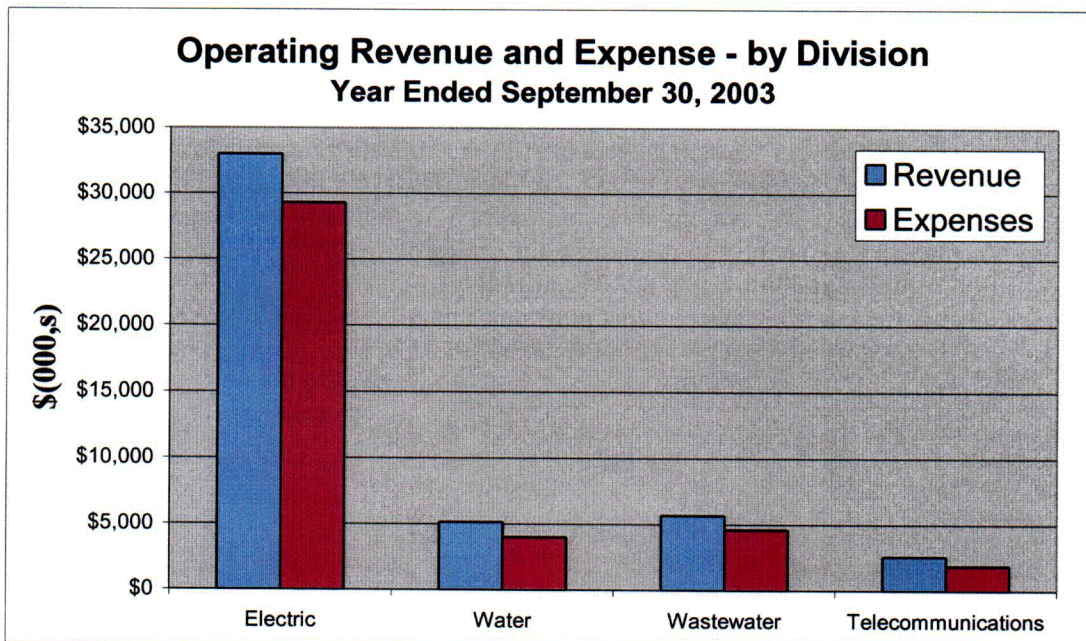
The Utilities Commission's net assets increased \$7.7 million to \$66.9 million in 2003, which is up from \$59.2 million in 2002. Looking more carefully at the data, the most significant change in net asset position was from amounts invested in utility plant, net of related debt, which increased \$4.7 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.

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

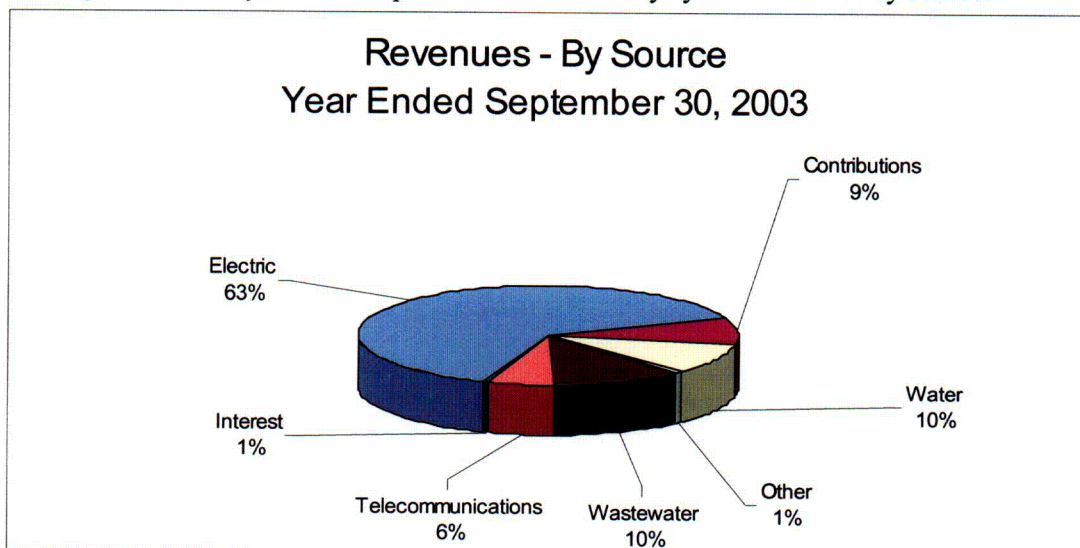
	<u>FY 2003</u>	<u>FY2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues:				
Charges for services:				
Electric system .....	\$ 32,988	\$ 29,997	\$ 2,991	10.0%
Water system.....	5,123	4,983	140	2.8
Wastewater system.....	5,655	5,632	23	0.4
Telecommunications system .....	<u>2,582</u>	<u>0</u>	<u>2,582</u>	100.0
Total charges for services .....	46,348	40,612	5,736	14.1
Interest earnings.....	358	461	(103)	(22.3)
Other .....	<u>337</u>	<u>433</u>	<u>(96)</u>	(22.2)
Total revenues.....	<u>47,043</u>	<u>41,506</u>	<u>5,537</u>	13.3
Expenses:				
Division operating expenses:				
Electric system .....	29,313	26,777	2,536	9.5
Water system.....	3,999	3,822	177	4.6
Wastewater system.....	4,603	4,491	112	2.5
Telecommunications system .....	<u>1,892</u>	<u>0</u>	<u>1,892</u>	100.0
Total division operating expenses.....	39,807	35,090	4,717	13.4
Interest and debt expense.....	3,356	3,953	(593)	(15.0)
Asset disposal losses.....	10	58	(48)	(82.8)
Other .....	<u>690</u>	<u>56</u>	<u>634</u>	1,232.1
Total expenses .....	<u>43,863</u>	<u>39,157</u>	<u>4,710</u>	12.0
Income (loss) before contributions .....	3,180	2,349	831	
Capital contributions.....	<u>4,474</u>	<u>961</u>	<u>3,513</u>	
Increase (decrease) in net assets .....	\$ <u>7,654</u>	<u>3,310</u>	<u>4,344</u>	

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 \$3.2 million and capital contributions of \$4.5 million were the two sources of the increase in 2003. A comparison of the operating expenses shows that the Commission's operating expenses increased by \$4.7 million, or 11.8% in 2003, while system revenues in 2003 also increased by \$5.7 million or 12.4% over 2002. A combination of an increase in fuel and purchased power costs offset by the corresponding increase in the fuel and purchased power cost adjustment clause (fuel adjustment), the net profit earned from telecommunication services, and the increase in capital contributions from service capacity fees makes up the majority of the net increase in net assets in 2003 as compared to 2002. The Commission continues to produce positive net income in 2003 from its utility system operations.

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

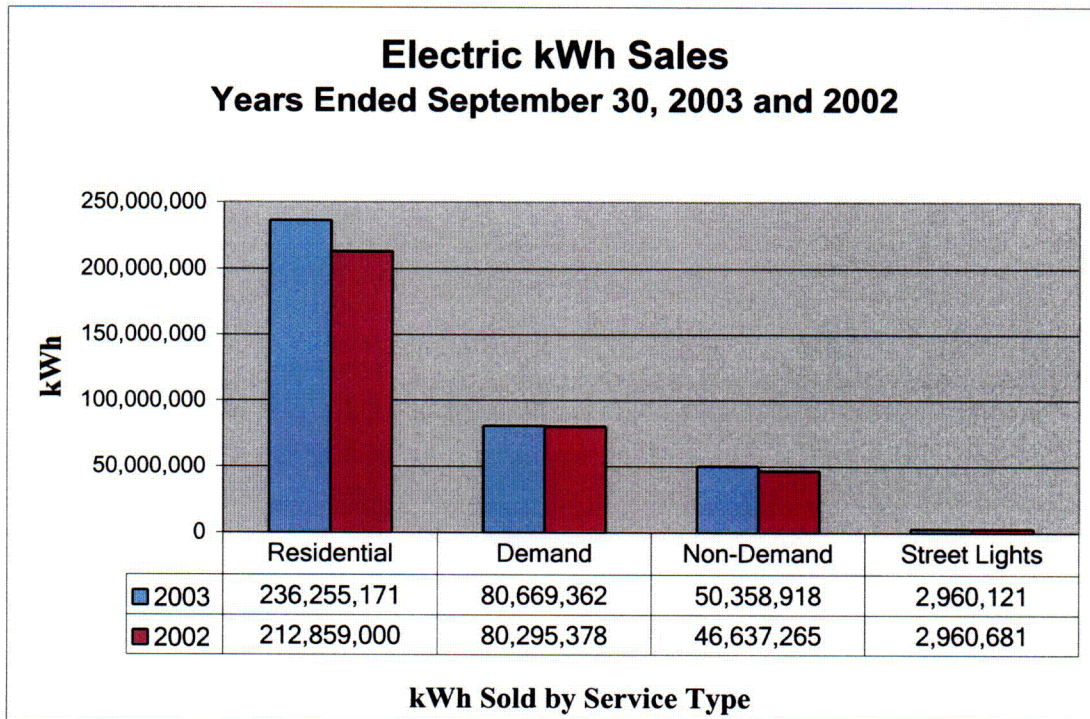


The following is a summary of the composition of 2003 utility system revenues by source:





During 2003, the overall demand for electricity, water and wastewater treatment services increased. Total electric kWh sales increased from 343 million kWh in 2002 to 371 million kWh in 2003, or 7.5% more than that of the prior year. The number of electric customers increased by 1.8% in 2003 to 22,126 compared to 21,734 in 2002. 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 2003. The actual number of customers increased in all divisions. The volume of potable water sold during 2003 increased 4.6% to 1,471 MG compared to 1,403 MG in 2002. The wastewater system experienced a 1.1% increase to 872 MG in the volume of wastewater treated in 2003 compared to 862 MG treated in 2002. The volume of water reuse sold during 2003 increased 24.3% to 349 MG, up from 264 MG in 2002.

Rising costs to produce electric system revenues resulted in a fuel adjustment being made in June 2003. Reclaimed water sales and expenses have been incorporated under the Wastewater System in 2003. Telecommunications System sales and expenses for Internet and Telephone related services are now separately reported due to the significance in growth in providing these services. The actual number of residential and commercial utility customers increased during 2003 in all operating divisions as follows:

Utility Operating Division	2003 Customers	2002 Customers
Electric system .....	22,126	21,734
Water system.....	20,111	19,507
Wastewater system .....	16,485	16,066
Water reuse system.....	417	385
Telecommunications – Internet.....	4,068	3,215
Telecommunications – Telephone ....	10,870	4,555

The net results of operations for all divisions show that the Commission was successful in recovering its costs for these utility divisions.

