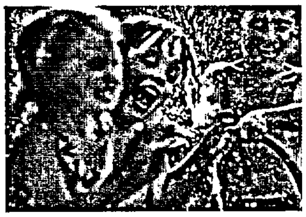
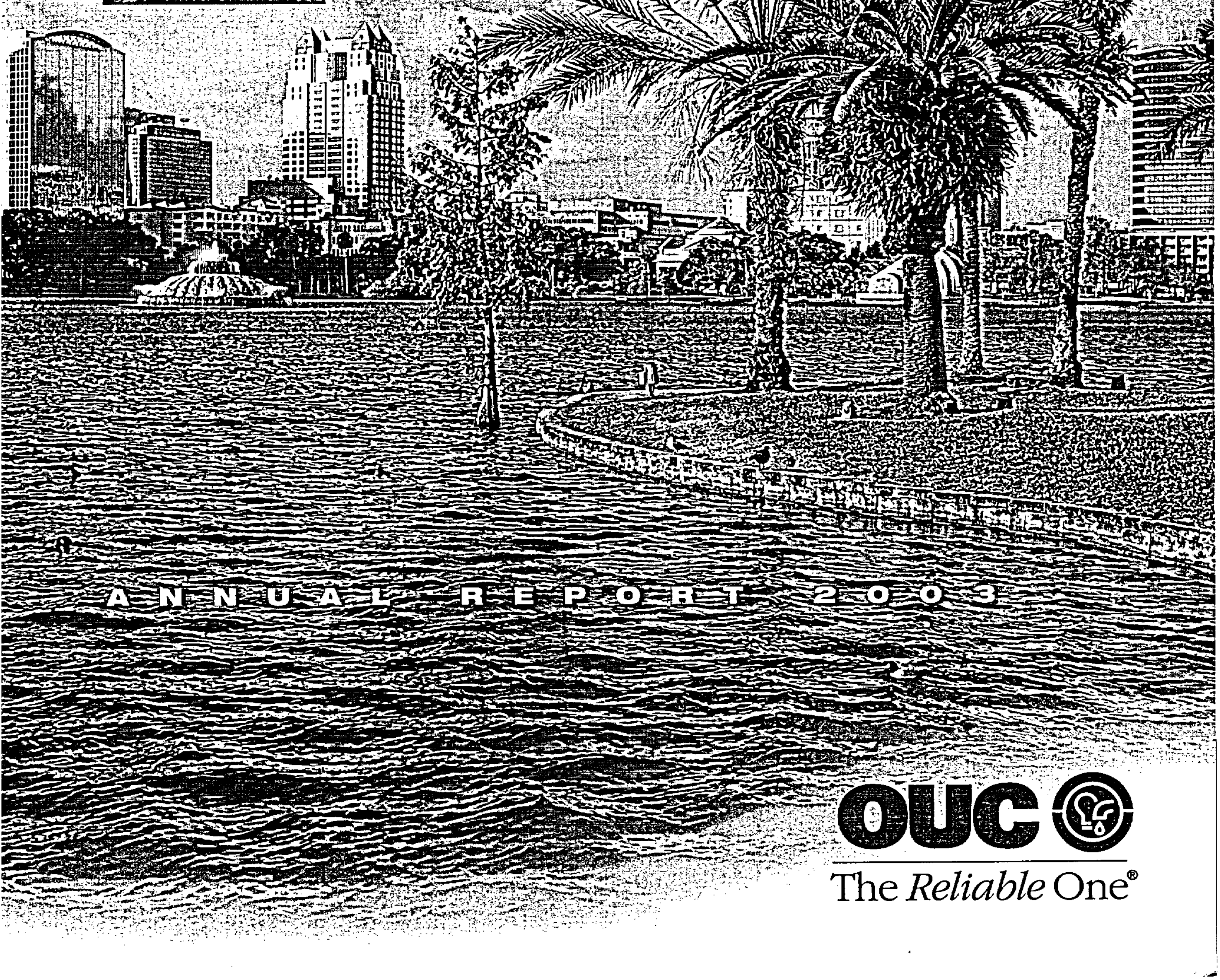
Creating The Right Environment





ANNUAL REPORT 2003

OUC

The *Reliable* One®

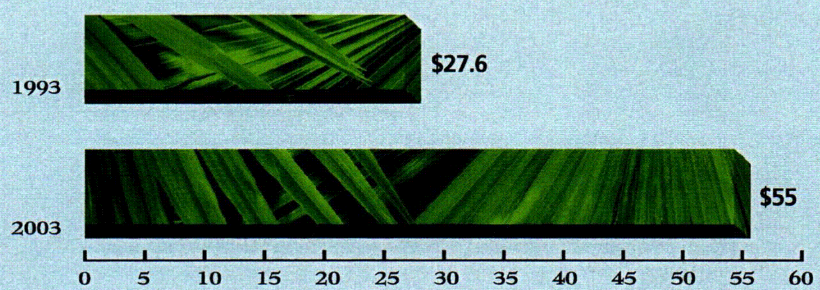
Financial & Statistical Highlights

	September 30 2003	2002	% Increase (Decrease)
COMBINED FINANCIAL HIGHLIGHTS (Dollars in Thousands)			
Total operating revenues	$ 559,713	$ 495,741	12.9%
Total operating expenses	443,007	406,215	9.1%
Interest and other income	12,906	19,506	-33.8%
Interest and other expenses	74,595	75,440	-1.1%
Income before contributions	55,017	47,025	17.0%
Annual dividend payment	32,991	28,200	17.0%
Utility plant (net book value)	1,704,987	1,606,748	6.1%
Total assets	2,486,249	2,399,227	3.6%
Long-term debt, net	1,260,061	1,281,333	-1.7%
Net assets	690,141	657,767	4.9%
Senior bond ratings (1)	AA, Aa1, AA	AA, Aa1, AA	
Debt service coverage:			
Senior lien	3.50	3.28	6.7%
Junior lien	4.72	4.41	7.0%
Combined debt	2.13	2.08	2.4%
ELECTRIC FINANCIAL HIGHLIGHTS			
Operating revenues	$ 513,409	$ 453,887	13.1%
Fuel and purchased power	221,193	189,967	16.4%
Operating expenses excluding fuel	182,991	179,341	2.0%
WATER FINANCIAL HIGHLIGHTS			
Operating revenues	$ 46,304	$ 41,854	10.6%
Operating expenses	38,823	36,907	5.2%
ELECTRIC STATISTICAL HIGHLIGHTS			
Total sales (MWH)	7,387,943	7,030,393	5.1%
Total retail sales (MWH)	5,095,535	4,879,617	4.4%
Sales for resales (MWH)	2,292,408	2,150,776	6.6%
Total active services (2)	156,574	152,914	2.4%
Average annual residential use (KWH)	13,109	12,464	5.2%
Average residential revenue per KWH	8.60 ¢	8.07 ¢	6.6%
Heating degree days	714	457	56.2%
Cooling degree days	3,586	3,487	2.8%
Gross peak demand (MW)	1,079	1,058	2.0%
WATER STATISTICAL HIGHLIGHTS			
Total sales (in thousands of gallons)	27,444,905	28,517,537	-3.8%
Total active services	122,774	120,466	1.9%
Average annual residential usage (gallons)	141,000	151,000	-6.6%
Average residential revenue per 1000 gallons	$ 1.70	$ 1.57	8.3%
Rainfall (inches)	64.56	56.60	14.1%
Peak pumping (million gallons per day)	108	110	-1.8%

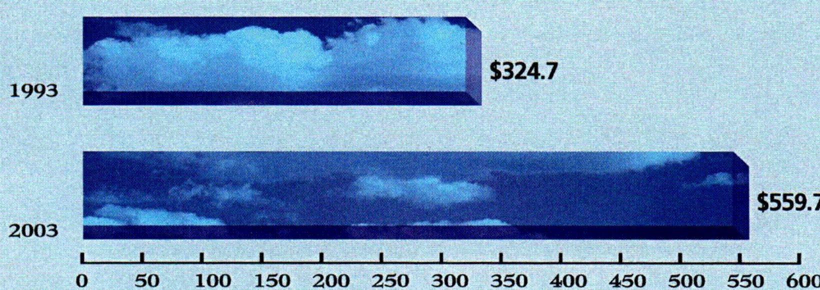
1. Bond rating agencies: Fitch Investors Service, Moody's Investors Service and Standard & Poor's, respectively.
2. Total active services represents all metered services exclusive of St. Cloud, Florida.

For more detailed statistical information, see OUC's 10-year Financial & Statistical Information Report.

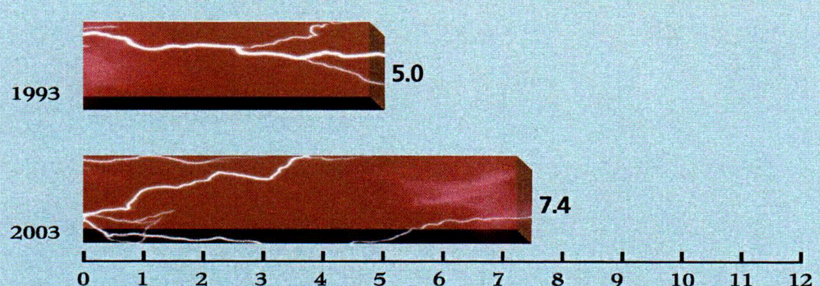
Income Before Contributions In Millions of Dollars



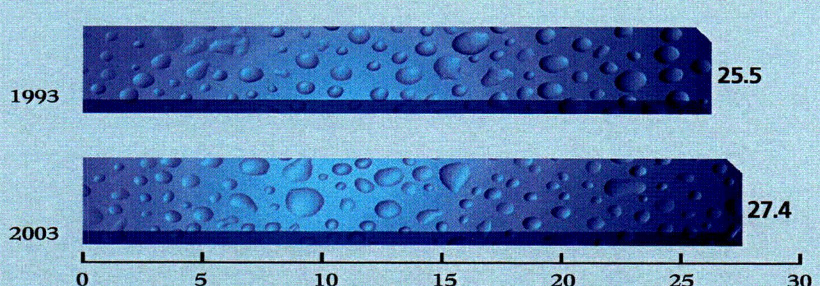
Operating Revenues In Millions of Dollars



Electric Sales In Millions of Megawatt Hours



Water Sales In Billions of Gallons



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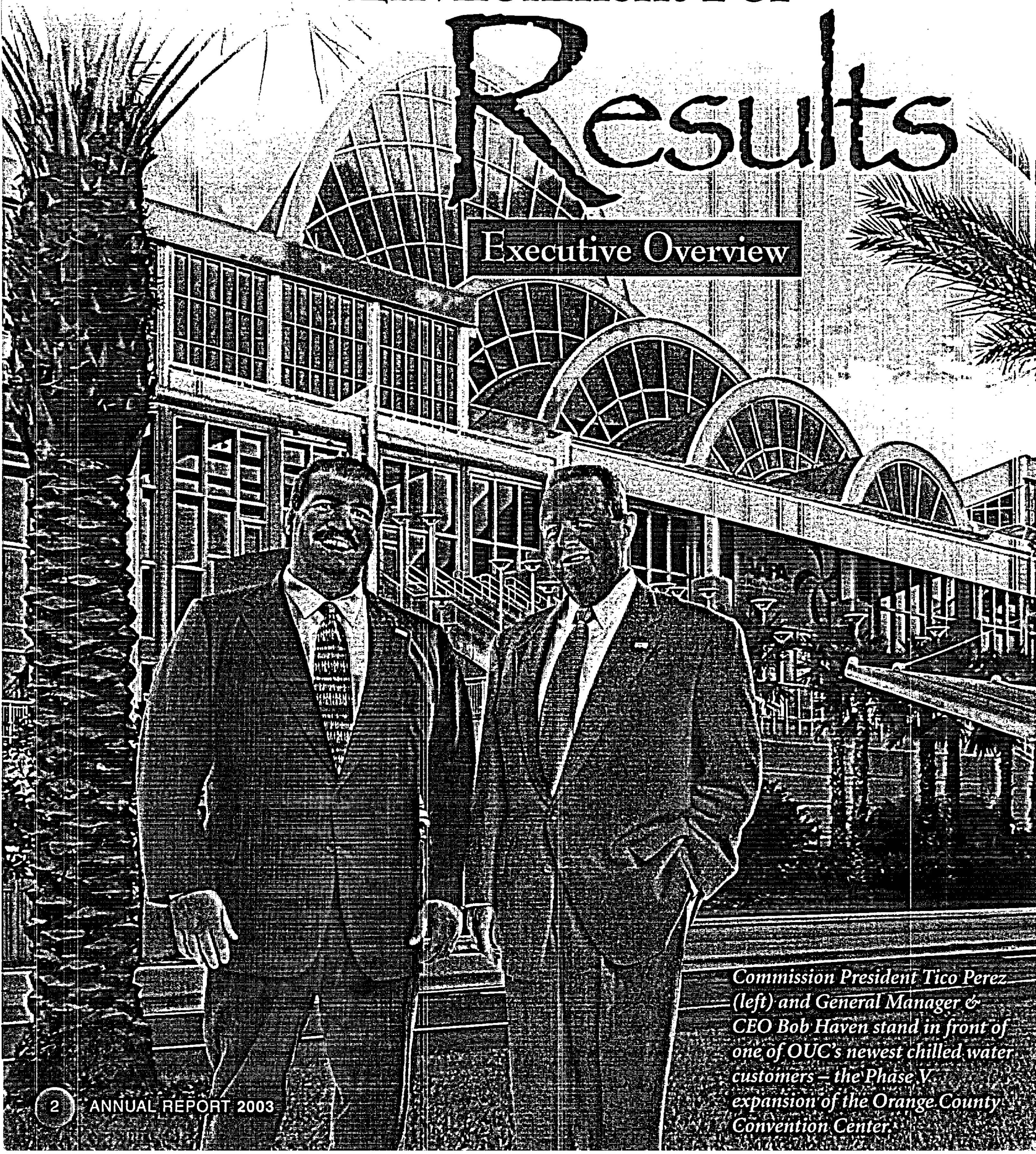
Creating The Right Environment For Results

Executive Overview



Commission President Tico Perez (left) and General Manager & CEO Bob Haven stand in front of one of OUC's newest chilled water customers – the Phase V expansion of the Orange County Convention Center.

Creating the right environment for results paid off well for OUC in 2003. We made a strong showing, both operationally and financially. We exceeded our net income projections, kept expenses down, improved efficiencies across the company and positioned ourselves well for continued success.

At the same time, we made strides in advantageous new directions with *OUCooling* and OUConvenient *Lighting*. Our hard-earned reputation as The *Reliable* One really helped open doors — very big doors — for these chilled water and commercial lighting divisions. One of our newest *OUCooling* customers, in fact, is the Phase V expansion of the Orange County Convention Center. OUC provides the nation's second-largest convention center with more than 16,000 tons of chilled water capacity.

OUC laid the groundwork many years ago for a chilled water district at the Convention Center site and is actively working to add customers to our system in the future. Our downtown Orlando chilled water loop is expanding rapidly, too, spurred by the addition of numerous new high-rise projects.

OUConvenient *Lighting* really took off in 2003 as OUC secured contracts with large residential and commercial properties in Orlando as well as major projects outside our traditional service territory, such as Reunion Resort & Club in Osceola County. Not only do developers like how easy the lights are to install and maintain, communities like Baldwin Park and Harmony want an attractive, unique product. As a result, our lighting product line includes some of the most attractive residential streetlights available, and the reaction from developers has been incredible.

Most important of all, we were able to maintain the high level of reliable service our customers expect. Our new 633-megawatt Stanton A combined-cycle unit went commercial in the fall, on time and under budget. The new plant is owned in partnership with the Southern Company. It incorporates the most environmentally advanced technology available and enables us to diversify our fuel mix while adding more flexibility to our generation portfolio of owned and purchased power.

Perhaps our proudest moment was being named the most reliable electric utility in the southeastern United States for the second year in a row. The award, given by PA Consulting Group, recognizes utilities for their superior service, restoration and responsiveness records. This award was a result of us building reliability into our system from design and maintenance standpoints and reflects the high level of commitment OUC places on providing a superior level of service to our customers.

OUC managed to thrive in 2003 even though we had to deal with a number of challenges, such as unfavorable weather and the state's overabundant wholesale power supply. We did this without raising rates for either electric or water customers. In fact, our rates are among the lowest in the state. That's a pretty good deal when you consider that we provide the state's highest level of reliability as well as great-tasting drinking water treated with a state-of-the-art ozone process.

In 2004, we see many opportunities for growth in both our Orlando and St. Cloud service territories. Our efforts will be geared toward providing the infrastructure necessary to facilitate our expanding customer base while offering the innovative products and services needed to ensure smart, efficient growth. On top of that, we plan to kick off a "green pricing" program that will allow our customers to invest in renewable energy resources.

We're doing all of this, in addition to watching expenses and maintaining our reputation as The *Reliable* One. Now that's creating the right environment for results.

Tico Perez, Esq.
Commission President

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

Revitalizing The Downtown Environment

OUCooling

OUCooling underwent another period of feverish construction and expansion last year. In downtown Orlando, our "district cooling" division now provides air-conditioning service to more than a dozen large commercial customers representing 2 million square feet of space combined.

With new high-rises breaking ground almost monthly, *OUCooling* staff are meeting regularly with developers to demonstrate the financial and operational benefits of off-site cooling systems.

We're particularly proud of how *OUCooling* played a key role in re-energizing downtown's west side, a traditionally low-income urban community. We extended our chilled water lines to the much-anticipated Hughes Square project, which includes the 150,000-square-foot Hughes Supply Inc. headquarters, 25,000 square feet of retail space and the 266-unit City View apartments.

The lead developer of Hughes Square, Bank of America Community Development Corporation, chose to outsource the production of chilled water to *OUCooling* because it wanted a more economical, trouble-free solution. By taking chilled water from us, the developer avoided the upfront capital costs associated with buying its own chillers. On top of that, the developer doesn't have to worry about any chiller-related operations and maintenance — or noisy A/C units.

By the end of fiscal 2003, *OUCooling* had many other new clients ready to tap into this innovative cooling solution. The Sanctuary Downtown off Lake Eola and the Eola Park Place Condos (formerly the Four Points Sheraton) have signed agreements, while Florida A&M University's new School of Law, the condominiums at 55 West and a new CNL office tower are all close to committing to *OUCooling*.

These additional customers are driving development of a North Chiller Plant in downtown Orlando, which eventually will be connected to our existing South Plant.

Outside of downtown, *OUCooling* brought online a mammoth 17.6-million-gallon chilled water tank — the largest such tank in the world — at the

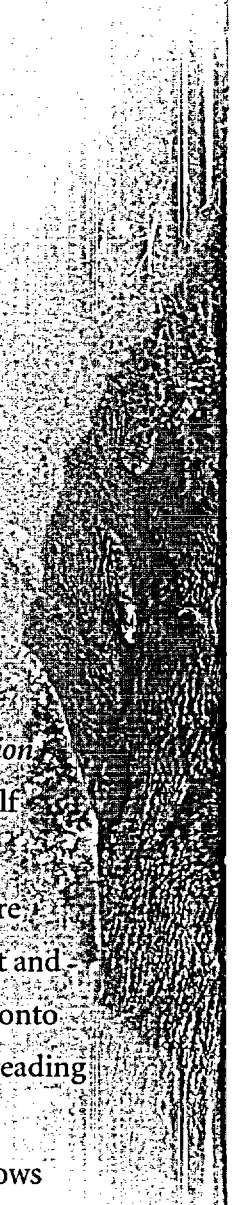
OUC energy auditor Sam Welch (right) discusses energy efficiency with Raygan Oliver, one of the first tenants at the new City View apartments on West Church Street in downtown Orlando.

newly expanded Orange County Convention Center. Working in tandem with 20 water chillers, this tank feeds a cooling loop that can handle more than 33,000 gallons of 38-degree water each minute, keeping conventioneers and a nearby Lockheed Martin facility cool and comfy.

A key factor in *OUCooling's* explosive growth has been the trend toward outsourcing. As the economy has tightened, building owners have explored innovative avenues for saving capital and improving profits. While these owners concentrate on their core competencies of building or leasing space, companies like *OUCooling* have taken over the costly and often time-consuming task of providing services such as chilled water.

A Competitive Business Environment

OUConvenient *Lighting*



OUConvenient *Lighting* pushed into uncharted territory last year, signing up a slate of new high-profile customers and installing more than 2,500 lights overall.

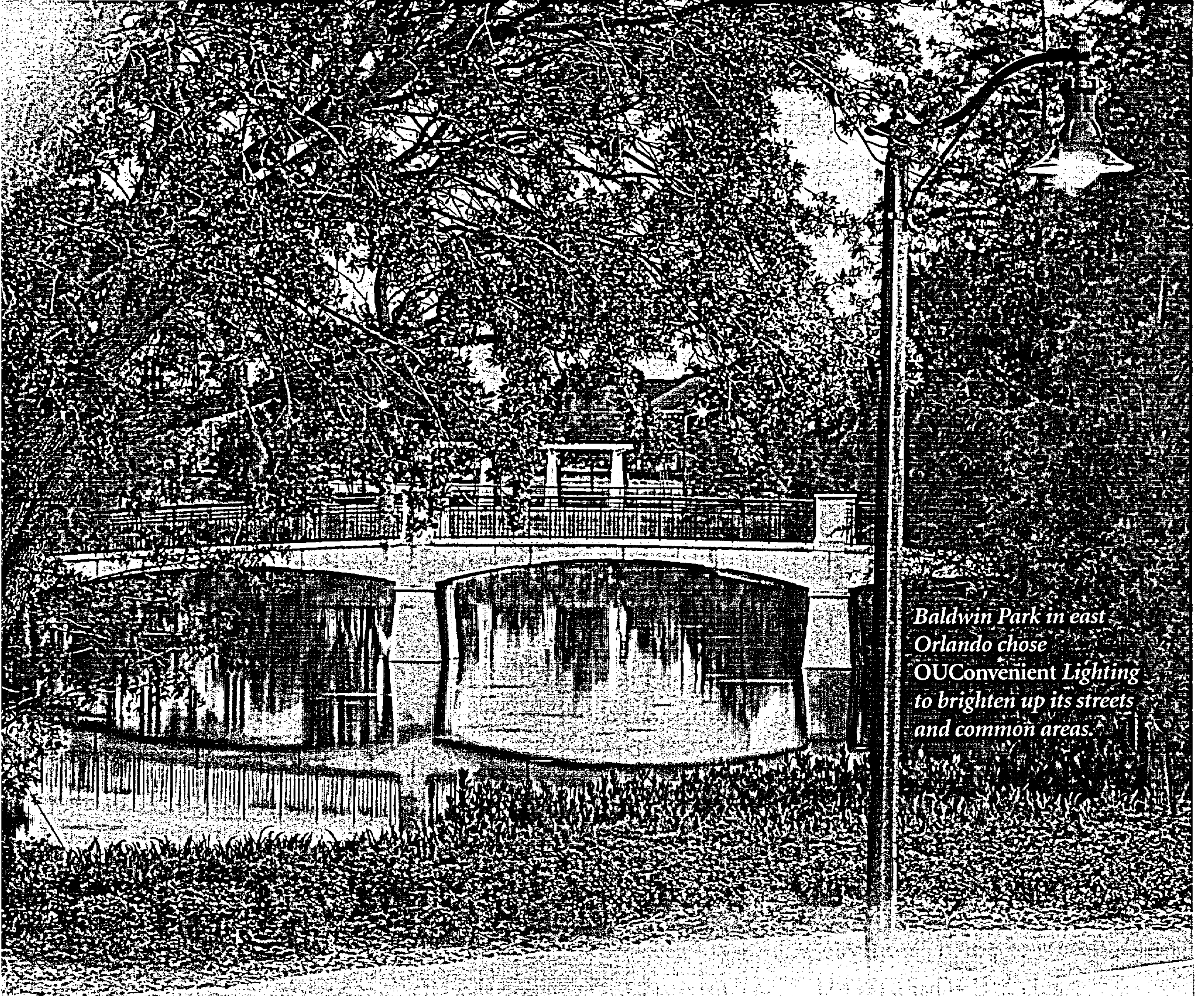
We entered into lighting agreements with several notable residential communities, including Baldwin Park in Orlando, Harmony in Osceola County and Reunion Resort & Club near Walt Disney World. At the same time, we negotiated new lighting contracts with shopping centers, office buildings, sports facilities and other commercial customers.

Our commercial lighting division — an increasingly competitive part of our business — represents a strong revenue-generating opportunity for OUC. Installing a few thousand new lights each year really adds up, with each light affording long-term maintenance revenues. And these revenues are sure to expand as OUC continues to sign contracts to install and maintain lighting in areas outside our traditional service territory.

Meanwhile, the number of customers seeking our indoor lighting expertise has grown tremendously, too. OUConvenient *Lighting* continued to work closely with commercial customers to retrofit their indoor lighting last year. By replacing older incandescent lighting with cooler, more energy-efficient fluorescent lighting, customers can decrease energy usage and realize significant savings.

In a separate initiative to improve efficiencies, our OUCustomer *Connection* completed the first half of a two-year project aimed at bringing more than 25,000 apartment and condominium meters onto an automated meter-reading system. This so-called "micronet" system allows OUC to take meter readings and perform service turn-ons and turn-offs without sending personnel into the field. Not only does this system save us money, it generates 100 percent accurate readings and delivers a wealth of historical account information to the desktops of our customer service representatives.

Also last year, a new interactive



Baldwin Park in east Orlando chose OUConvenient *Lighting to brighten up its streets and common areas.*

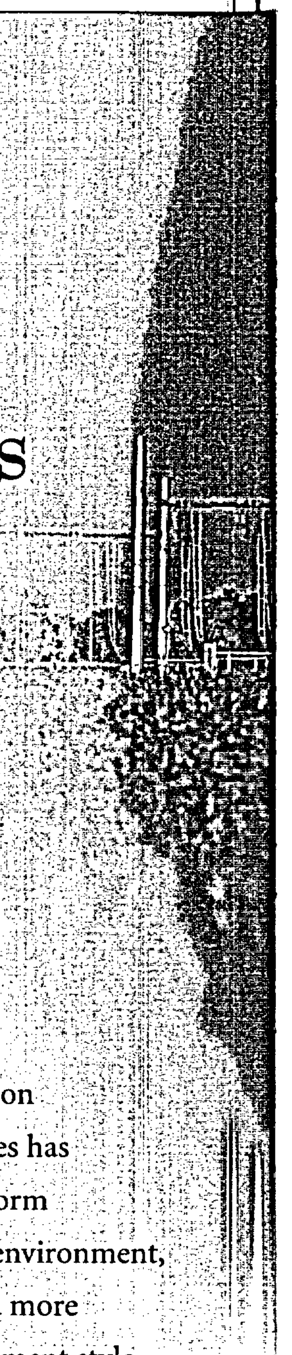
voice-response system helped our customer service team effectively manage a sizable jump in incoming calls. Our average monthly call volume, in fact, reached more than 35,000. Meanwhile, an improved system of managing collections helped us slash bad debt expense by more than 25 percent.

We are particularly proud of improvements we made last year to the way we work with developers. In years past, our Development Services division spent much of its time concentrating on day-to-day operations. But a renewed focus on service in 2003 gave the division a proactive set of tools and guidelines for improving the development experience. Among the changes: a new Developers Handbook that better guides how builders, contractors and property owners interface with the utility during the development cycle.

Across our entire OUCustomer *Connection*, we're focused on becoming more competitive — and helping customers do the same.

An Environment For Smart Decisions

Power Resources



Bringing a new generating unit online last year meant ensuring a continued supply of competitively priced electricity for our customers, well into the future. It also marked the successful completion of a three-part asset-restructuring plan in our Power Resources Business Unit.

Developed in partnership with Southern Company, the 633-megawatt Stanton Unit A features the most environmentally advanced technology available. The unit includes two natural gas-fired combustion turbines, two heat-recovery steam generators and a steam turbine. This "combined-cycle" configuration minimizes emissions and generates electricity 30 percent more efficiently than earlier technologies.

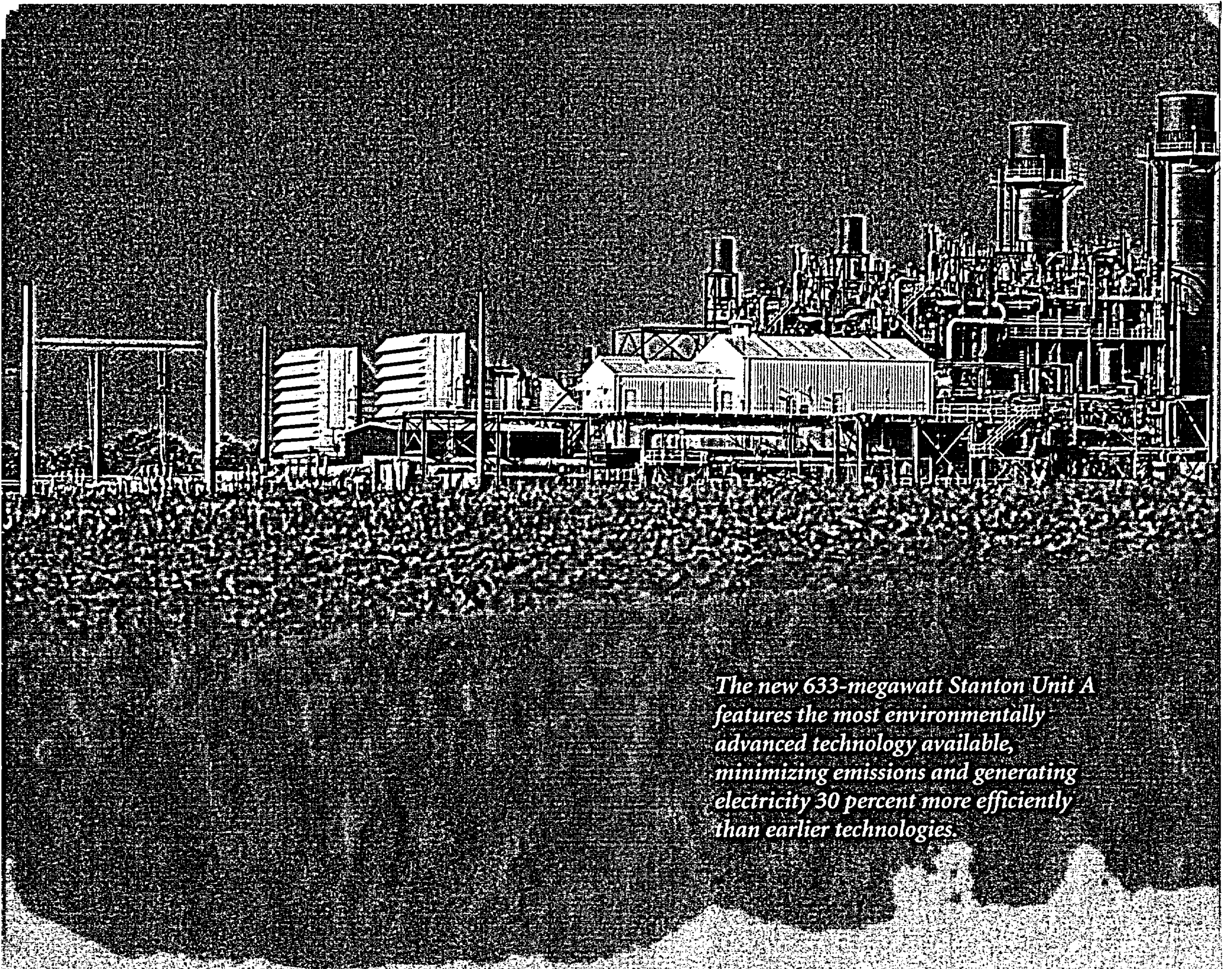
Stanton A comes on the heels of two other key pieces of our asset-restructuring plan: the sale of our oldest generating assets, the Indian River steam units, in 1999 and the formal institution of an Energy Risk Management Program a year later. This latter program saved our customers $2 million in fiscal 2003.