### 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)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenue and Receipts:</b>			
Electric system .....	\$ 30,922	33,020	2,098
Water system .....	5,146	5,220	74
Wastewater system .....	6,059	5,694	(365)
Telecommunications system .....	2,152	2,582	430
Capital contributions .....	<u>839</u>	<u>4,474</u>	<u>3,635</u>
	<u>45,118</u>	<u>50,990</u>	<u>5,872</u>
<b>Operating Expenses:</b>			
Purchased power and fuel .....	13,735	16,569	(2,834)
Other production .....	7,809	6,431	1,378
Transmission, distribution, sewage collection and treatment .....	3,752	3,752	0
Customer accounting .....	864	996	(132)
Administrative and general .....	4,046	4,303	(257)
Required payments to City .....	2,605	2,706	(101)
Nuclear generation facility decommissioning .....	<u>115</u>	<u>145</u>	<u>(30)</u>
	<u>32,926</u>	<u>34,902</u>	<u>(1,976)</u>
Net revenue and receipts .....	12,192	16,088	3,896
Operating transfers (net) .....	<u>(12,192)</u>	<u>(15,856)</u>	<u>(3,664)</u>
Budgeted net cash receipts .....	<u>0</u>	232	<u>232</u>
<b>Reconciliation of budget to change in net assets:</b>			
Principal portion of sinking fund transfers .....		4,665	
Internal funds transfers (net) .....		8,339	
Depreciation and amortization .....		(5,572)	
Other .....		<u>(10)</u>	
Change in net assets .....		<u>\$ 7,654</u>	

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 2003, the Commission's actual revenues were more than anticipated amounts by over \$5.8 million. This was due primarily to the unanticipated increase 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 we have incurred increased fuel and purchased power costs resulting in an adjustment

from \$8.82 per 1,000 kWh to \$12.89 per 1,000 kWh as of June 1, 2003. In addition to the stated increase 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 relatively on target with the budgeted amounts as a result of close monitoring of operating expenses.

### 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, 2003 and 2002 totaled \$461,153 and 1,055,154, respectively. These amounts were further reduced by \$ -0- and \$149,910 during the years ended September 30, 2003 and 2002, 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, 2003 and 2002, totaled \$22.1 million and \$22.2 million, respectively. The individual components are as follows:

	<u>2003</u>	<u>2002</u>
Current assets:		
Operating cash and cash equivalents .....	\$ <u>1,875,260</u>	<u>1,311,235</u>
Restricted assets:		
Debt service funds .....	2,839,743	3,625,980
Renewal and replacement funds .....	11,504,914	9,744,916
Customer deposits.....	1,517,204	1,431,890
CR-3 decommissioning fund .....	<u>2,567,289</u>	<u>2,422,153</u>
	<u>18,429,150</u>	<u>17,224,939</u>
Other assets:		
Internally designated stabilization funds .....	<u>1,768,251</u>	<u>3,668,390</u>
Total cash and investments .....	\$ <u>22,072,661</u>	<u>22,204,564</u>

Included in the total unrestricted current assets are internally designated funds for renewal and replacement amounting to \$1,875,260 and \$1,311,235 as of September 30, 2003 and 2002, respectively. In addition to the amounts legally required to fund the renewal and replacement fund in accordance with long-term debt covenants and for amounts received from developer agreements for service capacity fees, both of which are legally restricted, additional funding above the mandatory legally restricted requirements is internally designated for renewal and replacement projects to internally finance routine utility plant expansion and upgrades.

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, 2003 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%

### Capital Assets

At the end of 2003, the Utilities Commission's investment in capital assets amounted to \$122.3 million, which is stated net of \$66.6 million of accumulated depreciation and provision for decommissioning. 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 2003, the total increase in the Commission's investment in capital assets was \$5.1 million, compared to \$6.4 million invested in 2002. Major capital asset events during 2003 included the following:

- Additional costs related to acquisition of Sugar Mill water and wastewater treatment plant and related costs to place these assets into service of \$1.3 million,
- Line transformers, poles and fixtures amounting to \$1.2 million
- Transmission and distribution mains totaling \$0.7 million, and
- Other plant expansion items totaling \$1.9 million.

### Utility Plant, Net of Accumulated Depreciation

	September 30,	
	<u>2003</u>	<u>2002</u>
Land and land rights .....	\$ 3,281,904	3,281,904
Structures and improvements .....	19,964,958	19,909,131
Production and treatment plant .....	44,561,389	44,427,909
Transmission, distribution, and collection and treatment plant .....	99,533,982	95,962,840
Other general plant and equipment .....	<u>8,707,613</u>	<u>8,127,752</u>
	176,049,846	171,709,536

	September 30,	
	<u>2003</u>	<u>2002</u>
Accumulated depreciation.....	(64,057,960)	(59,229,142)
Allowance for decommissioning.....	<u>(2,567,289)</u>	<u>(2,422,153)</u>
	109,424,597	110,058,241
Construction in progress.....	3,584,237	3,001,496
Plant held for future use.....	9,173,992	9,173,992
Nuclear fuel, net of amortization.....	<u>211,416</u>	<u>102,970</u>
Utility plant, net .....	\$ <u>122,394,242</u>	<u>122,336,699</u>

### Long-Term Debt and Debt Administration

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:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operating revenues.....	\$ 46,347,066	40,612,225	42,715,387
Interest and other income .....	694,980	894,508	1,345,251
Capacity and other fees .....	<u>4,474,157</u>	<u>960,595</u>	<u>1,185,634</u>
Revenues per certificate resolution .....	51,516,203	42,467,328	45,246,272
Cost of Operation and Maintenance, net of depreciation and required payments to City of New Smyrna Beach.....	<u>32,196,648</u>	<u>27,842,554</u>	<u>30,064,279</u>
Net revenues per certificate resolution.....	<u>19,319,555</u>	<u>14,624,774</u>	<u>15,181,993</u>
Annual debt service requirement.....	\$ <u>6,039,170</u>	<u>5,220,209</u>	<u>5,307,236</u>
Debt service coverage ratio (times).....	<u>3.20</u>	<u>2.80</u>	<u>2.86</u>

As of September 30, 2003 the Utilities Commission had outstanding \$46,680,000 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:

	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch's</u>
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 \$15,949,355, 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 \$22,278,000, 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, 2003. 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.

At the end of the fiscal year, the Utilities Commission had \$79.6 million in long-term debt outstanding, which was down \$4.5 million over the prior year's \$84.1 million.

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.

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 \$50 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 4.9% at the end of September 2003, which is slightly higher than the 4.3% rate experienced one year earlier. These estimates compare favorably to the state's 4.9% and 5.3% unemployment rates at September 2003 and 2002, respectively.
- Inflationary trends for Volusia County compare favorably with those trends experienced at the state and national levels.

Another factor influencing the Commission's 2004 operating budget includes significant anticipated growth in the telecommunications division in the 2003-2004 fiscal year, which will provide more funding to the City of New Smyrna Beach, Florida, subsidize debt reduction funding, and additional funds for renewal and replacement funds. This division includes all financial operations associated with the providing of local and long-distance telephone services along with local dial-up internet services, high-speed broadband asymmetrical digital subscriber line (ADSL) services, and symmetrical digital subscriber line (SDSL) services. The 2004 budget includes combined projected revenues of \$9.8 million and budget appropriations of \$9.8 million for these services.

A summary of the enacted 2004 budget follows:

**FY 2004 Operating Budget  
With Comparison to FY 2003 Actual  
\$(000's)**

	<u>FY 2004</u>	<u>FY 2003</u>	<u>Dollar</u>
	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
<b>Revenue and Receipts:</b>			
Electric system .....	\$ 32,058	33,020	(962)
Water system.....	5,390	5,220	170
Wastewater system.....	6,220	5,694	526
Telecommunications system .....	9,767	2,582	7,185
Capital contributions .....	<u>1,204</u>	<u>4,474</u>	<u>(3,270)</u>
	<u>54,639</u>	<u>50,990</u>	<u>3,649</u>
<b>Operating Expenses:</b>			
Purchased power and fuel .....	14,593	16,569	1,976
Operation and maintenance.....	23,501	15,627	(7,874)
Required payments to City.....	<u>3,158</u>	<u>2,706</u>	<u>(452)</u>
	<u>41,252</u>	<u>34,902</u>	<u>(6,350)</u>
Net revenue and receipts.....	13,387	16,088	(2,701)
Debt service .....	(7,924)	(7,518)	(406)
Operating transfers (net).....	<u>(5,463)</u>	<u>(8,338)</u>	<u>2,875</u>
Budgeted net cash receipts.....	<u>0</u>	<u>232</u>	<u>(232)</u>

The Utilities Commission's electric, water, and wastewater rates for the 2003 fiscal year remained the same as the prior year. A 5% increase in the wastewater rates for all classes of customers effective October 1, 2003 in the new fiscal year was deemed necessary for us to recover all of the costs associated with providing these services.