Combined with funding from our fuel-stabilization account, our risk management strategies helped us hold the line on retail electric rates last year while the state's major utilities passed along increases.

Meanwhile, the speculative wholesale power market of just a few years ago has given way to a period of fewer transactions and tight margins.

As utilities across Florida have installed new capacity to boost reserve margins from 15 to 20 percent, competition for short-term sales has increased. To perform effectively in this environment, we have adopted a more aggressive management style.

While we might be tempted to sit back and savor the success of our restructuring efforts, the reality of serving a growing customer base leaves little opportunity to relax. New generation will be needed again by 2008, so we are already moving into our next phase of planning. At the same time, we are continuing to modernize

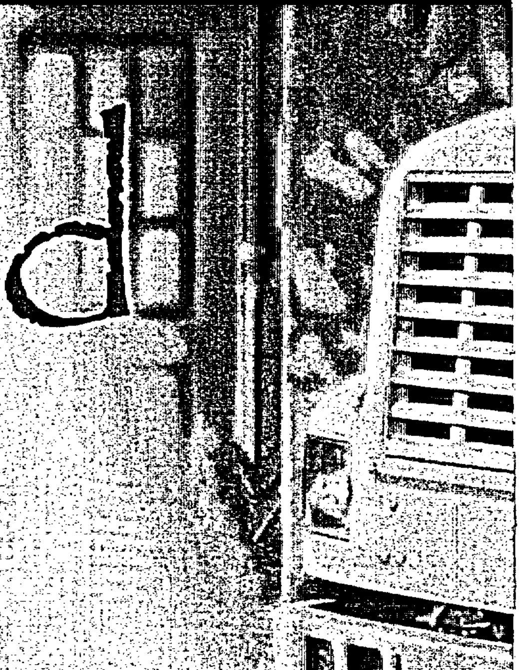


The new 633-megawatt Stanton Unit A features the most environmentally advanced technology available, minimizing emissions and generating electricity 30 percent more efficiently than earlier technologies.

our coal-fired Stanton units with advanced technologies to optimize efficiency, environmental performance and operating flexibility. Our conservative operation and maintenance philosophy has proven extremely valuable in sustaining exceptional reliability and a forced outage rate below the national average.

Through the hard work and dedication of 260 employees and support contractors, our Power Resources team has repositioned OUC well for the future, allowing us to serve our community in a new way. With a newer and more efficient fleet of generators, a healthy mix of owned and purchased power, and a more diversified fuel portfolio, we can better maneuver the volatile energy market and create an environment for making smart energy decisions.

An Empowered Environment



Energy Delivery

We maintain our edge as The *Reliable* One, in large part, because we empower our employees to do their best. This is clearly evident in our Energy Delivery Business Unit, where Job Number One is preventing service interruptions and restoring them quickly when they do happen.

As the lightning capital of the world, Central Florida deals with more than its fair share of adverse weather. But even with a strong storm season in 2003, OUC continued to deliver exceptional reliability. In fact, we were named the most reliable electric utility in the southeastern United States for the second straight year by PA Consulting, a leading management, systems and technology consulting firm.

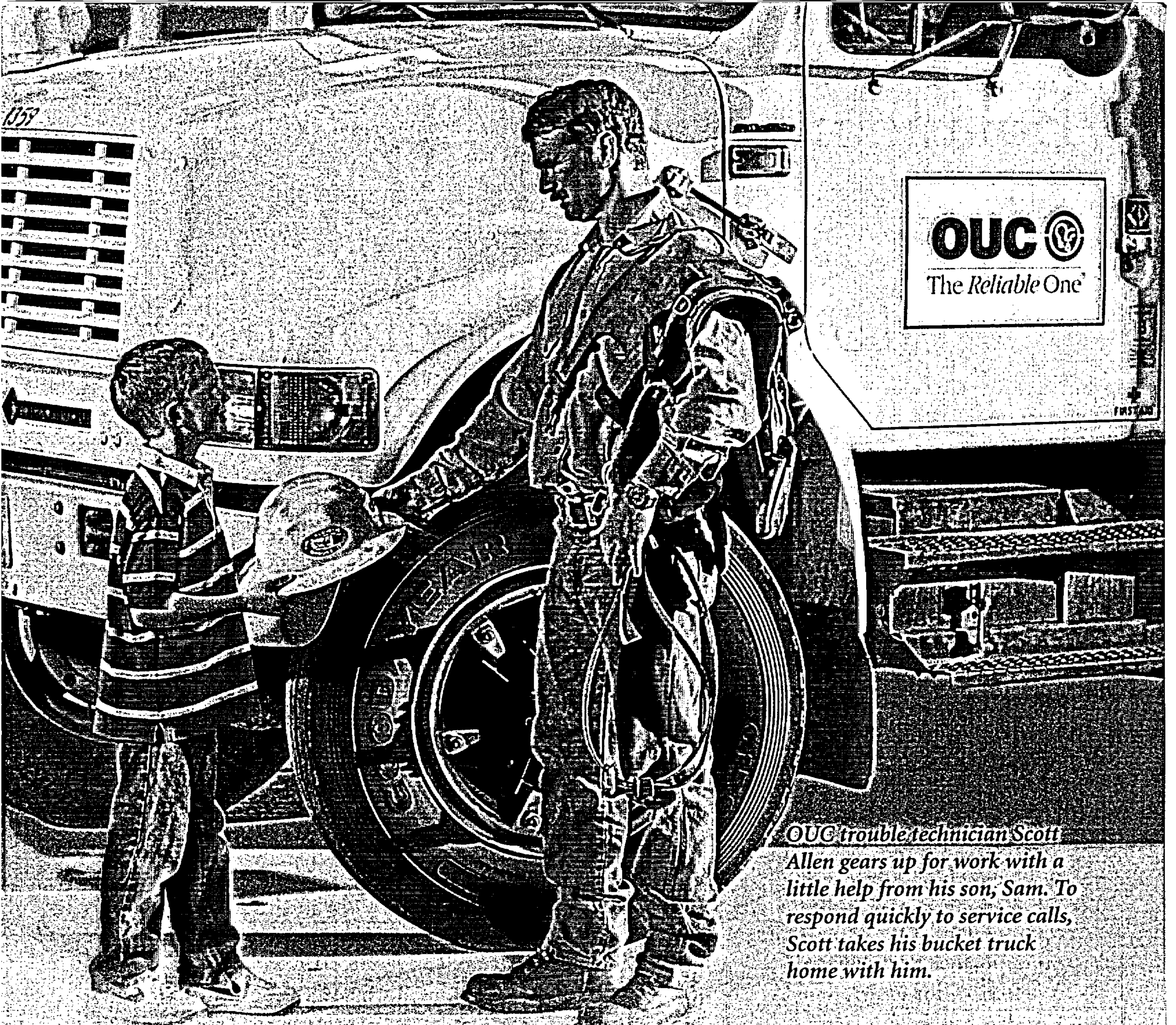
What makes us so reliable? At OUC, our people readily get the tools — and flexibility — they need to perform their jobs well. For example, our trouble technicians take their bucket trucks home with them so they can respond to service calls at a moment's notice. These "troublemen" don't have to drop by our operations center before heading to work.

Our philosophy also holds that to be outstanding in this business, you've got to plan accordingly for the future. That can involve building a new substation in a fast-developing community or replacing an aging transformer before it fails. Planning ahead is critical when you are in a high-growth region like Central Florida, where new projects break ground almost daily. OUC is there to provide the crucial infrastructure to facilitate this growth.

In 2003, the capital investments we made in our energy delivery system reached $35 million. These steps helped make sure everything from our high-voltage transmission lines to neighborhood streetlights were in good working order.

We also continued to make major upgrades to the electric system in St. Cloud, where OUC has a long-term contract to operate the system. In this high-growth community, OUC will spend an estimated $17 million on distribution projects alone over the next five years. We also plan to spend another $15 million in the next two years on a new substation and transmission line project that will accommodate future development while improving reliability for existing residents.

Meanwhile, we continue to reap the benefits of advanced outage management technologies. Though not always preventable, interruptions can be systematically identified and limited in scope so that the smallest number of customers are inconvenienced. Driving our performance on this front are well-trained, fast-acting employees who can reduce potential hours of waiting to just minutes.



OUC trouble technician Scott Allen gears up for work with a little help from his son, Sam. To respond quickly to service calls, Scott takes his bucket truck home with him.

OUC's reliability was held up as an example for others to follow as voters in Winter Park, a city to Orlando's north, went to the polls in a public power referendum. By a margin of 69 percent to 31 percent, voters authorized the purchase of the city's electric system from an investor-owned utility. OUC steered clear of the public debate, but proponents frequently contrasted our exceptional reliability with the reputed poor level of service provided to many Winter Park residents.

Dependable power has always been important. But after events like the August 14, 2003 blackout in the Northeast, customers realize, more than ever, that they can't take electricity for granted. Fortunately for us, Florida is unlikely to experience a widespread blackout like that one. Aside from having a low dependence on out-of-state power, the Florida peninsula can quickly cut ties to the rest of the nation, with OUC isolating its own electric system if necessary.

At OUC, we're doing everything we can to maintain an environment where our energy delivery team can thrive and, as a result, reliability can, too.

Balancing Today's And Tomorrow's Environment

H_2OUC

Meeting the water-supply needs of today while planning for tomorrow is a delicate balancing act.

We must do everything we can to accommodate the demands of our existing customers. At the same time, we must increase conservation efforts and continue strategizing with regional water authorities and other utilities for alternative water sources down the road.

Making sure there is enough water for our vibrant, growing community is critical. So, too, is protecting our natural water resources — the underground Floridan Aquifer, our lakes, ponds, rivers and streams.

That's why OUC, in its proposed groundwater-withdrawal permit, has pledged to maintain our water allocation at today's level for the next 20 years. Doing this won't be easy. But we plan to work closely with the City of Orlando to expand the use of reclaimed water for irrigation purposes while continuing to do our part to make conservation a top priority in Central Florida. In our permit proposal, OUC has committed to four major undertakings aimed at protecting our water resources:

- Increasing the use of reclaimed water within the OUC service area.
- Implementing a regional reclaimed-water project called Project Renew.
- Expanding an existing OUC conservation program that centers on public education and rate structures that promote efficient use of water (OUC already has achieved considerable success in this area: Today the average person in OUC's service area uses 129 gallons a day, much lower than the statewide average of 176 gallons a day).
- Implementing environmental monitoring systems to evaluate the impact of groundwater withdrawals.

Speaking of conservation, Water Systems Optimization (WSO), a consultant that works with hundreds of water utilities around the world, pointed to OUC as a shining star among U.S. utilities for our efforts to minimize what's known as "unaccounted for water." We continued to keep this category of water, which includes water flowing through illegal taps or under-reporting meters, below the standard set by regional water management districts.

Aside from planning for our region's future water demands, we maintained our focus last year on delivering reliable, high-quality drinking water to our customers. Helping us accomplish this was our Renewal & Replacement Program, which involves replacing older water distribution pipe with stronger, longer-lasting pipe. Next on our to-do list is replacing a critical water main along Gore Street on

OUC is committed to protecting Central Florida's lakes and other vital water resources.

the southern border of downtown Orlando.

To ensure that repairs are made quickly when a problem does occur, our water distribution personnel worked diligently last year to verify that valves located near hospitals and other critical customers were in good working order. Taking that process a step further, we're now using a GPS (global positioning satellite) system to provide more precise locations for valves and other water infrastructure. Meanwhile, our distribution personnel have developed a system to precisely track — and continue to improve — their response times.

We were proud to earn more accolades last year from the Florida Section of the American Water Works Association (AWWA). A panel of AWWA judges selected H_2OUC as Central Florida's best drinking water based on taste, clarity, color and smell. Water utilities from across the area were invited to participate in the "blind" testing. All the while, our state-certified Water Quality Laboratory continued its meticulous water-quality testing for OUC while generating new revenue by handling testing for external clients.

When it comes to water, OUC is doing everything we can to create an environment that satisfies all of our customers — those of today and tomorrow.

An Innovative Environment

IT, Marketing, Corporate Services

OUC took a big leap forward last year from a technology standpoint, setting into motion a major customer information system (CIS) upgrade. Under an agreement reached in August 2003, Alliance Data Systems (ADS) will replace our existing system with a far more flexible, time-saving solution.

We decided to outsource CIS functions to an application service provider to minimize implementation and financial risks, although OUC staff will continue to handle all customer contact, as well as inputs to and outputs from the system. Regular system operations will begin after a two-year set-up phase.

With ADS on the job, OUC will enjoy a multitude of efficiencies. For instance, we will no longer have to run certain batch processes overnight, enabling us to eliminate the contract labor currently handling those tasks. ADS will be responsible for operating the system, maintaining it and upgrading it, with OUC guiding how to maximize the system's options and flexibility.

OUC's Information Technology team also expanded our use of an interactive voice-response system implemented in 2002. We can now track call volume in certain areas, like customer service, while at the same time using the system to route internal calls more effectively. This "feedback loop" lets us fine-tune our operations by identifying areas where more training and better scheduling can help.

In addition, IT implemented a CWIP (construction work in progress) system that streamlined the accounting of equipment, materials and personnel used during construction. Taking advantage of a module of our One World system, the new process moves items to the correct fixed-asset accounts, eliminating what used to take quite a bit of manual effort. We also broadened our use of the Cognos "enterprise report writer" system, using its customer and financial data to assist in forecasting, rate analysis and other "what if" scenarios.

Creating An Informed, Helpful Environment

OUC's marketing team thrives on finding smarter, more effective ways of communicating with customers — and making their experience with OUC more positive.

With those goals in mind, our Marketing, Communications & Community Relations staff scored a number of victories last year. We continued to advance our public information campaign centered on The *Reliable* One theme; we added new features and conveniences to our Web site; we found more persuasive ways of promoting OUC products and services; and we nurtured positive relations with the news media.

Our efforts paid off in a big way: In a survey of customers conducted in September 2003, 84 percent said they believed The *Reliable* One was an appropriate brand for their hometown utility. We won awards, too, including eight from the Florida Public Relations Association, two from the Florida Government Communicators Association, and an honor for best annual report in the nation from the American Public Power Association.

Of course, community service is at the heart of what we do. And in 2003, we lent a helping hand to a long list of nonprofit agencies. Our annual charity golf tournament raised $25,000 for Quest Inc., an organization that provides much-needed services to the developmentally disabled. Meanwhile, employees across the company donated time and money to such good causes as the Heart of Florida United Way, Juvenile Diabetes Research Foundation, United Arts and the Osceola Foundation for Education, among many other deserving organizations.

In 2003, OUC added a number of new features and conveniences to our Web site, www.ouc.com.

A Safe Environment

Our Risk Management Division continued to make on-the-job safety a top priority last year – and with positive results. In 2003, OUC reported 37 percent fewer disabling workplace injuries than in 2002 and nearly 30 percent fewer vehicle accidents. This excellent record translates into a positive State of Florida safety rating, which in turn leads to lower insurance costs and stable rates for our customers.

Our Security Division also worked intently to keep OUC safe. A number of stepped-up security measures were implemented in 2003, including enhanced intrusion-detection technology at all OUC water plants, upgraded gates at our Stanton Energy Center and digital video-surveillance systems at our facilities.

Safety and security are but two of the many responsibilities of OUC Corporate Services. Another one of its divisions, Supply Chain Management, was busy last year partnering with other utilities to save big money on bulk procurement. Just one multi-utility bid for concrete poles saved OUC more than $100,000. We also expanded an asset recovery program that finds interested buyers for our scrap materials, such as obsolete transformers and lighting fixtures. Typically these outdated materials would be sold at scrap value. Through the asset recovery program, we can receive payments of 5 to 10 times the scrap value.

Another division, Human Resources, made sure OUC maintained its status as one of Central Florida's most family-friendly companies. Among this division's many successes last year was conducting a series of workshops on harassment and violence in the workplace. Nearly all of OUC's 1,000 employees attended the classes, ensuring that OUC maintains a healthy, comfortable work environment.

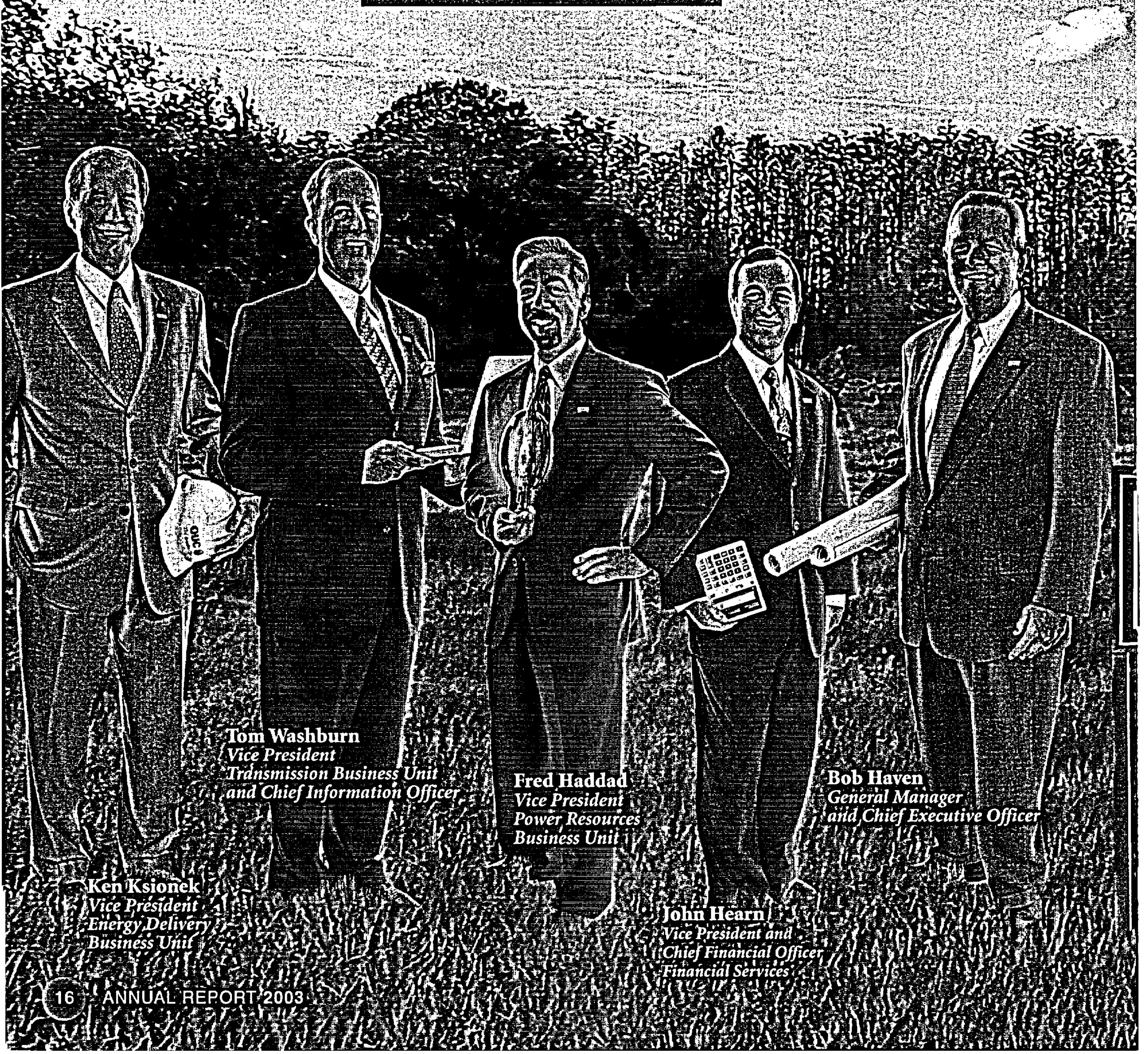
Our Environmental Services and Fleet & Facilities divisions were hard at work, too. With legislation pending in the Florida Senate that would require 4 percent of electric power to come from renewable resources by 2008, our environmental team began leading our development of a renewable, "green pricing" program.

Meanwhile, by partnering with aerial-tower truck vendor Altec, our fleet experts made sure OUC used newer, more reliable vehicles while reducing maintenance costs and improving safety.

On top of that, Corporate Services saved more than $1.1 million over the past two years through its Activity-Based Costing initiative.

A Forward-Thinking Environment

Senior Management



Ken Ksionek
Vice President
Energy Delivery
Business Unit

Tom Washburn
Vice President
Transmission Business Unit
and Chief Information Officer

Fred Haddad
Vice President
Power Resources
Business Unit

John Hearn
Vice President and
Chief Financial Officer
Financial Services

Bob Haven
General Manager
and Chief Executive Officer

Being The *Reliable* One requires the vision to plan for the future instead of waiting for a need to arise.

For example, OUC and the City of St. Cloud laid the groundwork last year for the Stevens Plantation, a mixed-use development that will incorporate 1.5 million square feet of office space, 800 upscale homes and 300,000 square feet of retail space.

This new project was made possible by a unique economic development fund created jointly by OUC and the city. Established in 1997 — the year OUC began operating St. Cloud's electric system — the fund included money from the city as well as proceeds generated by OUC's purchase of St. Cloud's electric equipment, vehicles and other inventory.

Setting the tone for OUC's forward-thinking approach is our senior management team (pictured here at the Stevens Plantation site). With expertise in everything from finance and engineering to marketing and technology, our top managers work tirelessly to maintain OUC's competitive edge.

Roseann Harrington
Vice President
Marketing, Communications & Community Relations

Doug Spencer
Vice President
OUCustomer Connection

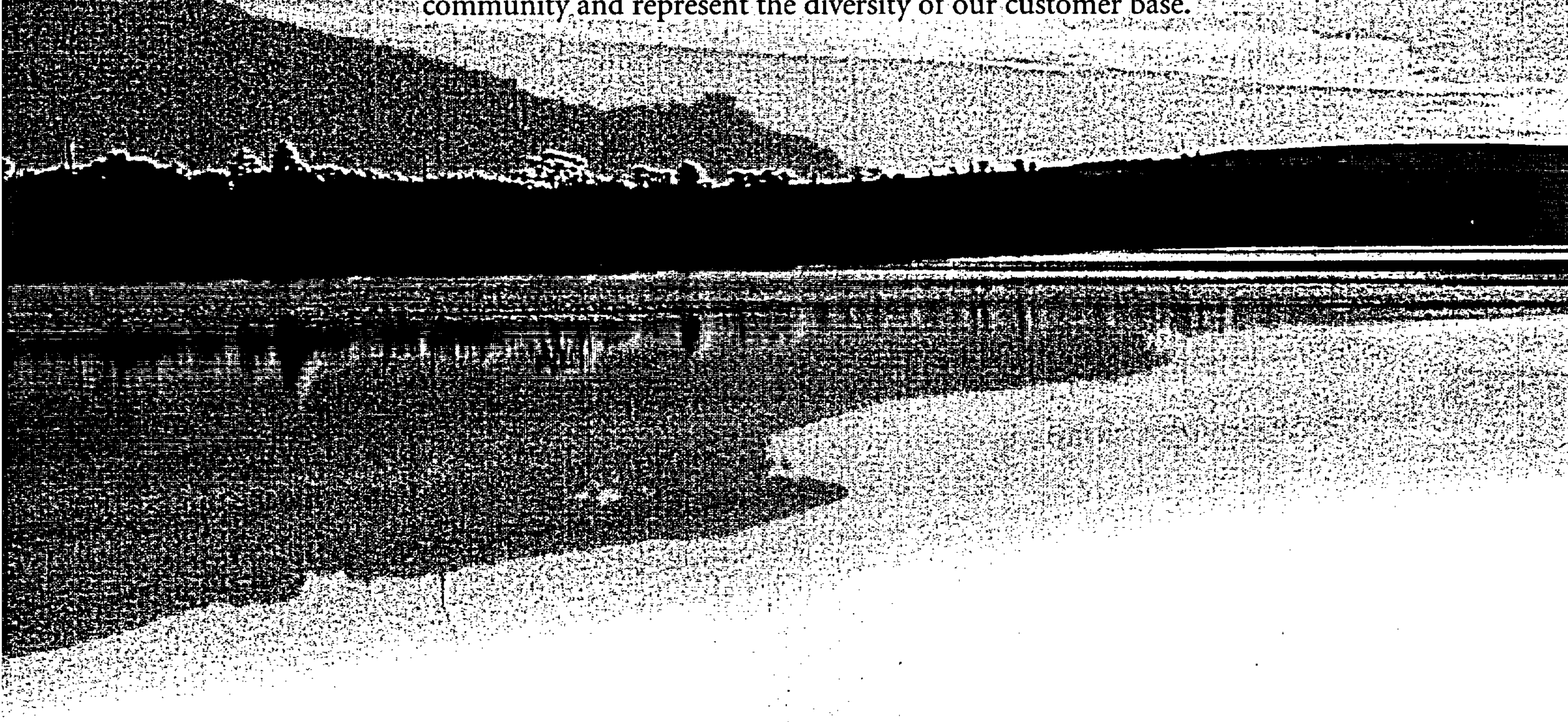
Al Frazier
Vice President
Corporate Services

Thomas Tart
Vice President and General Counsel

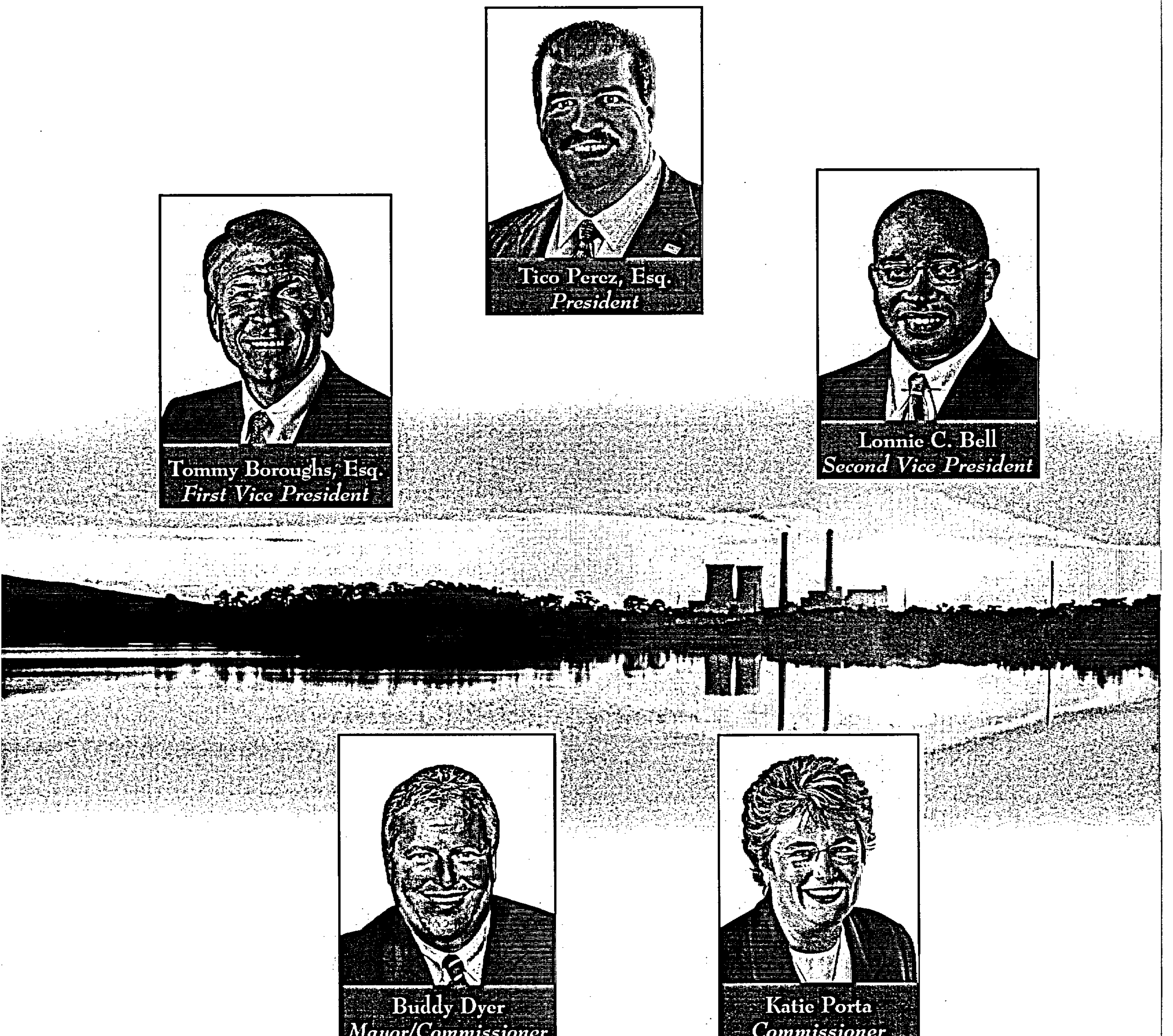
A Responsible Environment

When you operate a locally owned electric and water utility, responsibility is of paramount importance. At OUC, our board members are focused on making well-informed, appropriate decisions about rates and policies — and backing up those decisions with accountability.

Known as the Commission, our governing board is made up of five citizens who live in OUC's service territory, have deep roots in our community and represent the diversity of our customer base.