**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, 2003 and 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	2003	2002
<b>Assets:</b>		
<b>Utility Plant:</b>		
Electric utility plant in service.....	\$ 77,873,246	76,675,018
Water utility plant in service.....	37,233,022	35,817,251
Wastewater and water reuse utility plant in service.....	53,511,799	51,906,418
General utility plant in service.....	7,431,779	7,310,849
	<u>176,049,846</u>	<u>171,709,536</u>
Less: accumulated depreciation and amortization.....	(66,625,249)	(61,651,295)
	<u>109,424,597</u>	<u>110,058,241</u>
Construction work in progress .....	3,584,237	3,004,496
Plant held for future use.....	9,173,992	9,173,992
Nuclear fuel, net of amortization.....	211,416	102,970
	<u>122,394,242</u>	<u>122,339,699</u>
<b>Total utility plant, net.....</b>	<b>122,394,242</b>	<b>122,339,699</b>
<b>Restricted Assets:</b>		
Cash and cash equivalents.....	17,356,681	12,623,245
Investments, at cost.....	1,054,900	4,592,800
Accrued interest and dividends.....	17,569	8,894
	<u>18,429,150</u>	<u>17,224,939</u>
<b>Total restricted assets .....</b>	<b>18,429,150</b>	<b>17,224,939</b>
<b>Current Assets:</b>		
Cash and cash equivalents .....	1,875,260	1,311,235
Accounts receivable, net of allowance for doubtful accounts (\$106,800 - 2003 and \$121,660 - 2002).....	3,166,629	2,202,378
Unbilled accounts receivable .....	4,244,879	3,349,033
Notes receivable .....	437,805	70,329
Inventories .....	1,701,402	1,680,424
Prepaid expenses and other assets .....	429,797	274,584
	<u>11,855,772</u>	<u>8,887,983</u>
<b>Total current assets .....</b>	<b>11,855,772</b>	<b>8,887,983</b>
<b>Deferred Charges and Other Assets:</b>		
Stabilization funds.....	1,768,251	3,668,390
Unamortized phone customer acquisition costs .....	1,023,670	0
Unamortized debt expense .....	733,965	866,870
	<u>3,525,886</u>	<u>4,535,260</u>
<b>Total deferred charges and other assets.....</b>	<b>3,525,886</b>	<b>4,535,260</b>
<b>Total assets .....</b>	<b>\$ <u>156,205,050</u></b>	<b><u>152,987,881</u></b>

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

## Statement 1

	2003	2002
<b>Net Assets:</b>		
Invested in utility plant, net of related debt.....	\$ 43,970,077	39,241,910
Restricted for debt service.....	539,839	539,839
Restricted for renewal and replacement.....	10,953,401	9,736,744
Unrestricted.....	11,404,708	9,695,283
<b>Total net assets.....</b>	<b>66,868,025</b>	<b>59,213,776</b>
<b>Liabilities:</b>		
<b>Long-Term Debt:</b>		
Revenue certificates payable (net).....	42,941,225	45,754,090
Notes payable (net).....	36,634,252	38,321,355
<b>Total long-term debt .....</b>	<b>79,575,477</b>	<b>84,075,445</b>
<b>Restricted Fund Liabilities:</b>		
Revenue certificates payable.....	1,825,000	2,730,000
Notes payable.....	1,593,103	1,434,976
Accrued interest payable .....	297,778	365,662
Accounts payable .....	551,513	8,172
Customers' deposits .....	1,517,204	1,431,890
<b>Total restricted fund liabilities .....</b>	<b>5,784,598</b>	<b>5,970,700</b>
<b>Current Liabilities:</b>		
Accounts payable .....	2,129,943	2,001,779
Accrued liabilities .....	508,345	476,242
Due to other governments .....	830,235	763,706
<b>Total current liabilities .....</b>	<b>3,468,523</b>	<b>3,241,727</b>
<b>Other Noncurrent Liabilities:</b>		
Deferred compensated absences .....	351,682	337,565
Deferred credits - other .....	156,745	148,668
<b>Total other noncurrent liabilities .....</b>	<b>508,427</b>	<b>486,233</b>
<b>Total liabilities.....</b>	<b>89,337,025</b>	<b>93,774,105</b>
<b>Total liabilities and net assets.....</b>	<b>\$ 156,205,050</b>	<b>152,987,881</b>

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

**Statement 2**

For the Fiscal Years Ended September 30, 2003 and 2002  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
New Smyrna Beach, Florida

	2003	2002
<b>Operating Revenue:</b>		
Sales .....	\$ 45,758,867	39,966,040
Other revenue .....	588,199	646,185
<b>Total operating revenue .....</b>	<b>46,347,066</b>	<b>40,612,225</b>
<b>Operating Expenses:</b>		
Purchased power and fuel expenses .....	16,569,259	13,652,608
Other production expenses.....	6,431,093	6,038,839
Transmission, distribution, and sewage collection and treatment .....	3,751,847	3,782,641
Customer accounting .....	996,421	821,128
Administrative and general .....	4,302,892	3,385,868
Required payments to the City of New Smyrna Beach .....	2,706,427	2,509,729
Depreciation and decommissioning .....	5,049,264	4,899,416
<b>Total operating expenses .....</b>	<b>39,807,203</b>	<b>35,090,229</b>
<b>Operating income .....</b>	<b>6,539,863</b>	<b>5,521,996</b>
<b>Non-operating Revenue (Expense):</b>		
Interest earnings .....	358,454	461,153
Other income .....	336,526	433,355
Interest and debt expense .....	(3,355,193)	(3,952,841)
Other expenses .....	(690,017)	(56,064)
Loss on disposal of assets .....	(9,541)	(58,114)
<b>Total nonoperating (expense).....</b>	<b>(3,359,771)</b>	<b>(3,172,511)</b>
<b>Income before contributions.....</b>	<b>3,180,092</b>	<b>2,349,485</b>
<b>Capital contributions.....</b>	<b>4,474,157</b>	<b>960,595</b>
<b>Change in net assets.....</b>	<b>7,654,249</b>	<b>3,310,080</b>
<b>Net assets, beginning of year .....</b>	<b>59,213,776</b>	<b>55,903,696</b>
<b>Net assets, end of year .....</b>	<b>\$ 66,868,025</b>	<b>59,213,776</b>

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

**STATEMENTS OF CASH FLOWS**

**Statement 3**

For the Fiscal Years Ended September 30, 2003 and 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	2003	2002
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers.....	\$ 44,541,033	43,192,639
Cash paid to suppliers.....	(26,342,390)	(22,834,384)
Cash paid to employees.....	(5,721,282)	(5,285,654)
Other receipts (payments).....	(2,639,898)	(2,532,713)
<b>Net cash provided by operating activities .....</b>	<b>9,837,463</b>	<b>12,539,888</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Debt reduction outlays .....	(5,598,976)	(3,981,064)
Contributed capital .....	3,747,130	960,595
Proceeds from issuance of debt .....	0	30,216
Proceeds from sale of property and equipment .....	6,730	878
Acquisition and construction of capital assets .....	(5,544,668)	(4,078,202)
Interest paid .....	(2,938,036)	(4,655,546)
<b>Net cash (used in) capital and related financing activities.....</b>	<b>(10,327,820)</b>	<b>(11,723,123)</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sale and maturities of investment securities .....	4,537,900	37,300
Acquisition of investment securities .....	(1,000,000)	(4,500,000)
Interest received .....	349,779	610,193
<b>Net cash provided by investing activities.....</b>	<b>3,887,679</b>	<b>(3,852,507)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>3,397,322</b>	<b>(3,035,742)</b>
Cash and cash equivalents, beginning of year .....	17,602,870	20,638,612
Cash and cash equivalents, end of year .....	\$ 21,000,192	17,602,870
<b>Reconciliation to Balance Sheet:</b>		
Restricted cash and cash equivalents.....	\$ 17,356,681	12,623,245
Unrestricted cash and cash equivalents.....	1,875,260	1,311,235
Stabilization funds.....	1,768,251	3,668,390
<b>Total cash and cash equivalents.....</b>	<b>\$ 21,000,192</b>	<b>17,602,870</b>

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, 2003 and 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	2003	2002
Reconciliation of operating income to net cash provided by operating activities:		
Operating income .....	\$ 6,539,863	5,521,996
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, decommissioning, and nuclear fuel amortization .....	5,177,510	5,021,093
Provision for losses on receivables .....	42,301	62,297
Decrease (increase) in operating assets:		
Accounts and notes receivable .....	(1,374,328)	217,247
Unbilled accounts receivable .....	(895,846)	1,767,398
Inventories .....	(20,978)	(37,685)
Prepaid expenses .....	(155,213)	(221,776)
Increase (decrease) in operating liabilities:		
Accounts payable .....	671,505	(327,070)
Due to other governments .....	66,529	(22,984)
Customer deposits .....	85,314	162,414
Accrued liabilities .....	32,103	(10,243)
Deferred liabilities .....	22,194	29,910
Other income .....	336,526	433,355
Other expense .....	(690,017)	(56,064)
Net cash provided by operating activities .....	<u>\$ 9,837,463</u>	<u>12,539,888</u>

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



***NOTES TO THE FINANCIAL STATEMENTS***

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2003 AND 2002  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
NEW SMYRNA BEACH, FLORIDA

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**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 its 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, 2003 and 2002. This agreement does not meet the criteria of a joint venture as specified in Statement 14 of the Governmental Accounting Standards Board.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)  
SEPTEMBER 30, 2003 AND 2002  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
NEW SMYRNA BEACH, FLORIDA

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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.
- 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."

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)  
SEPTEMBER 30, 2003 AND 2002  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
NEW SMYRNA BEACH, FLORIDA

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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 telecommunications 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.

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

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)  
SEPTEMBER 30, 2003 AND 2002  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
NEW SMYRNA BEACH, FLORIDA

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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.

**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.



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**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:

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

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.

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**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 30<sup>th</sup>.

**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 not 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.

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**Deposits:** At September 30, 2003, the carrying amount of the Utilities Commission's deposits, including money market funds held with financial institutions, was \$1,890,151 and the September 30, 2003, bank balances totaled \$2,581,044 of which \$100,000 was covered by federal depository insurance, \$1,229,752 was secured in accordance with the statutory provisions of the Act, and \$1,239,588 was held in unsecured, uncollateralized money market mutual funds. Included in the carrying amount of Utilities Commission deposits is \$11,704 in petty cash and change funds.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC).....	\$ 638,859	\$ 1,329,752
Uninsured:		
Uncollateralized.....	1,239,588	1,239,588
Cash funds.....	<u>11,704</u>	<u>11,704</u>
Total deposits.....	<u>\$ 1,890,151</u>	<u>\$ 2,581,044</u>

**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, 2003, 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, 2003, the Utilities Commission's cash and investments are categorized as follows:

<u>Type of Investment</u>	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
U.S. Treasury State and Local Government Series (SLGS) Bonds .....	\$ 54,900			54,900	54,900
Federal Home Loan Bank Unsecured Bonds .....		1,000,000		1,000,000	1,005,630
Repurchase agreements .....	\$ 0	0	19,121,452	19,121,452	19,107,097
Totals.....	<u>\$ 54,900</u>	<u>1,000,000</u>	<u>19,121,452</u>	<u>20,176,352</u>	<u>20,167,627</u>

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**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,	
	2003	2002
<b>Debt service and related funds:</b>		
Principal and interest funds.....	\$ 2,299,904	3,086,141
Debt service reserve funds.....	<u>539,839</u>	<u>539,839</u>
	<u>2,839,743</u>	<u>3,625,980</u>
Nuclear generation facility decommissioning funds.....	<u>2,567,289</u>	<u>2,422,153</u>
Renewal and replacement funds.....	<u>11,504,914</u>	<u>9,744,916</u>
Customer deposits.....	<u>1,517,204</u>	<u>1,431,890</u>
Total restricted assets.....	<u>\$ 18,429,150</u>	<u>17,224,939</u>
<b>Total restricted assets consist of:</b>		
Cash and cash equivalents.....	\$ 17,356,681	12,623,245
Investments, at cost.....	1,054,900	4,592,800
Accrued interest receivable.....	<u>17,569</u>	<u>8,894</u>
Total restricted funds.....	<u>\$ 18,429,150</u>	<u>17,224,939</u>