OUC Commissioners



Tico Perez, Esq.
President

Tommy Boroughs, Esq.
First Vice President

Lonnie C. Bell
Second Vice President

Buddy Dyer
Mayor/Commissioner

Katie Porta
Commissioner

ORLANDO UTILITIES COMMISSION

SEPTEMBER 30, 2003 AND 2002

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Prepared by Accounting Services

Commission Members & Officers

Tico Perez, Esq.
President

Tommy Boroughs, Esq.
First Vice President

Lonnie C. Bell
Second Vice President

Katie Porta
Commissioner

Buddy Dyer
Mayor – Commissioner

Robert C. Haven, P.E.
Secretary

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

Management

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

Alvin C. Frazier
Vice President
Corporate Services

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

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

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

Kenneth P. Ksionek
Vice President
Energy Delivery Business Unit

Douglas M. Spencer
Vice President
OUCustomer Connection

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

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

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

Management's Report

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

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

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

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

John E. Hearn
Vice President and
Chief Financial Officer

Mindy Willis

Mindy F. Willis
Director
Accounting Services

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

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

Financial Highlights

Summary of Financial Position and Changes in Net Assets (Dollars in thousands)	**Year Ended September 30** **2003**	**2002**
Assets		
Utility plant - net	$ 1,704,987	$ 1,606,748
Restricted assets	545,166	568,778
Current assets	211,379	198,852
Noncurrent assets and deferred charges	24,717	24,849
	$ 2,486,249	**$ 2,399,227**
Liabilities and net assets		
Long-term debt - net	$ 1,260,061	$ 1,281,333
Restricted & unrestricted current liabilities	247,644	210,087
Other liabilities and deferred charges	288,403	250,040
Net assets		
Invested in capital assets, net or related debt	454,637	432,324
Restricted	51,665	51,289
Unrestricted	183,839	174,154
	$ 2,486,249	**$ 2,399,227**
Revenues, expenses and changes in net assets		
Operating revenues	$ 559,713	$ 495,741
Operating expenses	443,007	406,215
Operating income	116,706	89,526
Net non-operating expense	(61,689)	(42,501)
Income before contributions	55,017	47,025
Contributions in aid of construction	10,348	10,916
Annual dividend payments	(32,991)	(28,200)
Increase in net assets	32,374	29,741
Net assets - beginning of year	657,767	628,026
Net assets - end of year	**$ 690,141**	**$ 657,767**

Reporting Changes & Significant Accounting Policies

In 2003, OUC implemented Statement of Governmental Accounting Standards (SGAS) No. 38, *Certain Financial Statement Note Disclosures*, an amendment to SGAS No. 34 and SGAS No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus.* The implementation of this statement, although not affecting OUC's financial position or results of operations, did result in reporting presentation changes.

Also in 2003, OUC adopted Federal Energy Regulatory Commission (FERC) Order 631, *Accounting for Asset Retirement Obligations (ARO).* The implementation of this order affected the manner in which OUC recorded and reported its legal obligation related to tangible long-lived assets. As a result of this order, OUC reclassified accumulated depreciation on nuclear generation facilities (long-lived assets for which OUC has a legal obligation) to an asset retirement obligation account under the heading of Asset Retirement Obligation and Other Liabilities in the Statement of Net Assets. In addition, this obligation was adjusted to its current year net present value retirement obligation through the recording of a fair value asset. The recording of this fair value asset did affect OUC's financial position by increasing the value of utility plant by $16 million with the offset being recorded to the asset retirement obligation liability. The fair value assets will be depreciated over the license period of each nuclear generation facility. Operations were not impacted as a result of implementing FERC Order 631.

Lastly, OUC adopted the Governmental Accounting Standards Board's Technical Bulletin No. 2003-01, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets.* The adoption of this guidance did not affect OUC's financial position or results of operations. However, it did result in reporting presentation changes that were incorporated into the footnote disclosures for long-term debt and commitment and contingencies.

Utility Plant

At the close of 2003, the 633-megawatt combined-cycle plant (SECA) that was being constructed by Southern Company on OUC's Stanton Energy Center site in 2002 was completed. OUC retains a 28% ownership interest in this plant with the remaining ownership interests being retained by Southern Company (65%) and other Florida municipal electric utilities (7%). In addition, through purchased power agreements executed for a minimum of 10 years, OUC and the other Florida municipal electric utilities will have the rights to purchase the generation output of Southern Company's ownership interest at their proportionate interest shares: 52% and 13%, respectively. Total generation facility construction costs for OUC as of September 30, 2003 are $72.6 million.

In conjunction with SECA, OUC is constructing additional shared facilities including a brine plant and water interconnect facilities. These assets are still under construction and will be owned by the Stanton Unit 1 & 2 participants, in their existing ownership interest percentages.

As a result of adopting FERC Order 631, OUC created fair value assets in the amount of $16 million that will be depreciated over the license period of each nuclear plant. Offsetting liabilities were recorded with these new assets and are included in the Asset Retirement Obligation and Other Liabilities classification of the Statement of Net Assets.

Water plant assets increased $15 million in 2003 as compared to 2002 as a result of the construction of the Sky Lake water treatment plant. This plant is scheduled to come on-line in December 2003.

OUC's Chilled Water division with assets classified under the heading of common plant, continue to grow as a result of expansion of the International Drive operating loop.

Long-Term Debt

The continuing low interest rate environment in 2003 created several refunding and financing opportunities. OUC refunded outstanding bonds totaling $365.6 million. These refunding transactions yielded net present value savings of approximately $24.5 million. In addition, in November 2002, OUC issued variable rate debt in the amount of $100 million to provide funds for capital projects.

Subsequent to year end, OUC issued $55.3 million of fixed rate taxable bonds (Series 2003T) to fund a portion of OUC's unfunded accrued actuarial pension liability. With the issuance of these bonds in November 2003, OUC's new general bond resolution became effective. In addition, credit ratings on all senior lien bonds were confirmed and junior lien bonds were upgraded. Credit ratings as of the issuance of the Series 2003T are:

SUMMARY OF OUC'S BOND RATINGS

Fitch Investors Service	AA
Moody's Investors Service	Aa1
Standard & Poor's	AA

Results of Operations

OUC's income before contributions increased $8 million or 17% in 2003 as compared to 2002. The increase in income before contributions from $47 million in 2002 to $55 million in 2003 was the result of the strengthening of the Central Florida economy and the continued expansion of new services such as chilled water and streetlights.

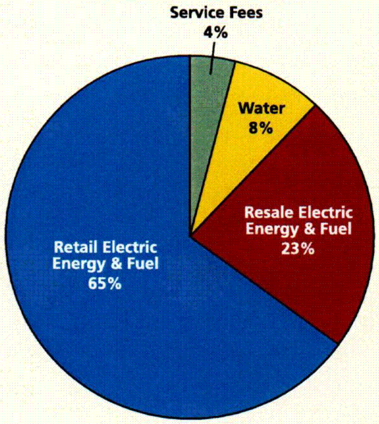
Retail revenue in 2003 increased $43.4 million from 2002. The increase is due to the recovery of rising fuel and purchased power costs, and growth in the retail customer base. Resale revenue in 2003 increased $11.3 million from 2002 also due to rising fuel and purchased power costs.

Water revenue in 2003 was $46.3 million as compared to $41.9 million in 2002. This increase is the result of an overall 10% rate increase effective October 1, 2002, the implementation of conservation rates for commercial customers and an increase in the customer base — all of which were offset by a decrease in consumption. Consumption decreased due to continued conservation efforts and rainfall that was 16 inches or 33% above normal.

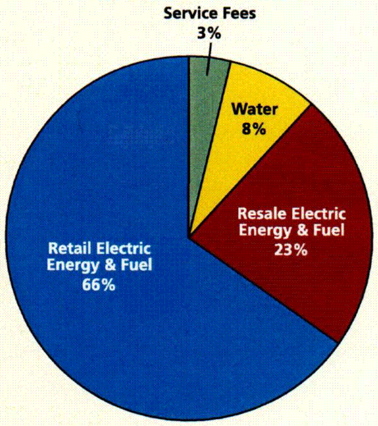
Other revenues increased $4.9 million in 2003. This increase is consistent with the increase experienced in 2002 and continues to be attributable to the planned expansion in the chilled water and streetlight operating segments. Chilled water revenues increased as new operating plant loops at the Mall at Millenia and the Orange County Convention Center expanded. Streetlight revenues also increased as OUC expanded services in the Central Florida area.

The following charts compare revenue by customer source:

September 30, 2003



September 30, 2002



Costs related to fuel for generation and purchased power increased $31.2 million, or 16%, in 2003 compared to 2002. A large portion of this increase is the result of volatile gas and oil prices. In addition, OUC acquired more purchased power to accommodate the increase in customer base load requirements and as such costs in 2003 increased as compared to 2002. The ability to utilize established purchased power agreements to meet a portion of demand is part of OUC's continued generation strategy.

Unit/department expenses were $6.9 million higher in 2003 compared to 2002 as a result of increased plant maintenance and labor costs. Depreciation and amortization decreased as a result of the governing board's action to discontinue accelerating depreciation on the St. Lucie Unit 2 nuclear generation facility. Additional depreciation of $7.2 million was recorded in 2002 compared to $0 in 2003.

Total net non-operating expense was $61.7 million in 2003 as compared to $42.5 million in 2002. This change is a result of the following factors:

- Lower interest rates on investments. In addition, $56.6 million of previously restricted debt service reserve funds have been used to refund higher interest rates bonds and were not available for investment.
- In 2002, OUC executed land and land rights sales of $2.8 million. There were no comparable sales in 2003.
- OUC's governing board determined to defer the amortization of a portion of the gain on sale of assets until 2004. No gain was recognized in 2003 as compared to $13.4 million recognized in 2002.
- Lower interest rates on refunded bonds and outstanding variable rate debt in 2003 as compared to 2002.

Revenues from contributions in aid of construction for 2003 are consistent with 2002. The annual dividend for 2003 increased consistent with income before contributions.

C02

Revenues, Expenses & Net Assets (Dollars in thousands)	Year Ended September 30 2003	2002
Operating revenues:		
Retail electric revenue, net	$ 364,328	$ 320,932
Resale electric revenue, net	128,329	117,063
Water revenues, net	46,304	41,854
Other revenues	20,752	15,892
Total operating revenues	**559,713**	**495,741**
Operating expenses:		
Fuel for generation and purchased power	221,193	189,967
Unit/department expenses	118,549	111,595
Depreciation and amortization	70,747	74,157
Payments to other governments and taxes	32,518	30,496
Total operating expenses	**443,007**	**406,215**
Operating income	**116,706**	**89,526**
Non-operating income and expense:		
Interest income	10,611	14,658
Other income, net	2,295	4,848
Amortization of deferred gain on sale of assets	-	13,433
Interest expense	(74,595)	(75,440)
Total net non-operating expense	**(61,689)**	**(42,501)**
Income before contributions	**55,017**	**47,025**
Revenue from contributions in aid of construction	10,348	10,916
Annual dividend payment	(32,991)	(28,200)
Increase in net assets	**32,374**	**29,741**
Net assets - beginning of year	**657,767**	**628,026**
Net assets - end of year	**$ 690,141**	**$ 657,767**

See notes to the financial statements.

STATEMENTS OF NET ASSETS

Assets (Dollars in thousands)	Year Ended September 30 2003	2002
Utility plant		
Electric	$ 1,872,848	$ 1,725,152
Water	373,659	362,632
Common	148,789	135,266
Allowances for depreciation and amortization	(795,645)	(748,094)
	1,599,651	1,474,956
Land and other non-depreciable assets	29,267	28,652
Construction work in progress	76,069	103,140
Utility plant, net	**1,704,987**	**1,606,748**
Restricted and internally designated assets		
Debt service and related funds	101,718	164,883
Construction and related funds	87,212	46,522
Renewal and replacement fund	48,954	48,939
Customer meter deposits	21,141	19,161
Total restricted assets	259,025	279,505
Liability reduction fund	191,382	189,122
Stabilization funds	89,279	95,392
Self-insurance fund	5,480	4,759
Total internally designated assets	286,141	289,273
Total restricted and internally designated assets	**545,166**	**568,778**
Current assets		
Cash and investments	72,633	55,324
Customer accounts receivable, less allowance for doubtful accounts (2003 – $ 959, 2002 – $1,388)	60,960	59,225
Accrued utility revenue	26,330	26,126
Fuel for generation	9,105	10,404
Materials and supplies inventory	26,852	28,567
Accrued interest receivable	2,286	2,082
Miscellaneous receivables and prepaid expenses	13,213	17,124
Total current assets	**211,379**	**198,852**
Other assets		
Deferred charges	19,047	19,872
Unamortized debt issuance costs	3,177	2,693
Other deferred costs	2,493	2,284
Total other assets	**24,717**	**24,849**
Total assets	**$ 2,486,249**	**$ 2,399,227**

See notes to the financial statements.

Liabilities (Dollars in thousands)

	Year Ended September 30 2003	2002
Current liabilities		
Payable from restricted assets		
Accrued interest payable on notes and bonds	$ 26,567	$ 31,048
Current portion of long-term debt	129,250	91,155
Customer meter deposits	21,141	19,161
Total payable from restricted assets	176,958	141,364
Payable from current assets		
Accounts payable and accrued expenses	54,147	57,130
Billings on behalf of state and local governments	10,039	9,653
Accrued payments to the City of Orlando	5,503	1,650
Accrued swap payables	997	290
Total payable from current assets	70,686	68,723
Total current liabilities	**247,644**	**210,087**
Other liabilities and deferred credits		
Deferred gain on sale of assets	111,009	110,000
Deferred revenue	134,170	138,783
Asset retirement obligation and other liabilities	43,224	1,257
Total other liabilities and deferred credits	**288,403**	**250,040**
Long-term debt		
Bond and note principal	1,329,105	1,373,780
Unamortized discount and deferred amount on refunding	(69,044)	(92,447)
Total long-term debt, net	**1,260,061**	**1,281,333**
Total liabilities	**$ 1,796,108**	**$ 1,741,460**

Net Assets

	2003	2002
Invested in capital assets, net of related debt	$ 454,637	$ 432,324
Restricted	51,665	51,289
Unrestricted	183,839	174,154
Total net assets	**$ 690,141**	**$ 657,767**

See notes to the financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Year Ended September 30 2003	2002
Cash flows from operating activities		
Cash received from customers	$ 555,745	$ 507,020
Cash paid for fuel and purchased power	(214,226)	(192,805)
Cash paid for unit/department expenses	(123,476)	(110,237)
Cash paid for other payments and taxes	(32,468)	(31,506)
Net cash provided by operating activities	**185,575**	**172,472**
Cash flows from non-capital related financing activities		
Annual divident payment	(29,156)	(35,091)
Net cash used in non-capital related financing activities	**(29,156)**	**(35,091)**
Cash flows from capital related financing activities		
Debt interest payments	(71,647)	(74,483)
Principal payments on long-term debt	(459,569)	(432,089)
Debt issuances	472,697	394,813
Debt issue expenses	(4,261)	(19,266)
Construction and acquisition of utility plant net of contributions	(119,300)	(145,149)
Net cash used in capital related financing activities	**(182,080)**	**(276,174)**
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	584,420	476,076
Proceeds for gain on sale of investments	1,418	2,488
Purchases of investment securities	(610,284)	(312,354)
Investment and other income	17,982	34,526
Net cash (used)/provided by investing activities	**(6,464)**	**200,736**
Net (decrease)/increase in cash and cash equivalents	**(32,125)**	**61,943**
Balance - beginning of year	**220,979**	**159,036**
Balance - end of year	**$ 188,854**	**$ 220,979**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 116,706	$ 89,526
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization charged to operations	70,747	74,157
Depreciation and amortization charged to fuel for generation and purchased power	2,083	1,941
Depreciation of vehicles and equipment charged to unit/department expenses	3,140	1,902
Changes in assets and liabilities		
Decrease/(Increase) in receivables and accrued revenue	3,103	(2,890)
Decrease/(Increase) in fuel and materials and supplies inventories	2,598	(7,979)
Increase in accounts payable	1,942	2,166
(Decrease)/Increase in deposits payable and deferred items	(2,977)	247
(Decrease)/Increase in stabilization and deferred revenue	(11,767)	13,402
Net cash provided by operating activities	**$ 185,575**	**$ 172,472**
Reconciliation of cash and cash equivalents		
Internally designated investments	$ 124,523	$ 159,823
Cash and investments	29,061	29,311
Construction and related funds	19,759	22,598
Debt service and related funds	15,511	9,247
Cash and cash equivalents at the end of the year	**$ 188,854**	**$ 220,979**

See notes to the financial statements.