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:

<b>Internally designated funds:</b>		
<b>Rate Stabilization Fund:</b>		
Cash and cash equivalents.....	\$ 1,765,307	3,664,387
Accrued interest receivable.....	<u>2,944</u>	<u>4,003</u>
Total internally designated funds.....	<u>\$ 1,768,251</u>	<u>3,668,390</u>

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NOTE 4 - UTILITY PLANT

A summary of utility plant at September 30, 2003 and 2002 is as follows:

	Electric	Water	Wastewater and Water reuse	Common	September 30, 2003
Land and land rights.....	\$ 1,672,728	483,946	381,642	743,588	3,281,904
Structures and improvements.....	2,590,500	5,136,725	9,797,085	2,440,648	19,964,958
Production and treatment plant.....	24,214,968	6,455,478	13,890,943	0	44,561,389
Transmission, distribution, and collection and treatment plant.....	47,686,752	24,129,034	27,718,196	0	99,533,982
Other general plant and equipment.....	<u>1,708,298</u>	<u>1,027,839</u>	<u>1,723,933</u>	<u>4,247,543</u>	<u>8,707,613</u>
	77,873,246	37,233,022	53,511,799	7,431,779	176,049,846
Accumulated depreciation.....	(35,871,989)	(12,282,785)	(11,905,550)	(3,997,636)	(64,057,960)
Allowance for decommissioning.....	<u>(2,567,289)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,567,289)</u>
	39,433,968	24,950,237	41,606,249	3,434,143	109,424,597
Construction in progress.....	2,091,201	937,590	320,422	235,024	3,584,237
Plant held for future use.....	9,173,992	0	0	0	9,173,992
Nuclear fuel, net of amortization.....	<u>211,416</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>211,416</u>
Utility plant, net.....	<u>\$ 50,910,577</u>	<u>25,887,827</u>	<u>41,926,671</u>	<u>3,669,167</u>	<u>122,394,242</u>

	Electric	Water	Wastewater and Water reuse	Common	September 30, 2002
Land and land rights.....	\$ 1,672,728	483,946	381,642	743,588	3,281,904
Structures and improvements.....	2,590,500	5,112,725	9,797,085	2,408,821	19,909,131
Production and treatment plant.....	24,118,422	6,422,368	13,887,119	0	44,427,909
Transmission, distribution, and collection and treatment plant.....	46,675,183	22,892,232	26,395,425	0	95,962,840
Other general plant and equipment.....	<u>1,618,185</u>	<u>905,980</u>	<u>1,445,147</u>	<u>4,158,440</u>	<u>8,127,752</u>
	76,675,018	35,817,251	51,906,418	7,310,849	171,709,536
Accumulated depreciation.....	(33,385,198)	(11,457,515)	(10,568,067)	(3,818,362)	(59,229,142)
Allowance for decommissioning.....	<u>(2,422,153)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,422,153)</u>
	40,867,667	24,359,736	41,338,351	3,492,487	110,058,241
Construction in progress.....	1,478,211	1,079,547	340,046	106,692	3,004,496
Plant held for future use.....	9,173,992	0	0	0	9,173,992
Nuclear fuel, net of amortization.....	<u>102,970</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>102,970</u>
Utility plant, net.....	<u>\$ 51,622,840</u>	<u>25,439,283</u>	<u>41,678,397</u>	<u>3,599,179</u>	<u>122,339,699</u>

Depreciation expense totaled \$4,904,128 and \$4,737,946 for 2003 and 2002, respectively. There were no capitalized interest costs associated with expansion and improvements made to utility plant for the fiscal years ended September 30, 2003 and 2002.



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A summary of utility plant activity for the year ended September 30, 2003 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 .....	19,909,131	55,827	0	19,964,958
Production and treatment plant.....	44,427,909	133,480	0	44,561,389
Transmission, distribution, and collection and treatment plant .....	95,962,840	3,610,065	(38,923)	99,533,982
Other general plant and equipment.....	<u>8,127,752</u>	<u>632,300</u>	<u>(52,439)</u>	<u>8,707,613</u>
	171,709,536	4,431,672	(91,362)	176,049,846
Accumulated depreciation.....	(59,229,142)	(4,904,128)	75,310	(64,057,960)
Allowance for decommissioning.....	<u>(2,422,153)</u>	<u>(145,136)</u>	<u>0</u>	<u>(2,567,289)</u>
	110,058,241	(617,592)	(16,052)	109,424,597
Construction in progress.....	3,004,496	5,509,394	(4,929,653)	3,584,237
Plant held for future use .....	9,173,992	0	0	9,173,992
Nuclear fuel, net of amortization.....	<u>102,970</u>	<u>236,692</u>	<u>(128,246)</u>	<u>211,416</u>
Utility plant, net .....	\$ <u>122,339,699</u>	<u>5,128,494</u>	<u>(5,073,951)</u>	<u>122,394,242</u>

**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 its 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 \$145,136 and \$161,470 for the years ended September 30, 2003 and 2002, respectively.

Accumulated decommissioning costs, which are included in accumulated depreciation, were \$2,567,289 and \$2,422,153 at September 30, 2003 and 2002, 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.

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**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 30<sup>th</sup>:

	September 30,	
	2003	2002
Invested in utility plant, net of related debt:		
Net utility plant.....	\$ 122,394,242	122,339,699
Add: Funds restricted for debt service .....	2,299,904	3,086,141
Funds restricted for future decommissioning costs .....	2,567,289	2,422,153
Funds restricted for repayment of customer deposits.....	1,517,204	1,431,890
Less: Revenue certificates payable (net) .....	(44,766,225)	(48,484,090)
Notes payable (net).....	(38,227,355)	(39,756,331)
Accrued interest payable on long-term debt.....	(297,778)	(365,662)
Customer deposits .....	<u>(1,517,204)</u>	<u>(1,431,890)</u>
	<u>43,970,077</u>	<u>39,241,910</u>
Restricted for debt service:		
Funds restricted for debt service reserve purposes .....	<u>539,839</u>	<u>539,839</u>
Restricted for renewal and replacement:		
Funds legally restricted for renewal and replacement .....	11,504,914	9,744,916
Less: Accounts payable from restricted funds .....	<u>(551,513)</u>	<u>(8,172)</u>
	<u>10,953,401</u>	<u>9,736,744</u>
Total net assets invested and restricted .....	55,463,317	49,518,493
Unrestricted net assets .....	<u>11,404,708</u>	<u>9,695,283</u>
Total net assets .....	<u>\$ 66,868,025</u>	<u>59,213,776</u>

Included in unrestricted net assets are internally designated funds for renewal and replacement amounting to \$1,875,260 and \$1,311,235 as of September 30, 2003 and 2002, respectively. In addition to the amounts legally required to fund the renewal and replacement fund in accordance with long-term debt covenants and for amounts received from developer agreements for service capacity fees, both of which are legally restricted, additional funding above the mandatory legally restricted requirements is internally designated for renewal and replacement projects to internally finance routine utility plant expansion and upgrades.

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NOTE 7 - LONG-TERM DEBT

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

	September 30,	
	2003	2002
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 .....	\$ 0	270,000
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 \$1,285,000 (5.00%) term bonds due in 2018 and 2019, respectively .....	2,530,000	3,240,000
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 .....	6,155,000	7,905,000
Utilities System Refunding Revenue Certificates, Series 2002 --2.75% to 5.00% due serially to 2017 .....	<u>37,695,000</u>	<u>39,035,000</u>
Total utilities revenue certificates outstanding .....	<u>46,380,000</u>	<u>50,450,000</u>
Less: current maturities:		
Series 1992 Certificates .....	0	(270,000)
Series 1993 Certificates .....	0	(710,000)
Series 1996 Certificates .....	(1,825,000)	(1,750,000)
Series 2002 Certificates .....	<u>( 0)</u>	<u>( 0)</u>
	<u>(1,825,000)</u>	<u>(2,730,000)</u>
Long-term certificate debt .....	44,555,000	47,720,000
Plus: unamortized debt premium .....	868,729	1,040,103
Less: deferred amount on advance refunding .....	(2,398,465)	(2,910,486)
unamortized debt discount.....	<u>(84,039)</u>	<u>(95,527)</u>
Net long-term certificate debt.....	<u>42,941,225</u>	<u>45,754,090</u>
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.....	\$ 15,949,355	16,704,331

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	September 30,	
	2003	2002
\$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.....	11,030,000	11,435,000
\$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.....	2,733,000	2,827,000
\$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.....	<u>8,515,000</u>	<u>8,790,000</u>
Total notes payable.....	<u>38,227,355</u>	<u>39,756,331</u>
Less: current maturities:		
State Revolving Fund Loan.....	(779,103)	(754,976)
FMPA Pooled loans.....	<u>(814,000)</u>	<u>(680,000)</u>
	<u>(1,593,103)</u>	<u>(1,434,976)</u>
Long-term portion of note payable.....	<u>36,634,252</u>	<u>38,321,355</u>
Total long-term debt, net.....	<u>\$ 79,575,477</u>	<u>84,075,445</u>

A summary of borrowings and debt service activity for the year ended September 30, 2003 is as follows:

	Beginning of Year	Borrowings	Maturities / Redemptions	End of Year
Utilities revenue certificates.....	\$ 50,450,000	0	(4,070,000)	46,380,000
Notes payable.....	<u>39,756,331</u>	<u>0</u>	<u>(1,528,976)</u>	<u>38,227,355</u>
Total outstanding debt.....	<u>\$ 90,206,331</u>	<u>0</u>	<u>(5,598,976)</u>	<u>84,607,355</u>

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

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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.

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

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)  
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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.

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, 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 .....	\$ 5,036,462	1,278,718	1,281,458	7,596,638
Thereafter.....	\$ 38,238,980	14,065,903	19,886,839	72,191,722

**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, 2003:

1978 Refunding:	
Series 1965--4.2% to 4.25% due through 2004 .....	\$ 185,000
Series 1975--3.75% to 6.2% due through 2004 .....	200,000
Series 1975A--5.0% to 6.6% due through 2005 .....	940,000
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, 2003 and 2002 totaled \$2,706,427 and \$2,509,729, respectively. The balances due to the City at September 30, 2003 and 2002, totaled \$260,257 and \$249,605, respectively.



NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)  
 SEPTEMBER 30, 2003 AND 2002  
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
 NEW SMYRNA BEACH, FLORIDA

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**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, 2003, 2002, and 2001, as follows: \$283,041, \$299,683, and \$364,604, 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, 2003.....	7.39%
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.

**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

SEPTEMBER 30, 2003 AND 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

NEW SMYRNA BEACH, FLORIDA

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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 \$90,069, \$73,429, and \$42,230, for the years ended September 30, 2003, 2002, and 2001, 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, 2003, 2002 and 2001 the Utilities Commission's covered payroll was \$130,194, \$133,663 and \$127,296 respectively. For the years ended September 30, 2003, 2002 and 2001, employer contributions were \$16,169, \$17,549 and \$16,715, respectively. For the years ended September 30, 2003, 2002 and 2001, employee contributions to the plan were \$25,689, \$24,372 and \$19,640, 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 \$12,000 or 100% of gross annual compensation for plan years beginning in 2003.

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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)  
 SEPTEMBER 30, 2003 AND 2002  
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
 NEW SMYRNA BEACH, FLORIDA

**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	Telecommunications System	Total
Operating revenue .....	\$ 32,987,652	5,123,020	5,654,537	2,581,857	46,347,066
Depreciation/decommissioning .....	2,773,920	885,034	1,390,310	0	5,049,264
Operating income .....	3,674,466	1,123,581	1,052,089	689,727	6,539,863
Required payments to City .....	1,920,119	319,812	320,858	145,638	2,706,427
Income (loss) before contributions...	2,171,102	495,753	(12,565)	525,802	3,180,092
Capital contributions .....	960,529	1,668,156	1,845,472	0	4,474,157
Change in net assets .....	3,131,631	2,163,909	1,832,907	525,802	7,654,249
Utility plant acquisitions .....	1,325,575	1,460,851	1,645,251	0	4,431,677
Utility plant retirements .....	65,667	13,634	12,061	0	91,362
Revenue certificates payable .....	22,950,503	13,275,494	10,154,003	0	46,380,000
Notes payable .....	19,545,000	1,202,520	17,479,835	0	38,227,355
Net assets .....	25,827,603	20,940,879	19,573,741	525,802	66,868,025
Total assets .....	74,653,269	33,068,153	47,336,853	1,146,775	156,205,050

**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

**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**  
SEPTEMBER 30, 2003 AND 2002  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
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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 \$3.8 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 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 additional 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"), 01 Communications (formerly Volaris Communications) and MPI.net to provide dial-up analog and DSL internet access services to customers of the Utilities Commission. Pursuant to the agreements, the Utilities Commission is obligated to pay to the City 6% of the internet service gross revenue and is required to pay to 01 Communications for technical support, training, and for use of provided equipment, including all hardware, lines, maintenance, licenses, etc. During the fiscal years ended September 30, 2003 and 2002, the Commission paid \$262,584 and \$412,596, respectively, to 01 Communications and MPI.net (and its predecessor companies) for the ability to provide these services. The balance due 01 Communications and MPI.net as of September 30, 2003 and 2002 amounted to \$18,857 and \$33,456, 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, 2003, the Commission paid \$1,014,433 to Epicus for the ability to provide these services.

As of September 30, 2003, the Utilities Commission had additional unrecognized construction contract commitments of approximately \$11.9 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  
TELECOMMUNICATIONS 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, 2003

With Comparative Actual Amounts for the Fiscal Year Ended September 30, 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	Electric	Water
<b>Operating Revenue:</b>		
Sales.....	\$ 32,743,047	4,927,877
Other revenues.....	244,605	195,143
<b>Total operating revenue.....</b>	<b>32,987,652</b>	<b>5,123,020</b>
<b>Operating Expenses:</b>		
Purchased power and fuel expenses.....	16,569,259	0
Other production expenses.....	4,035,211	1,118,865
Transmission, distribution, and sewage collection and treatment.....	1,486,640	451,335
Customer accounting.....	387,282	171,455
Administrative and general.....	2,140,755	1,052,938
Required payments to City of New Smyrna Beach.....	1,920,119	319,812
Depreciation and decommissioning.....	2,773,920	885,034
<b>Total operating expenses.....</b>	<b>29,313,186</b>	<b>3,999,439</b>
<b>Operating income.....</b>	<b>3,674,466</b>	<b>1,123,581</b>
<b>Non-operating Revenue (Expenses):</b>		
Interest earnings.....	259,576	65,141
Other income.....	280,382	40,361
Interest and debt expense.....	(1,526,175)	(725,091)
Other expenses.....	(507,324)	(8,389)
Gain (loss) on disposal of assets.....	(9,823)	150
<b>Total nonoperating revenue (expenses).....</b>	<b>(1,503,364)</b>	<b>(627,828)</b>
<b>Income (loss) before contributions .....</b>	<b>2,171,102</b>	<b>495,753</b>
<b>Capital contributions .....</b>	<b>960,529</b>	<b>1,668,156</b>
<b>Change in net assets.....</b>	<b>3,131,631</b>	<b>2,163,909</b>
<b>Net assets, beginning of year .....</b>	<b>22,695,972</b>	<b>18,776,970</b>
<b>Net assets, end of year .....</b>	<b>\$ 25,827,603</b>	<b>20,940,879</b>



## Schedule 1

Wastewater	Telecommunications	Totals	
		2003	2002
5,543,949	2,543,994	45,758,867	39,966,040
110,588	37,863	588,199	646,185
<u>5,654,537</u>	<u>2,581,857</u>	<u>46,347,066</u>	<u>40,612,225</u>
0	0	16,569,259	13,652,608
0	1,277,017	6,431,093	6,038,839
1,813,872	0	3,751,847	3,782,641
155,287	282,397	996,421	821,128
922,121	187,078	4,302,892	3,385,868
320,858	145,638	2,706,427	2,509,729
<u>1,390,310</u>	<u>0</u>	<u>5,049,264</u>	<u>4,899,416</u>
<u>4,602,448</u>	<u>1,892,130</u>	<u>39,807,203</u>	<u>35,090,229</u>
<u>1,052,089</u>	<u>689,727</u>	<u>6,539,863</u>	<u>5,521,996</u>
33,737	0	358,454	461,153
15,141	642	336,526	433,355
(1,103,927)	0	(3,355,193)	(3,952,841)
(9,737)	(164,567)	(690,017)	(56,064)
<u>132</u>	<u>0</u>	<u>(9,541)</u>	<u>(58,114)</u>
<u>(1,064,654)</u>	<u>(163,925)</u>	<u>(3,359,771)</u>	<u>(3,172,511)</u>
(12,565)	525,802	3,180,092	2,349,485
<u>1,845,472</u>	<u>0</u>	<u>4,474,157</u>	<u>960,595</u>
1,832,907	525,802	7,654,249	3,310,080
<u>17,740,834</u>	<u>0</u>	<u>59,213,776</u>	<u>55,903,696</u>
<u><u>19,573,741</u></u>	<u><u>525,802</u></u>	<u><u>66,868,025</u></u>	<u><u>59,213,776</u></u>

**SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS -  
 BUDGET AND ACTUAL - ELECTRIC SYSTEM (NON-GAAP BUDGETARY BASIS)**  
 For the Fiscal Year Ended September 30, 2003  
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
 New Smyrna Beach, Florida

Schedule 2

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue and Receipts:</b>			
Direct Sales:			
Electric sales .....	\$ 30,314,312	32,743,047	2,428,735
Other revenues .....	307,270	244,605	(62,665)
Non-operating revenue (expenses):			
Interest earnings .....	150,000	259,576	109,576
Meter Deposit interest expense.....	0	(19,842)	(19,842)
Other revenues (expenses) .....	150,000	(207,100)	(357,100)
Capital contributions .....	0	960,529	960,529
	<u>30,921,582</u>	<u>33,980,815</u>	<u>3,059,233</u>
<b>Operating Expenses:</b>			
Purchased power and fuel expenses .....	13,735,458	16,569,259	(2,833,801)
Power production .....	5,279,651	4,035,211	1,244,440
Transmission and distribution .....	1,376,526	1,486,640	(110,114)
Customer accounting .....	407,539	387,282	20,257
Administrative and general .....	1,997,654	2,140,755	(143,101)
Required payments to the City of New Smyrna Beach .....	1,831,055	1,920,119	(89,064)
Decommissioning expense.....	115,493	145,136	(29,643)
	<u>24,743,376</u>	<u>26,684,402</u>	<u>(1,941,026)</u>
Net revenue and receipts .....	<u>6,178,206</u>	<u>7,296,413</u>	<u>1,118,207</u>
<b>Operating Transfers In (Out):</b>			
Sinking Fund - 1992 Certificates .....	(492,916)	0	492,916
Sinking Fund - 1993 Certificates .....	(886,316)	(67,412)	818,904
Sinking Fund - 1996 Certificates .....	(1,222,436)	(990,681)	231,755
Sinking Fund - 2002 Certificates .....	0	(1,418,785)	(1,418,785)
Debt Reduction Fund - required contribution .....	0	(108,351)	(108,351)
Sinking Fund - FMPA Pooled Loans .....	(1,659,493)	(1,020,382)	639,111
Renewal and Replacement Funds.....	(1,881,891)	(1,881,888)	3
Telecommunications for rebate program.....	60,000	60,000	0
Residential electric rebate program.....	(60,000)	(60,000)	0
Rate Stabilization Fund.....	(35,154)	(1,658,718)	(1,623,564)
	<u>(6,178,206)</u>	<u>(7,146,217)</u>	<u>(968,011)</u>
Budgeted net cash receipts .....	\$ <u>0</u>	150,196	<u>150,196</u>
<b>Reconciliation of Net Cash Receipts to Net Income (GAAP):</b>			
Principal portion of required Sinking Fund transfers .....		2,205,542	
Net transfers to Renewal and Replacement Fund .....		1,881,888	
Net transfers to Rate Stabilization Fund.....		1,658,718	
Net transfers to Debt Reduction Fund.....		108,351	
Gain (loss) on disposal of property and equipment .....		(9,823)	
Depreciation .....		(2,628,784)	
Amortization of debt expense and loss on refunding.....		(234,457)	
Change in net assets .....	\$	<u>3,131,631</u>	