Note A — The Organization

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

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

Note B — Summary of Significant Accounting Policies

Reporting entity: OUC meets the criteria of an "other stand-alone government" as defined in Governmental Accounting Standards Board Statements No. 14, *The Financial Reporting Entity* and Statement No. 39, *Determining Whether Certain Organizations are Component Units.*

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

Basis of presentation: The financial statements of OUC are presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB) and where not in conflict with GASB pronouncements and the accounting principles prescribed by the Financial Accounting Standards Board (FASB). The accounting records are maintained substantially in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) except for contributions in aid of construction, which are recorded in accordance with GASB.

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

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

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

Each year, OUC's staff performs a rate adequacy study to determine the electric and water revenue requirements. Based on this study, current cost-of-service studies and regulations of the FPSC regarding electric rate structures, OUC's staff develops the electric and water rate schedules. Prior to the implementation of any rate change, OUC notifies customers individually, holds a public workshop, presents the rates to the governing board for approval and files the proposed tariffs with the FPSC.

Budgets: Revenue and expense budgets are prepared on an annual basis in accordance with OUC's budget policy and bond resolutions and submitted to the OUC board for approval prior to the beginning of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget by operating unit as well as by line item. Variance analyses are prepared and submitted to OUC's governing board each month as required by OUC's budget policy and bond resolutions.

Recent accounting pronouncements: As an adjunct to the implementation of Statement of Governmental Accounting Standards (SGAS) No. 34 in 2002, OUC has implemented SGAS 38, *Certain Financial Statement Note Disclosures*. Included in this pronouncement are reporting changes to the debt footnote and the segregation of material receivables and payables. The required changes have no financial impact to OUC's financial statements.

Note B — Summary of Significant Accounting Policies (continued)

In January 2003 OUC adopted Federal Energy Regulatory Commission (FERC) document RM02-7-000, Order 631, *Accounting for Asset Retirement Obligations (ARO)*. This order requires the recognition of the net present value of the legal financial requirement related to the dismantlement, restoration and retirement of tangible long-lived assets. The implementation of this order resulted in the recording of a fair value asset for the differential of the net present value retirement obligation of OUC's interest in the St. Lucie Unit 2 and Crystal River Unit 3 nuclear generation facilities and the existing amount of accrued retirement obligation, previously recorded as allowance for decommissioning. Fair value assets of $12.3 million and $3.7 million for St. Lucie 2 and Crystal River 3, respectively, were recorded under the heading of Utility plant in the Statement of Net Assets effective October 1, 2002 and will be depreciated over the remaining approved license periods (see Note C). The accrued retirement obligation will be accreted over the same period based on the approved earnings rate, and both costs will be recorded as depreciation expense in the Statement of Revenues, Expenses and Changes in Net Assets (see additional information under the heading of Asset retirement obligation and other liabilities in this Note). As a result of implementing this FERC order, there was no impact to the results of operations.

In June 2003, the Governmental Accounting Standards Board issued Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*. This guidance addresses the disclosure requirements for derivative instruments not reported at fair value on the Statement of Net Assets including providing information related to the significance of the outstanding derivatives and their associated risks. Derivative instruments are used by OUC in conjunction with debt financing and fuel purchases. Financing related derivative information is included under the heading of Interest Rate Swaps in Note H. Fuel related derivative information is included in Note I.

Utility plant: Utility plant is stated at historical cost with the exception of the fair value asset recorded as a result of OUC's implementation of FERC Order 631 in 2003. Historic utility plant costs include the costs of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering. The fair value asset, recorded in 2003, will be re-measured every five years as required by the FPSC for nuclear generation facilities. All assets are depreciated systematically using the straight-line method over the estimated useful life or license period of the asset. OUC charges the cost of repairs and minor replacements to maintenance expense. The cost of electric or water utility plant assets retired, together with removal costs less salvage, are charged to accumulated depreciation; however, when utility plant constituting an operating unit or system is sold or disposed of, the gain or loss on the sale or disposal is recorded as a gain (loss) on disposition of property unless regulatory action is taken by the governing board.

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

Investments are reported at fair market value with the exception of the funds held in the Debt Service Reserve funds. The Debt Service Reserve funds, in accordance with OUC's ratemaking model and their intention to retain these investments until the related debt instruments have reached maturity or the series has been refunded, are recorded at amortized cost. As a result of refunding activity in 2003, the amount of funds retained in the Debt Service Reserve funds have decreased significantly and as such, the fair market value of these investments at September 30, 2003 have decreased to $60,000 in excess of amortized cost as compared to $5.6 million in September 30, 2002. Realized and unrealized gains and losses for all investments except those executed in conjunction with a bond refunding are included in interest income on the Statements of Revenues, Expenses and Changes in Net Assets. Realized gains recognized as a result of bond refundings are included as a reduction of unamortized loss on refunding. Premiums and discounts on bonds and other investments are amortized using the effective interest method.

Note B — Summary of Significant Accounting Policies (continued)

Derivative instruments: Fuel related derivative transactions are executed in accordance with OUC's internally established Energy Risk Management Oversight Committee (Committee) whose primary objective is to minimize exposure to energy price volatility for cash flow and control purposes. The Committee has a defined organizational structure and responsibilities, which include approving all brokerage relationships, counter-party credit worthiness, and overall program compliance. In addition, the Energy Risk Management Program was established with specific volume and financial limits, which are 20% of the annual fuel budget and $30 million of the gross current market value of the derivatives. The recording of fuel derivatives, when appropriate, is included on the Statements of Net Assets as either an asset or liability measured at fair market value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as a part of Fuel for generation and purchased power costs in the Statements of Revenues, Expenses and Changes in Net Assets.

Financial related derivative transactions and interest rate swap agreements are executed to modify interest rates on outstanding debt. Periodically, as defined by the underlying agreement, the net differential between the fixed and variable rates is exchanged with the counter party and included as part of interest expense costs. No fair market value amounts related to these agreements are recorded on the Statement of Net Assets. Fair value amounts of these financial instruments are included in Note H.

Accounts receivables and accrued unbilled revenue: OUC bills customers monthly on a cyclical basis and accrues revenues at the end of the fiscal year for electric and water consumed but not billed (see "Rates and Revenues" section above). The customer net accounts receivable balance of $60.9 million and $59.2 million at September 30, 2003 and 2002, respectively, includes billings on behalf of state and other local governments, less administrative expenses, of $10 million and $9.6 million, respectively.

Miscellaneous receivables include billings to power plant participants for their proportionate share of fuel, operating and capital costs. At September 30, 2003 and 2002, receivables from these participants are $6.5 million and $11 million, respectively.

All receivables classified as current assets are anticipated to be collected within an operating cycle.

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

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

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

Note B — Summary of Significant Accounting Policies (continued)

Accounts payable and accrued expenses: Included in this amount are vendor payables, accrued fuel costs including purchased power agreements, advance payments from power plant participants and accrued wages, sick, vaction and comp leave. The following table summarizes the significant payable balances included under this heading:

Accounts payable & accrued expenses (Dollars in thousands)	September 30 2003	September 30 2002
Fuel & purchased power payables	$ 21,347	$ 15,742
Vendor payables	16,785	26,256
Accrued wages, sick, vacation and comp leave	7,945	5,488
Advance payments from power plant participants	3,930	4,001
Other accounts payable & accrued expenses	4,140	5,643
Total	**$ 54,147**	**$ 57,130**

Asset retirement obligation and other liabilities: Included in this amount are the asset retirement obligations (ARO) related to the legal requirement of decommissioning OUC's interest in the St. Lucie Unit 2 and Crystal River Unit 3 nuclear generation facilities and advances from customers for construction. The asset retirement obligation was determined in 2003 based on the most recent approved FPSC report provided to OUC by the owner-operators of these plants. The amount assessed for decommissioning of these facilities, in 2000 dollars, was $26.7 million and $8.6 million for St. Lucie Unit 2 and Crystal River Unit 3, respectively. Adjusted to 2003 dollars, based on FPSC approved earnings rates, these amounts are $31.4 million and $9.6 million, respectively.

License expirations for St. Lucie and Crystal River at September 30, 2003 and 2002 are 2023 and 2016, respectively. In October 2003 the FPSC approved a license extension for St. Lucie to 2043.

Contributions in aid of construction: Funds received from developers and customers for assets owned and maintained by OUC — as well as funds received for system development fees — are recorded as revenue from contributions in aid of construction in the period in which they have been received on the Statements of Revenues, Expenses and Changes in Net Assets.

Reclassifications: Certain amounts in 2002 have been reclassified to conform to the 2003 presentation.

Note C — Utility Plant

Utility plant: Utility plant costs include the costs of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering as well as the fair value assets related to the retirement obligations of the nuclear generation facilities beginning in 2003. The majority of OUC's assets are self constructed and as such are accumulated through the construction work in progress system and capitalized to fixed assets as a transfer upon completion of the project. Accordingly, a substantial amount of the utility plant additions are reflected as transfers.

Activity for the years ended September 30, 2003 and September 30, 2002 are as follows:

Utility plant (net) (Dollars in thousands)	**September 30 2002**	**Additions**	**Fair value adjustment**	**Transfers**	**Retirements/ Reclassifications**	**September 30 2003**
Utility plant						
Electric (5-50 years)	$ 1,725,152	$ 3,539	$ 16,008	$ 128,314	$ (165)	$ 1,872,848
Water (3-50 years)	362,632	3,660	-	7,422	(55)	373,659
Shared/customer service (3-50 years)	135,266	2,326	-	11,222	(25)	148,789
Total utility plant	2,223,050	9,525	16,008	146,958	(245)	2,395,296
Accumulated depreciation						
Electric	(599,033)	(55,715)	(346)	(61)	1,201	(653,954)
Water	(75,097)	(9,238)	-	159	25	(84,151)
Shared/customer service	(48,582)	(8,980)	-	(98)	120	(57,540)
Total accumulated depreciation	(722,712)	(73,933)	(346)	-	1,346	(795,645)
Total depreciable utility plant, net	1,500,338	(64,408)	15,662	146,958	1,101	1,599,651
Land and other non-depreciable assets	28,652	-	-	624	(9)	29,267
Allowance for decommissioning	(25,382)	-	25,382	-	-	-
Construction work in progress	103,140	122,373	-	(147,582)	(1,862)	76,069
Utility plant, net	$ 1,606,748	$ 57,965	$ 41,044	$ -	$ (770)	$ 1,704,987

Utility plant (net) (Dollars in Thousands)	**September 30 2001**	**Additions**	**Fair value adjustment**	**Transfers**	**Retirements/ Reclassifications**	**September 30 2002**
Utility plant						
Electric (5-50 years)	$ 1,650,241	$ 4,410	$ -	$ 71,884	$ (1,383)	$ 1,725,152
Water (3-50 years)	335,459	4,046	-	23,109	18	362,632
Shared/customer service (3-50 years)	123,544	(3,808)	-	16,645	(1,115)	135,266
Total utility plant	2,109,244	4,648	-	111,638	(2,480)	2,223,050
Accumulated depreciation						
Electric	(541,112)	(58,573)	-	(27)	679	(599,033)
Water	(67,231)	(8,273)	-	42	365	(75,097)
Shared/customer service	(40,989)	(7,866)	-	(15)	288	(48,582)
Total accumulated depreciation	(649,332)	(74,712)	-	-	1,332	(722,712)
Total depreciable utility plant, net	1,459,912	(70,064)	-	111,638	(1,148)	1,500,338
Land and other non-depreciable assets	27,606	1,307	-	-	(261)	28,652
Allowance for decommissioning	(22,745)	(2,637)	-	-	-	(25,382)
Construction work in progress	71,437	142,440	-	(111,638)	901	103,140
Utility plant, net	$ 1,536,210	$71,046	$ -	$ -	$ (508)	$ 1,606,748

Note D — Jointly Owned Operations

OUC operated: OUC maintains fiscal, budgetary and operating control of several power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. These agreements and the related ownership interests have remained consistent for the years ending September 30, 2003 and 2002 and are as follows:

Facility name	Agreement year	Total facility net megawatt capacity	FMPA undivided ownership interest	KUA undivided ownership interest	Net OUC undivided ownership interest
Stanton Unit 1 (SEC1)	1984 & 1985	440	26.6265%	4.8193%	68.5542%
Stanton Unit 2 (SEC2)	1991	440	28.4091%	-	71.5909%
Indian River Combustion Turbines (A&B)	1988	96	39.0000%	12.2000%	48.8000%
Indian River Combustion Turbines (C&D)	1990	236	21.0000%	-	79.0000%

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

Non OUC operated: OUC maintains an undivided participant interest with Florida Power & Light at their St. Lucie Unit 2 nuclear generation facility, Progress Energy at their Crystal River Unit 3 nuclear generation facility and the City of Lakeland at their McIntosh Unit 3 coal-fired generation facility. In each of these agreements, fiscal, budgetary and operational control are not maintained by OUC.

On March 19, 2001, OUC entered into an agreement with Southern Company to secure an undivided participant interest in the Stanton A combustion turbine generation facility (SECA). This generation facility is operated by Southern Company; however, as part of this agreement, for the initial 10 years of operations, OUC retains responsibility as fuel agent for the generation facility. As such, funds related to OUC's fuel agent responsibility have been restricted on the Statements of Net Assets (see Note E). At September 30, 2003 SECA was in pre-commercial operations; on October 1, 2003 commercial operations began.

These agreements and the related ownership have remained consistent for the years ending September 30, 2003 and 2002 and are as follows:

Facility name	Agreement year	Total facility net megawatt capacity	OUC undivided ownership interest	Net OUC megawatt capacity
St. Lucie Unit 2 (SL2)	1980	853	6.0895%	52
McIntosh Unit 3 (MAC3)	1978	340	40.0000%	136
Crystal River Unit 3 (CR3)	1975	835	1.6015%	13
Stanton A (SECA)	2001	633	28.0000%	177

Plant balances and construction in progress for SEC1, SEC2, MAC3 and the Indian River Plant CTs include the cost of common and/or external facilities. At the other plants, participants pay user charges to the operating entity for the cost of common and/or external facilities. User charges paid for SECA are remitted back to OUC at their proportionate ownership interest of Shared Facilities. Allowance for depreciation and amortization of utility plant is determined by each participant based on their depreciation methods and rates relating to their share of the plant. During fiscal years 2003 and 2002, OUC authorized an additional $0 and $7.2 million, respectively, in depreciation of its interest in the SL2 nuclear generating facility.

Note D — Jointly Owned Operations (continued)

The following is a summary of OUC's recorded net share of each jointly power generation facility:

(Dollars in thousands)	September 30 2003	2002
Stanton Energy Center Unit 1	$ 180,103	$ 186,149
Stanton Energy Center Unit 2	302,380	310,172
Stanton Energy Center Unit A	72,642	55,662
McIntosh Unit 3	58,331	60,617
St. Lucie Unit 2	45,223	34,194
Indian River Combustion Turbines	33,630	38,730
Crystal River Unit 3	7,179	3,629
Allowance for decommissioning	-	(25,382)*
Total	**$ 699,488**	**$ 663,771**

*See Notes B & C for reclassification of allowance for decommissioning.