**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, 2003

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
New Smyrna Beach, Florida

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue and Receipts:</b>			
<b>Direct Sales:</b>			
Water sales .....	\$ 4,819,600	4,927,877	108,277
Other revenues .....	201,500	195,143	(6,357)
<b>Non-operating revenue:</b>			
Interest earnings .....	100,000	65,141	(34,859)
Meter Deposit interest expense.....	0	(3,721)	(3,721)
Other revenues (expenses) .....	25,000	35,693	10,693
Capital contributions .....	467,781	1,668,156	1,200,375
	<u>5,613,881</u>	<u>6,888,289</u>	<u>1,274,408</u>
<b>Operating Expenses:</b>			
Water production .....	994,828	1,118,865	(124,037)
Transmission and distribution .....	468,606	451,335	17,271
Customer accounting .....	207,864	171,455	36,409
Administrative and general .....	1,043,876	1,052,938	(9,062)
Required payments to the City of New Smyrna Beach .....	298,266	319,812	(21,546)
	<u>3,013,440</u>	<u>3,114,405</u>	<u>(100,965)</u>
 Net revenue and receipts .....	 <u>2,600,441</u>	 <u>3,773,884</u>	 <u>1,173,443</u>
<b>Operating Transfers In (Out):</b>			
Sinking Fund - 1992 Certificates .....	(166,696)	0	166,696
Sinking Fund - 1993 Certificates .....	(573,136)	(43,592)	529,544
Sinking Fund - 1996 Certificates .....	(836,538)	(677,944)	158,594
Sinking Fund - 2002 Certificates .....	0	(790,249)	(790,249)
Debt Reduction Fund - required contribution .....	0	(60,351)	(60,351)
Sinking Fund - FMPA Pooled Loans .....	(97,335)	(61,314)	36,021
Renewal and Replacement Funds - required contribution ....	(440,157)	(440,160)	(3)
Renewal and Replacement Funds - restricted contribution ...	(467,781)	(1,668,156)	(1,200,375)
Rate Stabilization Fund.....	(18,798)	(87,150)	(68,352)
	<u>(2,600,441)</u>	<u>(3,828,916)</u>	<u>(1,228,475)</u>
 Budgeted net cash receipts .....	 <u>\$ 0</u>	 <u>(55,032)</u>	 <u>(55,032)</u>
<b>Reconciliation of Net Cash Receipts to Net Income (GAAP):</b>			
Principal portion of required Sinking Fund transfers .....		985,345	
Net transfers to Renewal and Replacement Fund .....		2,108,316	
Net transfers to Rate Stabilization Fund .....		87,150	
Net transfers to Debt Reduction Fund.....		60,351	
Gain (loss) on disposal of property and equipment .....		150	
Depreciation .....		(885,034)	
Amortization of debt expense and loss on refunding .....		(137,337)	
Change in net assets .....		<u>\$ 2,163,909</u>	

**SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS -  
 BUDGET AND ACTUAL - WASTEWATER SYSTEM (NON-GAAP BUDGETARY BASIS)**  
 For the Fiscal Year Ended September 30, 2003  
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
 New Smyrna Beach, Florida

Schedule 4

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue and Receipts:</b>			
<b>Direct Sales:</b>			
Pollution control charges .....	\$ 5,925,533	5,543,949	(381,584)
Other revenues .....	48,000	110,588	62,588
<b>Non-operating revenue:</b>			
Interest earnings .....	65,000	33,737	(31,263)
Meter Deposit interest expense.....	0	(1,240)	(1,240)
Other revenues (expenses) .....	20,000	6,644	(13,356)
Capital contributions .....	371,239	1,845,472	1,474,233
	<u>6,429,772</u>	<u>7,539,150</u>	<u>1,109,378</u>
<b>Operating Expenses:</b>			
Collection and treatment system .....	1,906,167	1,813,872	92,295
Customer accounting .....	183,294	155,287	28,007
Administrative and general .....	878,867	922,121	(43,254)
Required payments to the City of New Smyrna Beach .....	355,532	320,858	34,674
	<u>3,323,860</u>	<u>3,212,138</u>	<u>111,722</u>
 Net revenue and receipts .....	 <u>3,105,912</u>	 <u>4,327,012</u>	 <u>1,221,100</u>
<b>Operating Transfers In (Out):</b>			
Sinking Fund - 1992 Certificates .....	(395,428)	0	395,428
Sinking Fund - 1993 Certificates .....	(203,741)	(15,496)	188,245
Sinking Fund - 1996 Certificates .....	(520,547)	(421,860)	98,687
Sinking Fund - 2002 Certificates .....	0	(653,150)	(653,150)
Debt Reduction Fund - required contribution .....	0	(49,881)	(49,881)
Sinking Fund - FMPA Pooled Loans .....	(123,880)	(78,036)	45,844
Sinking Fund - State Revolving Fund Loan .....	(1,278,718)	(1,278,718)	0
Renewal and Replacement Fund - required contribution .....	(212,359)	(212,364)	(5)
Renewal and Replacement Fund - restricted contribution .....	(371,239)	(1,845,472)	(1,474,233)
Rate Stabilization Fund.....	0	224,760	224,760
	<u>(3,105,912)</u>	<u>(4,330,217)</u>	<u>(1,224,305)</u>
 Budgeted net cash receipts .....	 <u>\$ 0</u>	 <u>(3,205)</u>	 <u>(3,205)</u>
<b>Reconciliation of Net Cash Receipts to Net Income (GAAP):</b>			
Principal portion of required Sinking Fund transfers .....		1,474,579	
Net transfers to Renewal and Replacement Fund .....		2,057,836	
Net transfers from Rate Stabilization Fund .....		(224,760)	
Net transfers to Debt Reduction Fund .....		49,881	
Gain (loss) on disposal of property and equipment .....		132	
Depreciation .....		(1,390,310)	
Amortization of debt expense .....		(131,246)	
Change in net assets .....		<u>\$ 1,832,907</u>	

**SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS -** **Schedule 5**  
**BUDGET AND ACTUAL - TELECOMMUNICATIONS SYSTEM (NON-GAAP BUDGETARY BASIS)**  
For the Fiscal Year Ended September 30, 2003  
**UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA**  
New Smyrna Beach, Florida

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue and Receipts:</b>			
<b>Direct Sales:</b>			
Internet sales .....	\$ 746,400	2,543,994	1,797,594
Telephone sales .....	1,259,100	37,863	(1,221,237)
<b>Non-operating revenue:</b>			
Interest earnings .....	0	0	0
Other Revenues (expenses) .....	146,876	642	(146,234)
	<u>2,152,376</u>	<u>2,582,499</u>	<u>430,123</u>
<b>Operating Expenses:</b>			
Production expenses .....	1,534,668	1,277,017	257,651
Customer accounting .....	65,734	282,397	
Administrative and general .....	124,558	187,078	(62,520)
Required payments to the City of New Smyrna Beach .....	120,330	145,638	(25,308)
	<u>1,845,290</u>	<u>1,892,130</u>	<u>169,823</u>
Net revenue and receipts .....	<u>307,086</u>	<u>690,369</u>	<u>599,946</u>
<b>Operating Transfers In (Out):</b>			
Renewal and Replacement Fund - required contribution.....	(247,086)	(247,092)	(6)
Rate stabilization fund.....	0	(244,031)	(244,031)
Electric system rebate program.....	(60,000)	(60,000)	0
	<u>(307,086)</u>	<u>(551,123)</u>	<u>(244,037)</u>
Budgeted net cash receipts .....	<u>\$ 0</u>	<u>139,246</u>	<u>355,909</u>
<b>Reconciliation of Net Cash Receipts to Net Income (GAAP):</b>			
Principal portion of required Sinking Fund transfers .....		0	
Net transfers to Renewal and Replacement Fund .....		247,092	
Net transfers to Rate stabilization fund .....		244,031	
Net transfers to Electric system for rebate program.....		60,000	
Depreciation .....		0	
Amortization .....		(164,567)	
Change in net assets .....		<u>\$ 525,802</u>	

**SCHEDULE OF OPERATING EXPENSES-  
ELECTRIC SYSTEM**

**Schedule 6**

For the Fiscal Years Ended September 30, 2003 and 2002  
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
 New Smyrna Beach, Florida

	2003	2002
Operating Expenses:		
Purchased power and fuel:		
Nuclear fuel .....	\$ 774,956	569,520
Diesel fuel .....	106,143	67,407
Purchased power .....	15,688,160	13,015,681
	<u>16,569,259</u>	<u>13,652,608</u>
Power production:		
Nuclear power generation.....	3,276,912	4,129,520
Diesel power generation.....	268,245	293,811
System control and load dispatching .....	490,054	484,426
	<u>4,035,211</u>	<u>4,907,757</u>
Transmission and Distribution.....	1,486,640	1,423,256
Customer Accounting.....	387,282	445,467
Administrative and General.....	2,140,755	1,714,629
Required payments to the City of New Smyrna Beach .....	1,920,119	1,891,212
Depreciation and decommissioning .....	2,773,920	2,741,739
	<u>29,313,186</u>	<u>26,776,668</u>
Total operating expenses .....	\$ <u>29,313,186</u>	<u>26,776,668</u>



**SCHEDULE OF OPERATING EXPENSES-  
WATER SYSTEM**

Schedule 7

For the Fiscal Years Ended September 30, 2003 and 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
New Smyrna Beach, Florida

	2003	2002
<b>Operating Expenses:</b>		
<b>Water production:</b>		
Source of supply.....	\$ 395,034	346,352
Water treatment.....	723,831	784,530
	<u>1,118,865</u>	<u>1,130,882</u>
Transmission and Distribution.....	451,335	495,611
Customer Accounting.....	171,455	197,827
Administrative and General.....	1,052,938	864,307
Required payments to the City of New Smyrna Beach .....	319,812	301,359
Depreciation.....	885,034	832,380
	<u>3,999,439</u>	<u>3,822,366</u>
<b>Total operating expenses .....</b>	<b>\$ 3,999,439</b>	<b>3,822,366</b>

**SCHEDULE OF OPERATING EXPENSES-  
WASTEWATER SYSTEM**

**Schedule 8**

For the Fiscal Years Ended September 30, 2003 and 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	2003	2002
Operating Expenses:		
Collection and treatment system:		
Collection expenses.....	\$ 252,067	252,762
Pumping expenses.....	375,227	314,169
Treatment and disposal.....	1,186,578	1,296,843
	<u>1,813,872</u>	<u>1,863,774</u>
Customer Accounting.....	155,287	177,834
Administrative and General.....	922,121	806,932
Required payments to the City of New Smyrna Beach .....	320,858	317,158
Depreciation.....	1,390,310	1,325,297
	<u>4,602,448</u>	<u>4,490,995</u>
Total operating expenses .....	\$	