Note E — Cash, Cash Equivalents and Investments

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

- Obligations which are unconditionally guaranteed by the U.S. or its agencies
- Repurchase and reverse repurchase agreements
- Money market funds
- Commercial paper
- Interest-bearing qualified public depository accounts
- Certificates of deposit
- Taxable municipal bonds
- Bankers' acceptances

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

Investments in repurchase agreements are secured transactions occurring between OUC and a securities dealer under a master repurchase agreement. OUC will exchange cash for temporary ownership of specified collateral with an agreed upon rate of interest and maturity. Specified collateral is limited to direct governmental and agency obligations with terms of 10 years and under, and held and maintained by a third party trust at a market value of 102% of the value of the repurchase agreement. OUC has determined the risk of default as minimal.

OUC invests funds with the Local Government Surplus Funds Investment Pool Trust Fund (the "Surplus Funds Investment Pool"), an investment pool administered by the State Board of Administration of Florida. Included in these investments are derivative instruments, which are comprised of approximately 13.94% and 0.70% of the Surplus Funds Investment Pool portfolio for the periods ended September 30, 2003 and 2002 respectively. These investments derive their value from certain floating rate notes based on the prime rate and/or one and three month London Inter-bank Offered Rate rates. Investments in the Surplus Funds Investment Pool are not insured or collateralized; however, due to the stringent investment policies of these funds, OUC considers the risk of loss of principal to be remote.

Note E — Cash, Cash Equivalents and Investments (continued)

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

	September 30	
(Dollars in thousands)	2003	2002
Cash	**$ 74,427**	**$ 122,710**
Investments - category 1		
(Insured or registered & held by OUC or agent in OUC's name)		
Repurchase agreements	-	305
U.S. government securities	16,047	45,415
Commercial paper	69,725	-
Other U.S. and agency backed securities	456,679	454,710
Total investments – category 1	542,451	500,430
Total cash, cash equivalents and investments	**$ 616,878**	**$ 623,140**
Restricted assets		
Debt service and related funds:		
Principal & interest funds	$ 55,565	$ 61,935
Debt service reserve funds	46,153	102,948
Total debt service and related funds	101,718	164,883
Construction and related funds		
Nuclear generation facility decommissioning funds	29,853	27,731
Stanton A fuel	1,983	-
Construction funds	55,376	18,791
Total construction and related funds	87,212	46,522
Renewal & replacement fund	48,954	48,939
Customer meter deposits	21,141	19,161
Total restricted assets	259,025	279,505
Internally designated funds		
Liability reduction fund	191,382	189,122
Stabilization funds & customer retention	89,279	95,392
Self-Insurance fund	5,480	4,759
Total internally designated funds	286,141	289,273
Other funds		
Cash and investments	72,633	55,324
Less accrued interest receivable from restricted assets	(921)	(962)
Total cash, cash equivalents and investments	**$ 616,878**	**$ 623,140**

Note F — Regulatory Deferrals

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

- **Deferred charges:** In 2002, OUC used proceeds from the Liability Reduction Fund (LRF) to defease a portion, $112.2 million of the Series 1989D bonds. In conjunction with this defeasance, the associated loss on defeasance ($15.5 million) was deferred and amortized consistent with the life of the remaining outstanding Series 1989D bonds. In 2003, the remaining Series 1989D bonds were defeased and regulatory action was taken by the governing board to continue amortizing these costs over the original bond series life net of the proceeds received from restructuring the related escrow deposit trust fund. Since the inception of the defeasance, the proceeds from restructuring of the escrow deposit trust fund have been sufficient to offset period regulatory amortization costs. The outstanding regulatory asset at September 30, 2003 and 2002 was $13 million and $13.4 million, respectively.

  Deferred charges also include deferred interest costs on Series 1993 and 1993B bonds. These interest costs were incurred due to the differential between the short-term and long-term rates at the time of bond issuance. OUC's regulatory costs for these charges are $6.1 million and $6.4 million at September 30, 2003 and 2002, respectively. Deferred charges are currently amortized to interest expense over the remaining period of the original bond series.

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

- **Deferred gain on sale of assets:** On October 5, 1999, OUC sold its steam units at the Indian River Plant (IRP) and elected to defer the gain on sale ($144 million). A portion of this deferred gain ($45 million) was designated to offset generating facility demand payments and through September 30, 2003, $34.3 million has been recognized. In 2003 and 2002, OUC recognized gains of $0 and $13.4 million, respectively. In addition, at the time of the sale OUC received a pre-payment from the buyer for 20 years worth of transmission access fees, which is included under the heading of Deferred revenue on the Statements of Net Assets and is being amortized annually over the life of the agreement.
- **Deferred wholesale trading profits:** This account represents a portion of profits generated from resale sales.
- **Electric and water rate stabilization:** OUC's governing board established these accounts for costs (revenues) that are to be recovered by (used to reduce) rates in periods other than when incurred (realized).
- **Fuel stabilization:** This account was established in accordance with guidelines from the Public Utilities Regulatory Policies Act of 1978 and represents the difference between the fuel costs charged to customers and the fuel costs incurred.
- **Customer retention stabilization:** This account was established to assist in retaining existing customers and attracting new customers.
- **Health insurance reserve:** OUC's governing board established this account to mitigate unexpected increases in medical costs to employees.

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

Description (Dollars in thousands)	September 30 **2003**	**2002**
Deferred charges	$ 19,047	$ 19,872
Deferred wholesale trading profits	$ 39,753	$ 39,232
Rate stabilization	42,519	41,308
Fuel stabilization	28,677	36,565
Health insurance reserve	480	468
Customer retention stabilization	1,158	1,518
Total regulatory liabilities included in deferred revenue	112,587	119,091
Deferred gain on sale of assets	111,009	110,000
Total regulatory liabilities	**$ 223,596**	**$ 229,091**

Note G — Self-Insurance

OUC's self-insurance program covers a portion of its workers' compensation, general liability and automobile liability exposures. The liability associated with this program is included in the Statements of Net Assets under the caption, Accounts Payable and Accrued Expenses. Changes to the balances of the self-insurance program liability in 2003 and 2002 are as follows:

	September 30	
(Dollars in thousands)	2003	2002
Balance, beginning of year	$ 661	$ 353
Claims and changes in estimates	209	683
Payments of claims	(390)	(375)
Balance, end of year	$ 480	$ 661

	September 30	
(Dollars in thousands)	2003	2002
Workers' compensation	$ 250	$ 250
General liability	$ 1,000	$ 1,000
Automobile liability	$ 1,000	$ 1,000

It is the opinion of general counsel that the Orlando Utilities Commission, as a statutory commission, may enjoy sovereign immunity in the same manner as a municipality, as allowed by Florida Court of Appeals rulings. Under said rulings, Florida Statutes limit of liability for claims or judgments by one person for general liability or auto liability is $100,000 or a total of $200,000 for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, any defense of sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations. It is also the opinion of general counsel that OUC, as a municipal utility, is statutorily immune from suit for malicious prosecution.

Liability for accidents at the nuclear power plants for which OUC has a minority interest are governed by the Price Anderson Act, which limits the public liability of nuclear reactor owners for a single nuclear incident, to a combination of private insurance and retrospective assessments. Both majority owners (Florida Power & Light and Progress Energy Corporation) maintain the maximum amount of private liability insurance ($300 million) and participate in a secondary financial protection system. In addition, both majority owners participate in nuclear mutual companies that provide limited insurance coverage for property damage, decontamination and premature decommissioning risks. Irrespective of the insurance coverage, should a catastrophic loss occur at either of the plants, the amounts of insurance available may not be adequate to cover property damage and other expenses incurred. The owners of a nuclear power plant could be assessed to pay up to $101 million per unit per incident, but not more than $10 million per unit in a calendar year. Uninsured losses, to the extent not recovered through rates, would be borne by each of the owners at their proportionate ownership share and may have an adverse effect on their financial position. See Note D for OUC's ownership interest in St. Lucie Unit 2 and Crystal River Unit 3.

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

Note H — Long-Term Debt

Activity for the years ended September 30, 2003 and September 30, 2002 are as follows:

Long Term Debt (Dollars in thousands)	Final Principal Payment	Interest Rates (%)	September 30, 2002	Additions	Decreases	September 30, 2003	Current Portion
Senior lien:							
1992 Bonds	2010	5.30 - 6.00%	$ 286,440	$ -	$ 25,270	$ 261,170	$ 26,635
1993 Bonds	2023	4.75 - 5.125%	95,600	-	95,600	-	-
1996A Bonds	2023	4.10%	60,000	-	-	60,000	-
1996B Bonds	2011	5.10%	39,995	-	-	39,995	-
2001 Bonds	2023	3.00 - 5.25%	258,815	-	1,555	257,260	1,735
2003 Bonds	2025	5.00%	-	54,775	-	54,775	-
Total senior lien debt			740,850	54,775	122,425	673,200	28,370
Junior lien:							
1989D Bonds	2023	5.00 - 6.75%	76,385	-	76,385	-	-
1992A Bonds	2027	5.50%	39,420	-	39,420	-	-
1993A Bonds	2023	4.90 - 5.50%	85,000	-	85,000	-	-
1993B Bonds	2023	4.75 - 5.60%	72,700	-	72,700	-	-
1994A Bonds	2020	4.25 - 5.00%	133,540	-	715	132,825	745
2001A Bonds	2020	4.00 - 5.25%	37,040	-	125	36,915	135
2002A Bonds	2017	Variable Rate*	120,000	-	-	120,000	-
2002B Bonds	2022	Variable Rate*	-	100,000	-	100,000	-
2002C Bonds	2027	5.00 - 5.25%	-	70,955	-	70,955	-
2003A Bonds	2022	2.50 - 5.00%	-	118,760	-	118,760	-
2003B Bonds	2022	3.00 - 5.00%	-	105,700	-	105,700	-
Total junior lien debt			564,085	395,415	274,345	685,155	880
Other debt:							
1998 Bond Anticipation Notes	2003	3.25%	60,000	-	60,000	-	-
1999A Bond Anticipation Notes	2004	Variable Rate*	100,000	-	-	100,000	100,000
Total other debt			160,000	-	60,000	100,000	100,000
Less current portion			(91,155)	(129,250)	(91,155)	(129,250)	
Total debt			$1,373,780	$320,940	$365,615	$1,329,105	$129,250

*Variable rates ranged from 0.60% to 1.85% for the year ended September 30, 2003.

Note H — Long-Term Debt (continued)

Long Term Debt (Dollars in thousands)	Final Principal Payment	Interest Rates (%)	September 30, 2001	Additions	Decreases	September 30, 2002	Current Portion
Senior lien:							
1992 Bonds	2010	5.30 - 6.00%	$ 310,440	$ -	$ 24,000	$ 286,440	$ 25,270
1993 Bonds	2023	4.75 - 5.125%	139,020	-	43,420	95,600	-
1996A Bonds	2023	4.10%	60,000	-	-	60,000	-
1996B Bonds	2011	5.10%	39,995	-	-	39,995	-
2001 Bonds	2023	3.00 - 5.25%	-	258,815	-	258,815	1,555
Total senior lien debt			549,455	258,815	67,420	740,850	26,825
Junior lien:							
1989D Bonds	2023	5.00 - 6.75%	253,945	-	$177,560	76,385	-
1991A Bonds	-	5.50%	115,380	-	115,380	-	-
1992A Bonds	2027	5.50%	39,420	-	-	39,420	-
1993A Bonds	2023	4.90 - 5.50%	85,425	-	425	85,000	445
1993B Bonds	2023	4.75 - 5.60%	128,435	-	55,735	72,700	3,045
1994A Bonds	2020	4.25 - 5.00%	134,225	-	685	133,540	715
2001A Bonds	2020	4.00 - 5.25%	37,040	-	-	37,040	125
2002A Bonds	2017	Variable Rate*	-	120,000	-	120,000	-
Total junior lien debt			793,870	120,000	349,785	564,085	4,330
Other debt:							
Line of credit - Note O	-	1 month LIBOR + 1.50%	25,965	4,412	30,377	-	-
1998 Bond Anticipation Notes	2003	3.25%	60,000	-	-	60,000	60,000
1999A Bond Anticipation Notes	2004	Variable Rate*	100,000	-	-	100,000	-
Total other debt			185,965	4,412	30,377	160,000	60,000
Less current portion			(54,190)	(91,155)	(54,190)	(91,155)	
Total debt			$ 1,475,100	$ 292,072	$ 393,392	$ 1,373,780	$ 91,155

*Variable rates ranged from1.05% to 2.28% for the year ended September 30, 2002.

Note H — Long-Term Debt (continued)

Following is a schedule of annual principal and interest funding requirements on bonds and notes outstanding at September 30, 2003:

Year ending (Dollars in thousands)	Principal	Interest	Total
2004	$ 133,005	$ 64,332	$ 197,337
2005	36,435	61,683	98,118
2006	39,280	59,679	98,959
2007	41,400	57,497	98,897
2008	43,800	55,162	98,962
2009-2013	307,640	230,513	538,153
2014-2018	341,650	160,907	502,557
2019-2023	431,145	67,852	498,997
2024-2027	54,750	3,962	58,712
Total	$ 1,429,105	$ 761,587	$ 2,190,692

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

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

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

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

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

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

Junior lien bonds: The junior lien bonds are payable from, and secured by, a lien upon and a pledge of the net revenues derived by OUC from the operation of the water and electric system and certain investment income, subject to the prior lien thereon of OUC's outstanding senior lien bonds.

OUC has covenanted in the junior lien bond resolution to fix, establish and maintain such rates and collect such fees, rentals or other charges for the services and facilities provided in each fiscal year. Net revenues derived from these rates and fees shall be adequate, after the deduction of amounts to provide and fund for the annual debt service and debt service reserve requirements for senior lien bonds and to make any required deposit to other funds and accounts established under documents evidencing or securing senior lien bonds at all times, to pay in each fiscal year the sum of at least (1) one hundred percent (100%) of the annual debt service requirement for the bonds issued pursuant to the resolution and any pari passu additional bonds hereafter issued for the then current fiscal year and (2) one hundred percent (100%) of the amount required to be deposited into the Demand Charge Component Account for the then current fiscal year, and that such net revenues will be sufficient to make all other payments required by the terms of the resolution and that such rates, fees, rentals or other charges shall not be reduced so as to be insufficient to provide adequate revenues for such purposes.

Note H — Long-Term Debt (continued)

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

General bond resolution: On October 9, 2001, OUC adopted a General Bond Resolution. Bonds issued after this date fall under the provisions of this new resolution. The terms of this new general bond resolution do not become effective until in excess of 51% of OUC's outstanding Senior and Junior debt obligations have been issued under this resolution (see Note M). The most significant provisions of the new resolution are as follows:

- **Rate covenant:** The net revenue requirement for annual debt service has been set at 100% or available funds plus net revenues at 125% of annual debt service.

- **Additional bonds test:** This test is limited to OUC's certification that it meets rate covenant.

- **Flow of funds:** There are no funding requirements; however, consistent with prior resolutions, OUC can determine whether to fund a debt service reserve account on an issue-by-issue basis or internally designated funds.

- **System definition:** OUC's system definition has been modified to utility system. This definition is a more expansive definition to accommodate organizational changes and the expansion into new services.

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

At September 30, 2003, the Junior lien bonds, at a percentage of 75%, have reached the consent percentage; however, the Senior lien bonds at a percentage of 46% have not reached the consent percentage. Therefore, the General Bond Resolution is not effective at September 30, 2003. See Note M related to the effective date of the General Bond Resolution.