**SCHEDULE OF OPERATING EXPENSES-  
TELECOMMUNICATIONS SYSTEM**

**Schedule 9**

For the Fiscal Years Ended September 30, 2003 and 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	2003	2002
<b>Operating Expenses:</b>		
<b>Other production expenses:</b>		
Payments to Internet service provider.....	\$ 262,584	0
Payments to telephone service provider.....	1,014,433	0
Customer accounting.....	282,397	0
Administrative and General.....	187,078	0
Required payments to the City of New Smyrna Beach .....	145,638	0
<b>Total operating expenses .....</b>	<b>\$ 1,892,130</b>	<b>0</b>

**SCHEDULE OF INTEREST EARNINGS**

**Schedule 10**

For the Fiscal Years Ended September 30, 2003 and 2002

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	2003	2002
<b>Interest Earnings By Source:</b>		
From Investments:		
Sinking funds.....	\$ 35,744	49,130
Renewal and replacement funds.....	205,915	273,622
Customers' deposits.....	39,501	25,616
CR3 nuclear decommissioning funds.....	29,643	45,977
Other.....	47,651	66,808
<b>Total interest earnings .....</b>	<b><u>358,454</u></b>	<b><u>461,153</u></b>
<b>Interest Earnings By System:</b>		
Electric system.....	259,576	300,247
Water system .....	65,141	109,336
Wastewater system.....	33,737	51,570
<b>Total interest earnings.....</b>	<b><u>\$ 358,454</u></b>	<b><u>461,153</u></b>

**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**Revenue Certificates Payable**  
For the Fiscal Year Ended September 30, 2003  
**UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA**  
**NEW SMYRNA BEACH, FLORIDA**

Schedule 11

Payment Date	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 --		
	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
10/01/2003	-	4.800%	63,250	63,250	900,000	4.600%	150,238	1,050,238	-	2.750%	-	-	900,000	213,488	1,113,488
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%	-	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%	-	1,317,125	-	-	-	-	-	-	-	-	1,285,000	32,125	1,317,125
	<b>\$2,530,000</b>		<b>\$2,025,000</b>	<b>\$4,555,000</b>	<b>\$6,155,000</b>		<b>\$969,370</b>	<b>\$7,124,370</b>	<b>\$37,695,000</b>		<b>\$11,289,729</b>	<b>\$48,984,729</b>	<b>\$46,380,000</b>	<b>\$14,284,099</b>	<b>\$60,664,099</b>

**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**Florida Department of Environmental Protection State Revolving Fund Loan**  
**For the Fiscal Year Ended September 30, 2003**  
**UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA**  
**NEW SMYRNA BEACH, FLORIDA**

Schedule 12

Payment Date	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 --		
	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
02/15/2004	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
	<u>\$7,798,176</u>		<u>\$2,241,797</u>	<u>\$10,039,973</u>	<u>\$1,626,877</u>		<u>\$461,443</u>	<u>\$2,088,320</u>	<u>\$6,524,304</u>		<u>\$1,806,896</u>	<u>\$8,331,200</u>	<u>\$15,949,357</u>	<u>\$4,510,136</u>	<u>\$20,459,493</u>



**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**Note Payable - Florida Municipal Power Agency**  
 For the Fiscal Year Ended September 30, 2003  
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
 NEW SMYRNA BEACH, FLORIDA

Payment Period	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 --		
	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
09/30/2004	425,000	1.70%	176,545	601,545	-	1.70%	-	-	290,000	1.70%	135,504	425,504	715,000	312,049	1,027,049
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
	<u>\$11,030,000</u>		<u>\$1,720,276</u>	<u>\$12,750,276</u>	<u>\$2,733,000</u>		<u>\$457,657</u>	<u>\$3,190,657</u>	<u>\$8,515,000</u>		<u>\$1,397,810</u>	<u>\$9,912,810</u>	<u>\$22,278,000</u>	<u>\$3,575,743</u>	<u>\$25,853,743</u>

## ***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
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
2003	\$ 43,861,954	23,000,352	3,751,847	996,421	4,302,892	2,706,427

Table I

Expenses		Non-operating Expenses			
Depreciation and Decommissioning	Total Operating Expense	Interest and Debt Expense	Other Non-operating Expense	Loss on disposal of assets	Total Non-operating Expenses
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
5,049,264	39,807,203	3,355,193	690,017	9,541	4,054,751

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

<u>Operating Revenues</u>					
Fiscal Year	Total Revenues	Electric System	Water System	Wastewater System	Telecommunications System
1994	\$ 33,264,310	24,352,192	3,923,279	3,172,812	-
1995	\$ 41,208,889	25,612,207	3,972,005	3,551,240	-
1996	\$ 36,439,421	25,872,665	4,145,975	3,744,450	-
1997	\$ 35,820,675	24,901,225	4,187,748	3,758,499	-
1998	\$ 36,105,091	24,699,025	4,365,734	3,849,022	-
1999	\$ 36,717,793	24,066,446	4,552,710	3,933,025	-
2000	\$ 43,664,295	31,967,742	4,576,099	4,876,066	-
2001	\$ 45,246,272	33,114,680	4,736,997	4,863,710	-
2002	\$ 42,467,328	29,997,004	4,983,226	5,631,995	-
2003	\$ 51,516,203	32,987,652	5,123,020	5,654,537	2,581,857

**Table II**

**Non-operating Revenues**

Total Operating Revenue	Interest Earnings	Other Income	Capital Contributions	Total Non-operating Revenue
31,448,283	495,971	277,769	1,042,287	1,816,027
33,135,452	762,206	355,693	6,955,538	8,073,437
33,763,090	824,645	252,121	1,599,565	2,676,331
32,847,472	898,260	199,327	1,875,616	2,973,203
32,913,781	1,082,325	353,946	1,755,039	3,191,310
32,552,181	1,006,728	286,029	2,872,855	4,165,612
41,419,907	1,114,573	356,616	773,199	2,244,388
42,715,387	905,244	440,007	1,185,634	2,530,885
40,612,225	461,153	433,355	960,595	1,855,103
46,347,066	358,454	336,526	4,474,157	5,169,137



**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)
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%
2003	20,595 (5)	N/A	4.9%	4,829	95%

- (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)**  
**LAST TEN FISCAL YEARS**  
 September 30,  
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
 NEW SMYRNA BEACH, FLORIDA

**Table IV**

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)
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
2003	\$4,777	\$87,616	\$752,958 (6)	\$2,090,052

(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 occurred 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, 2003  
 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
<b>Comprehensive General Liability:</b> Coregis	PK FL 106449520302	10/01/2003 10/01/2004	Combined bodily injury and property damage	\$5,000,000 with \$ -0- deductible (statutory limits)
<b>Business Auto:</b> Coregis	PK FL 106449520302	10/01/2003 10/01/2004	Liability Comprehensive Collision No fault	\$1,000,000 bodily injury and property combined Actual cash value less \$250 deductible Actual cash value less \$500 deductible Statutory
<b>Business Property:</b> Coregis	PK FL 106449520302	10/01/2003 10/01/2004	Buildings and contents Valuable papers/records Contractors equipment Computer equipment	\$18,850,122 with \$10,000 deductible (agreed value) \$100,000 with \$250 deductible \$952,793 with \$1,000 deductible \$155,000 with \$1,000 deductible
<b>Crime:</b> Coregis	PK FL 106449520302	10/01/2003 10/01/2004	Forgery or Alteration Theft, Destruction (inside) Theft, Destruction (outside) Employee Dishonesty	\$100,000 aggregate, \$1,000 deductible \$70,000 with \$1,000 deductible \$70,000 with \$1,000 deductible \$100,000 with \$1,000 deductible
<b>Boiler and Machinery:</b> Travelers Property Casualty	M5J-BM21-993x9275-TIL-03	10/01/2003 10/01/2004	Breakdown due to accident	\$50,000,000 with \$10,000 deductible
<b>Flood Insurance:</b> Omaha Property Casualty	30097212202003	09/02/2003 09/02/2004	Building Contents Deductible	\$500,000 \$500,000 \$5,000
<b>Nuclear Energy Damage:</b> American Nuclear Insurance and Nuclear Electric Insurance, Ltd. 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)	P00-081 X00-015 NF195 NS347 N35 NW579	04/01/2003 04/01/2004 04/01/2003 04/01/2004 04/01/2003 04/01/2004 04/01/2003 04/01/2004	Primary property Excess property (Excess of \$500 million) Primary liability Suppliers and transporters liability Secondary financial protection Master Workers Torts	\$500 million \$1.100 billion \$200 million \$200 million \$9.514 billion with \$200 million deductible \$200 million aggregate
<b>Public Official/Employee Liability:</b> Coregis Insurance Organizations	PK FL 106449520302	10/01/2003 10/01/2004	Liability	\$1,000,000 Retentions-\$10,000 per loss
<b>Workers' Compensation:</b> Preferred Governmental Insurance Trust	(24,102)	10/01/2003 10/01/2004	Statutory coverage Employer's liability	Statutory \$100,000
<b>Pollution Liability:</b> Florida Petroleum Liability Insurance Mid-Continent Group Coregis	04TO00010729 PK FL 106449520302	07/10/2003 07/10/2004 10/01/2003 10/01/2004	Liability - fuel spillage Liability	\$1,000,000 / \$2,000,000 aggregate \$10,000 deductible \$1,000,000 aggregate \$25,000 deductible

TEN LARGEST ELECTRIC CUSTOMERS

September 30, 2003

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

Table VI

	Kilowatt Hour Sales		Revenues Billed	
	(kWh) (000's)	Percent of Total	Amount	Percent of Total
1. Bert Fish Medical Center.....	7,787	2.10%	\$594,416	1.87%
2. Utilities Commission (wastewater plant) .....	4,357	1.18%	333,013	1.05%
3. Reddy Ice.....	3,233	0.87%	252,581	0.79%
4. Publix Food Store (#2019100).....	3,180	0.86%	250,040	0.79%
5. Winn Dixie (#2304).....	3,035	0.82%	229,423	0.72%
6. Publix Food Store (#2033500).....	2,839	0.77%	215,955	0.68%
7. Caraustar Industrial & Consumer Prd.....	2,614	0.71%	171,686	0.54%
8. Wal-Mart Stores.....	2,407	0.65%	181,009	0.57%
9. Board of Public Instruction (NSB Middle School).....	2,361	0.64%	200,761	0.63%
10. KMart #7447 .....	2,290	0.62%	174,959	0.55%
Totals.....	<u>34,103</u>	<u>9.22%</u>	<u>\$2,603,843</u>	<u>8.19%</u>

**TEN LARGEST WATER CUSTOMERS**

September 30, 2003

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

**Table VII**

	Consumption		Revenues Billed	
	Gallons (000's)	Percent of Total	Amount	Percent of Total
1. Reddy Ice .....	21,353	1.45%	\$57,022	1.10%
2. Board of Public Instruction.....	15,659	1.06%	42,953	0.83%
3. Bert Fish Medical Center.....	14,633	0.99%	27,184	0.52%
4. Sea Woods Homeowners Association.....	13,953	0.95%	38,477	0.74%
5. Errol by the Sea Condominium Association.....	12,991	0.88%	27,165	0.52%
6. Rinker Materials .....	11,696	0.79%	28,598	0.55%
7. Federal Housing Authority.....	10,852	0.74%	32,594	0.63%
8. Islander Beach Lodge.....	9,096	0.62%	13,807	0.27%
9. Pelican Association .....	8,932	0.61%	15,093	0.29%
10. Oceanview Nursing Home .....	7,935	0.54%	14,218	0.27%
Totals.....	<u>127,100</u>	<u>8.63%</u>	<u>\$297,111</u>	<u>5.72%</u>

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

**Table VIII**

	2003	2002	2001	2000	1999
<b>Gross Revenue Per Certificate Resolution:</b>					
Operating revenues .....	\$ 46,347,066	40,612,225	42,715,387	41,419,907	32,552,181
Interest and other income (excluding construction fund interest earnings) .....	694,980	894,508	1,345,251	1,471,189	1,292,757
Capital contributions .....	4,474,157	960,595	1,185,634	773,198	1,774,292
Assessment collections .....	0	0	0	0	3,408
<b>Gross revenue per certificate resolution .....</b>	<b>51,516,203</b>	<b>42,467,328</b>	<b>45,246,272</b>	<b>43,664,294</b>	<b>35,622,638</b>
<b>Expenses Per Certificate Resolution:</b>					
Operating expenses .....	39,807,203	35,090,229	37,049,738	36,247,872	28,339,261
Less: Depreciation expense .....	(4,904,128)	(4,737,946)	(4,360,451)	(3,656,949)	(3,502,707)
Required payments to the City .....	(2,706,427)	(2,509,729)	(2,625,008)	(2,214,486)	(2,016,471)
<b>Expenses per certificate resolution .....</b>	<b>32,196,648</b>	<b>27,842,554</b>	<b>30,064,279</b>	<b>30,376,437</b>	<b>22,820,083</b>
<b>Income available for debt service .....</b>	<b>\$ 19,319,555</b>	<b>14,624,774</b>	<b>15,181,993</b>	<b>13,287,857</b>	<b>12,802,555</b>
<b>Annual Debt Service Requirements:</b>					
Principal .....	\$ 4,070,000	2,705,000	2,560,000	2,460,000	2,350,000
Interest (less accrued interest) (1) .....	1,969,170	2,515,209	2,747,236	2,857,214	2,948,209
<b>Annual debt service requirements .....</b>	<b>\$ 6,039,170</b>	<b>5,220,209</b>	<b>5,307,236</b>	<b>5,317,214</b>	<b>5,298,209</b>
<b>Coverage ratio (Times) .....</b>	<b>3.20</b>	<b>2.80</b>	<b>2.86</b>	<b>2.50</b>	<b>2.42</b>
	1998	1997	1996	1995	1994
<b>Gross Revenue Per Certificate Resolution:</b>					
Operating revenues .....	\$ 32,913,781	32,847,472	33,763,090	33,135,452	31,448,283
Interest and other income (excluding construction fund interest earnings) .....	1,436,271	1,097,587	1,076,766	1,117,899	773,740
Capital contributions .....	1,755,040	1,785,424	1,383,945	798,090	727,054
Assessment collections .....	40,878	559	1,331	3,106	(301)
<b>Gross revenue per certificate resolution .....</b>	<b>36,145,970</b>	<b>35,731,042</b>	<b>36,225,132</b>	<b>35,054,547</b>	<b>32,948,776</b>
<b>Expenses Per Certificate Resolution:</b>					
Operating expenses .....	29,087,843	28,714,644	29,315,783	29,765,030	28,412,011
Less: Depreciation expense .....	(3,490,562)	(3,450,710)	(3,386,306)	(3,337,966)	(3,179,382)
Required payments to the City .....	(2,018,552)	(1,949,594)	(2,076,104)	(1,945,294)	(1,922,423)
<b>Expenses per certificate resolution .....</b>	<b>23,578,729</b>	<b>23,314,340</b>	<b>23,853,373</b>	<b>24,481,770</b>	<b>23,310,206</b>
<b>Income available for debt service .....</b>	<b>\$ 12,567,241</b>	<b>12,416,702</b>	<b>12,371,759</b>	<b>10,572,777</b>	<b>9,638,570</b>
<b>Annual Debt Service Requirements:</b>					
Principal .....	\$ 2,255,000	1,945,000	1,855,000	1,680,000	1,595,000
Interest (less accrued interest) (1) .....	3,054,404	3,138,448	3,687,574	3,841,252	3,923,144
<b>Annual debt service requirements .....</b>	<b>\$ 5,309,404</b>	<b>5,083,448</b>	<b>5,542,574</b>	<b>5,521,252</b>	<b>5,518,144</b>
<b>Coverage ratio (Times) .....</b>	<b>2.37</b>	<b>2.44</b>	<b>2.23</b>	<b>1.91</b>	<b>-1.75</b>

(1) Interest expense for the fiscal year ended September 30, 2002 is stated net of \$152,218 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

Fiscal Year	ELECTRIC SYSTEM				WATER SYSTEM				WASTEWATER SYSTEM			
	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)
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
2003	386,385,433	5.2	100,200	14.0	7.20	4.83	3.40	1,763	6.45	3.83	2.30	1,357

(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**

Table X

September 30, 2003

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

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
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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
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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
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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, 2003 was \$8.82 per 1,000 kWh through May 31, 2003. Beginning June 1, 2003 the adjustment was increased to \$12.89 per kWh, which remains in effect as of October 1, 2003.

- (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

Table XI

September 30, 2003  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
NEW SMYRNA BEACH, FLORIDA

	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
0-2000	2,001-6,000	6,001 - 14,000	14,001 and over

All meter sizes

Billing Account	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
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Multi-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
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UTILITY RATE SCHEDULE -  
WATER SERVICE - (Continued)

Table XI

September 30, 2003

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

Irrigation Service:

Gallage 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 + Gallage Charge
	1"	22.15	2.25	1.90	\$ 26.30 + Gallage Charge
	1 1/2"	44.25	4.50	1.90	\$ 50.65 + Gallage Charge
	2"	70.80	7.20	1.90	\$ 79.90 + Gallage Charge
	3"	141.60	14.40	1.90	\$ 157.90 + Gallage Charge
	4"	221.25	22.50	1.90	\$ 245.65 + Gallage Charge
	6"	442.50	45.00	1.90	\$ 489.40 + Gallage Charge
	8"	708.00	72.00	1.90	\$ 781.90 + Gallage Charge

Gallage 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, 2003  
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	\$2.30	\$2.75

Monthly Rate Blocks (Gallons)

	Block 1	Block 2
All meter sizes	0-2,000	2,001 and 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, 2003  
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA  
NEW SMYRNA BEACH, FLORIDA

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.

**UTILITY RATE SCHEDULE -  
TELECOMMUNICATIONS SERVICE**

September 30, 2003

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

Table XIII

Local Exchange Telephone Service:

Residential Service Plans - Monthly Rate

Home Plan	\$24.95 to \$34.95
City Plan	\$32.95 to \$34.95
America Plan	\$49.95 to \$59.95
World Plan	\$58.95 to \$69.95

Business Service Plans - Monthly Rate

Silver Package	\$27.95 to \$34.95
Gold Package	\$29.95 to \$36.95
Platinum Package	\$39.95 to \$46.95

Measured Rate Charges:

Residential Intrastate Long Distance	\$0.69 per minute
Business Intrastate Long Distance	\$0.69 per minute
Residential State-to-State Long Distance	\$0.59 per minute
Business State-to-State Long Distance	\$0.45 per minute
Extended Area Usage Charge (Gold Package only)	\$0.06 per minute

Internet Service:

Economy Internet Dial-up	Monthly Rate	\$6.95
Standard Unlimited Internet Dial-up	Monthly Rate	\$9.95
Deluxe Unlimited Internet Dial-up	Monthly Rate	\$12.95

DSL Internet Service:

ADSL 128/384	Monthly Rate	\$49.95
ADSL 384/768	Monthly Rate	\$69.95
IDSL 128/128/	Monthly Rate	\$149.00
SDSL 192/192	Monthly Rate	\$149.00
SDSL 384/384	Monthly Rate	\$184.00
SDSL 768/768	Monthly Rate	\$279.00
SDSL 1.1/1.1	Monthly Rate	\$359.00
Reach T-1 192/192	Monthly Rate	\$409.00
Reach T-1 384/384	Monthly Rate	\$539.00
Reach T-1 768/768	Monthly Rate	\$669.00
Reach T-1 1.1/1.1	Monthly Rate	\$789.00

Broadband Wireless Internet:

128 kbps/128 kbps	Monthly Rate	\$22.95
384 kbps/128 kbps	Monthly Rate	\$29.95
512 kbps/128 kbps	Monthly Rate	\$39.95
768 kbps/128 kbps	Monthly Rate	\$49.95
1.1 Mbps/128 kbps	Monthly Rate	\$69.95

(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, 2003, and have issued our report thereon dated November 10, 2003. 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.

To the Honorable Chairman and Commissioners  
Utilities Commission, City of New Smyrna Beach, Florida  
New Smyrna Beach, Florida  
Page 2 of 2

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.

*Brett Milliken & Co., P.A.*

November 10, 2003



**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, 2003, and have issued our report thereon dated November 10, 2003.

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 10, 2003, 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

To the Honorable Chairman and Commissioners  
Utilities Commission, City of New Smyrna Beach, Florida  
New Smyrna Beach, Florida  
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financial 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 no matters required to be disclosed.

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, 2003. 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, 2003. 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 10, 2003