Refunded bonds: Proceeds secured from refunding transactions are invested in United States obligations in irrevocable escrow deposit trust funds. Each escrow deposit trust is structured to mature at such time as to provide sufficient funds for the payment of maturing principal and interest on the Refunded Bonds. All interest earned or accrued on the United States obligations has been pledged and will be used for the payment of the principal and interest on each respective bond series. As a result of a favorable rate environment, OUC has refunded $365.6 million and $276.8 million of long-term debt for fiscal years ended September 30, 2003 and 2002, respectively and are summarized below:

Debt issued (Dollars in thousands)	Month issued	Par amount issued	Par amount refunded	PV savings	Accounting loss	Savings % of refunded bonds
2002C	Nov-02	$ 70,955	$ 84,290	$ 4,336	$ 5,473	5.14%
2003A	Apr-03	118,760	156,635	8,003	18,549	5.11%
2003B	Jul-03	105,700	124,690	12,190	14,621	9.78%
		$ 295,415	$ 365,615	$ 24,529	$ 38,643	

Debt issued (Dollars in thousands)	Month issued	Par amount issued	Par amount refunded	PV savings	Accounting loss	Savings % of refunded bonds
2001	Oct-01	$ 258,815	$ 276,790	$ 19,157	$ 38,297	6.92%

Defeased bonds: In July 2002, OUC used proceeds from the Liability Reduction Fund (LRF) to defease $112.2 million of the Water and Electric Subordinated Revenue Bonds Series 1989D (Defeased Bonds). LRF proceeds were invested in United States obligations in an irrevocable escrow deposit trust fund and will mature at such time and in such amounts so as to provide sufficient funds for the payment of maturing principal and interest on the Defeased Bonds. The loss associated with the defeasance has been deferred ($15.5 million) and is being offset by a series of intra-day trades that are designed to recoup the loss through the restructuring of the escrow deposit trust fund on a periodic basis (see Note F).

Note H — Long-Term Debt (continued)

All refunded and defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statements of Net Assets. Defeased bonds outstanding at September 30, 2003 and 2002 are $472 million and $674 million, respectively.

Interest Rate Swaps: Interest rate swaps, a derivative financial instrument, are used by OUC to manage interest rate exposure on both fixed and variable rate debt and are not executed for trading purposes. Under these swap agreements, only the net difference in interest calculated at fixed and variable rates is actually exchanged with the counter party. The notional amounts are the basis on which interest is calculated; however, the notional amounts are not exchanged.

Although a termination of the swap agreement may result in OUC's making or receiving a termination payment, OUC limits its execution of these agreements to major financial institutions with either high investment grade credit ratings or agreements to collateralize their net position. Therefore, OUC does not anticipate nonperformance by a counter party.

As outlined in Note B, GASB issued a technical bulletin in June 2003 requiring additional disclosure information related to derivatives. As such, the following schedule summarizes OUC's swap agreements outstanding at September 30, 2003 with fair value amounts corresponding to the market value:

(Dollars in thousands)	2003
Notional amount	$ 320,000
Term	October 2008-2022
Rate OUC:	
Received	1.94%
Paid (weighted average rate)	2.76%
Fair value liability, net	$ 7,863

*The notional amounts at September 30, 2003 represent seven counter party agreements of which one has a call option that expires in 2009.

Note I — Commitments and Contingent Liabilities

Energy sales commitments: OUC engages in long-term resale energy contracts with several key customers for both unit specific sales, sales generated from a specific power plant, and systems sales, sales generated from any OUC available resource. The following table provides a summary of OUC's power sales contracts with other companies.

	Unit sales		System Sales		Total	
Year	No. of contracts	Amount of sales MW	No. of contracts	Amount of sales MW	No. of contracts	Amount of sales MW
2004	3	126	1	105	4	231
2005	1	49	1	113	2	162
2006	1	27	1	29	2	56
2007	1	6	0	0	1	6

Purchased power commitments: Purchased power commitments were executed in conjunction with the sale of the Indian River Plant steam units (see Note F) and the construction of the SECA generation facility. Purchased power commitments related to SECA are scheduled to begin in October 2003, when the plant begins commercial operations. These two agreements represent the primary purchased power commitments below:

Year	Number of contracts	Amount of megawatts
2004	3	845
2005	3	645
2006	2	345
2007	2	345
2008-2012	2	345
2013	1	330

Note I — Commitments and Contingent Liabilities (continued)

Fuel and fuel transportation commitments

Coal: OUC and the other participants in SEC1 and SEC2 have entered into coal supply and rail contracts. The coal supply contracts expire in 2005 and 2006; however, each contract contains renewal and/or market price reopeners for additional years. The rail transportation contracts for the coal expire on December 31, 2007. The coal supply contracts require minimum annual purchases as follows:

Year (Dollars in thousands)	Amount
2004	$ 38,769
2005	$ 39,185
2006	$ 18,163

Natural gas: OUC has entered into natural gas supply and transportation contracts. The supply contracts for SECA expire in 2004, 2005, and 2006. These contracts have an indexed-based pricing structure such that the cost of natural gas floats with market prices. Natural gas supply costs, based on current estimated market prices, are calculated below at a cost of $4.75 per MMBTU. The transportation contracts expire in 2004 and 2014 with 10-year renewal options. In addition OUC, as fuel agent for SECA, has entered into a contract effective 2004 with a minimum term of 10 years.

The following schedule summarizes natural gas transportation capacity and supply commitments at September 30, 2003:

Year (Dollars in thousands)	Supply	Capacity	Total
2004	$59,268	$ 16,590	$ 75,858
2005	$45,516	$ 18,122	$ 63,638
2006	$36,824	$ 17,885	$ 54,709
2007	-	$ 17,676	$ 17,676
2008	-	$ 17,677	$ 17,677
2009-2014	-	$ 17,679	$ 17,679

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

Derivative fuel instruments: OUC's fuel-related derivative transactions, where applicable, are recorded on the Statements of Net Assets as either an asset or liability measured at fair market value. Related gains and/or losses on these transactions are deferred and recognized in the specific period in which the instrument was settled and are included as part of the fuel and purchased power costs in the Statements of Revenues, Expenses and Changes in Net Assets. No amount is recorded for the fuel swaps other than the net monthly fuel settlement amount resulting from these agreements.

At September 30, 2003 and 2002, OUC had fuel-related derivative instruments (swaps, futures, and options) with a net fair market value of $5.6 million and $2 million, respectively. In addition, the valuation of market changes for OUC's Energy Risk Management Program contracts resulted in a decrease in fuel expenses of $2.2 million in 2003 and an increase in fuel expenses of $394,000 in 2002.

Note J — Major Agreements

City of Orlando: OUC pays a revenue-based payment and an income-based dividend payment to the City of Orlando. The revenue-based payment is classified as an operating expense and is calculated at 6% of gross retail electric and water billings and 4% of chilled water billings to customers within the City limits. The income-based dividend payment is recorded as a reduction of net assets on the Statements of Revenues, Expenses and Changes in Net Assets. The dividend is calculated using 60% of income before contributions for all operating units except those operated under the agreement with Trigen-Cinergy Solutions (as noted below). Dividends for operating units under the Trigen-Cinergy Solutions agreement are calculated based on 50% of income before contributions up to $625,000 and 60% thereafter. Dividends for fiscal years 2003 and 2002 totaled $33 million and $28.2 million, respectively, including accrued dividends at September 30, 2003 and 2002 of $3.8 million and $0, respectively.

Orange County: OUC pays a revenue-based payment to Orange County calculated at 1% of gross retail electric billings to customers within the County but outside the city limits of the City of Orlando. This payment is recorded under the heading of Payments and Taxes on the Statements of Revenues, Expenses and Changes in Net Assets.

City of St. Cloud: In April 1997, OUC entered into an interlocal agreement with the City of St. Cloud (STC) to assume responsibility for providing retail electric energy services to all STC customers and to assume control and operation of STC's electric transmission and distribution system and certain generation facilities. In return, OUC is obligated to pay STC 9.5% of gross retail electric billings to STC customers (a minimum of $2.4 million annually, unless certain events occur) and to pay STC's electric system net debt service. The term of the agreement commenced May 1, 1997 and, as amended in April 2003, continues until September 30, 2032. OUC's billed revenue includes $36.3 million and $33.2 million from the interlocal agreement for the years ended September 30, 2003 and 2002, respectively.

Trigen-Cinergy Solutions: On June 23, 1998, OUC entered into an agreement with Trigen-Cinergy Solutions (TCS) to construct and provide air conditioning cooling systems (chilled water) for buildings in the Orlando metropolitan area. The agreement provided for interim financing in the form of a line of credit from Trigen-Cinergy (see note H). The line of credit was provided through April 4, 2002, at which time, the outstanding financed balance ($30.4 million) was repaid with capital contributions from OUC and TCS based on the profit sharing percentages of 49% and 51%, respectively. Since this date, additional capital contributions have been provided for by OUC and TCS based on their profit sharing percentage at $2.3 million and $2.9 million for the years ending September 30, 2003 and 2002, respectively.

TCS's contribution is netted against utility plant to reflect its share of the future revenue streams anticipated from these assets. Total outstanding capital contributions from TCS at September 30, 2003 and 2002 were $18.1 million and $16.9 million, respectively. TCS's share of total project earnings are recorded as a liability under the heading of Accounts Payable and Accrued Expenses on the Statements of Net Assets at $854,000 and $399,000 for September 30, 2003 and 2002, respectively. See Note M related to the dissolution of this agreement.

Note K — Pension Plans and Other Post-Employment Benefits

Defined benefit plan

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

OUC is the administrator of the plan and as such has the authority to make changes thereto. Periodically the plan issues stand-alone financial statements with the most recent report scheduled to be issued for the year ending September 30, 2003. In accordance with Governmental Accounting Standards, the plan receives actuarial reports at a minimum bi-annually with the most recent actuarial report prepared for the period ending September 30, 2002.

Funding policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. The current rate of contribution required by OUC is 12.46% of annual covered payroll. Required participant contribution obligations are 4% of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter. The benefit reduction for early retirement is 1% per year.

Note K — Pension Plans and Other Post-Employment Benefits (continued)

Annual pension cost and net pension asset: OUC recognizes annual pension cost in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers. GASB Statement No. 27 also requires recognition of a net pension asset or obligation for the cumulative differences between annual pension cost and employer contributions to the plan. Pension cost and the net pension asset have been calculated using information obtained from actuarial documentation and where applicable, prior year balances have been adjusted to reflect updated actuarial changes and other appropriate reclassifications.

The following schedule summarizes the activity related to the defined pension plan for the years ended September 30, 2003 and 2002:

	September 30	
(Dollars in thousands)	**2003**	**2002**
Current year actuarial required contribution (ARC)	$ 4,224	$ 4,251
Interest earnings on net pension asset	(141)	(126)
Adjustment to ARC	169	166
Annual pension cost	4,252	4,291
Contributions applicable to pension period	4,585	4,317
Change in net pension asset	333	26
Beginning net pension asset	1,473	1,447
Ending net pension asset	$ 1,806	$ 1,473

Actuarial reports, received each February, disclose plan assets and actuarial liabilities as of the end of the prior fiscal year and set forth required contribution levels. For the year ending September 30, 2003, OUC received a letter report from the actuary estimating pension costs based on the October 1, 2001 valuation.

Actuarial amounts are calculated using the aggregate cost method, which as noted in guidance, does not identify or separately amortize unfunded actuarial assets/obligations. The actuarial value of assets/obligations is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. As of September 30, 2003 and 2002, the plan had an unfunded actuarial liability of $54.6 million and $14.5 million, respectively.

In conjunction with the historic low interest rates, OUC in November 2003 issued taxable pension bonds (see Note M) in the amount of $55.3 million at a true interest cost of 4.95%. OUC's pension plan earnings rate, used for actuarial purposes, was affirmed by the Pension Committee in 2003 and continues to be 8.50%.

In accordance with GASB Statement No. 27, the amounts above were based on the following actuarial information:

	October 1	
	2003	**2002**
Investment rate of return	8.50%	8.50%
Projected salary increases	5.75%	5.75%
Inflation component	4.00%	4.00%

Three-year trend information

Year ending (Dollars in thousands)	**Annual pension cost (APC)**	**Percentage of APC contributed**	**Net pension asset**
September 30, 2003	$ 4,252	108%	$ 1,806
September 30, 2002	$ 4,291	101%	$ 1,473
September 30, 2001	$ 2,352	98%	$ 1,447

Note K — Pension Plans and Other Post-Employment Benefits (continued)

Defined contribution plan

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

Under the plan, each eligible employee, upon commencement of employment, is required to contribute 4% of their salary, with OUC making a matching contribution of 4%. In addition, OUC will match up to 2% for additional voluntary contributions. Employees are fully vested after one year of employment. Total contributions for the years ending September 30, 2003 and September 30, 2002 were $1.8 million ($870,000 employer and $985,000 employee) and $1.6 million ($753,000 employer and $845,000 employee), respectively.

Other post-employment benefits

OUC has a policy to provide health care benefits and life insurance coverage to all employees who retire under the defined benefit plan on or after attaining age 55 with at least 10 years of service or at any age after completing 25 years of service. Currently 488 retirees meet the eligibility requirements. Retirees may also elect to provide health care insurance for their qualifying dependents by paying 50% of the calculated premium. Medical benefits will be available, but not subsidized, for employees who retire under the defined contribution pension plan. OUC is a secondary provider for those retirees and/or their dependents who are eligible for Medicare benefits.

OUC's health care plan is administered through an insurance company on a self-insurance program with an additional purchased insurance policy to cover those claims over $150,000. In this plan, the insurance company administers the plan and processes the claims according to benefit specifications, with OUC reimbursing the insurance company for its payouts. Expenses are recorded by OUC when paid to the insurance company. Total post-employment health care costs recognized by OUC for the years ending September 30, 2003 and 2002, were $3.7 million and $3.2 million, respectively. Post-employment life insurance costs during the same periods were $37,000 and $34,000.

Note L — Regulation and Competition

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

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

In respect to federal legislation, the FERC issued order 2000, requiring the formation of regional transmission organizations. The intention of this FERC order was to develop market-driven congestion management as well as provide one-stop shopping for all transmission and eliminate the layering of rates for each transmission trade which crosses a corporate boundary. The State of Florida began structuring the framework for a statewide transmission organization (Grid Florida), and although OUC is not required to be a member based on its municipal status, OUC has been involved with the formation of this organization. The formation of this organization was on hold pending a ruling by the Supreme Court of Florida that was delivered in the summer of 2003. The FERC and the FPSC held a technical conference about Grid Florida on September 15, 2003. The next steps from that conference are for the applicants (Florida Power & Light, Progress Energy, and Tampa Electric) to review the previously filed documents for the formation of Grid Florida and make any changes that are considered necessary and refile the documents.

Note M — Subsequent Events

In November 2003, OUC issued the taxable Series 2003T Water and Electric Senior Lien Revenue Bonds, in the amount of $55.3 million under OUC's General Bond Resolution adopted on October 9, 2001. The Series 2003T Bonds were issued in a fixed rate mode at a true interest cost of 4.95%.

As a result of issuing the Series 2003T bonds, the consent percentage for the Senior Lien Bonds reached the threshold to enact the provisions of the General Bond Resolution. As of November 12, 2003, the consent percentages for Senior and Junior Lien bonds are 52% and 75%, respectively. The terms of the General Bond Resolution are defined in Note H.

In November 2003, OUC's board authorized the dissolution of the agreement with TCS. The offer includes repayment of TCS's capital contributions ($18.1 million) and other amounts owed under the agreement ($854,000) plus an initial lump sum payment for current contracted customers of $5.3 million. Additional payments are contingent on OUC securing additional contracts in certain chilled water operating loops.

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Commissioners of the
Orlando Utilities Commission:

We have audited the accompanying statements of net assets of Orlando Utilities Commission as of September 30, 2003 and 2002, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of Orlando Utilities Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orlando Utilities Commission as of September 30, 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.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2003 on our consideration of Orlando Utilities Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

November 17, 2003

Deloitte
Touche
Tohmatsu

OUC

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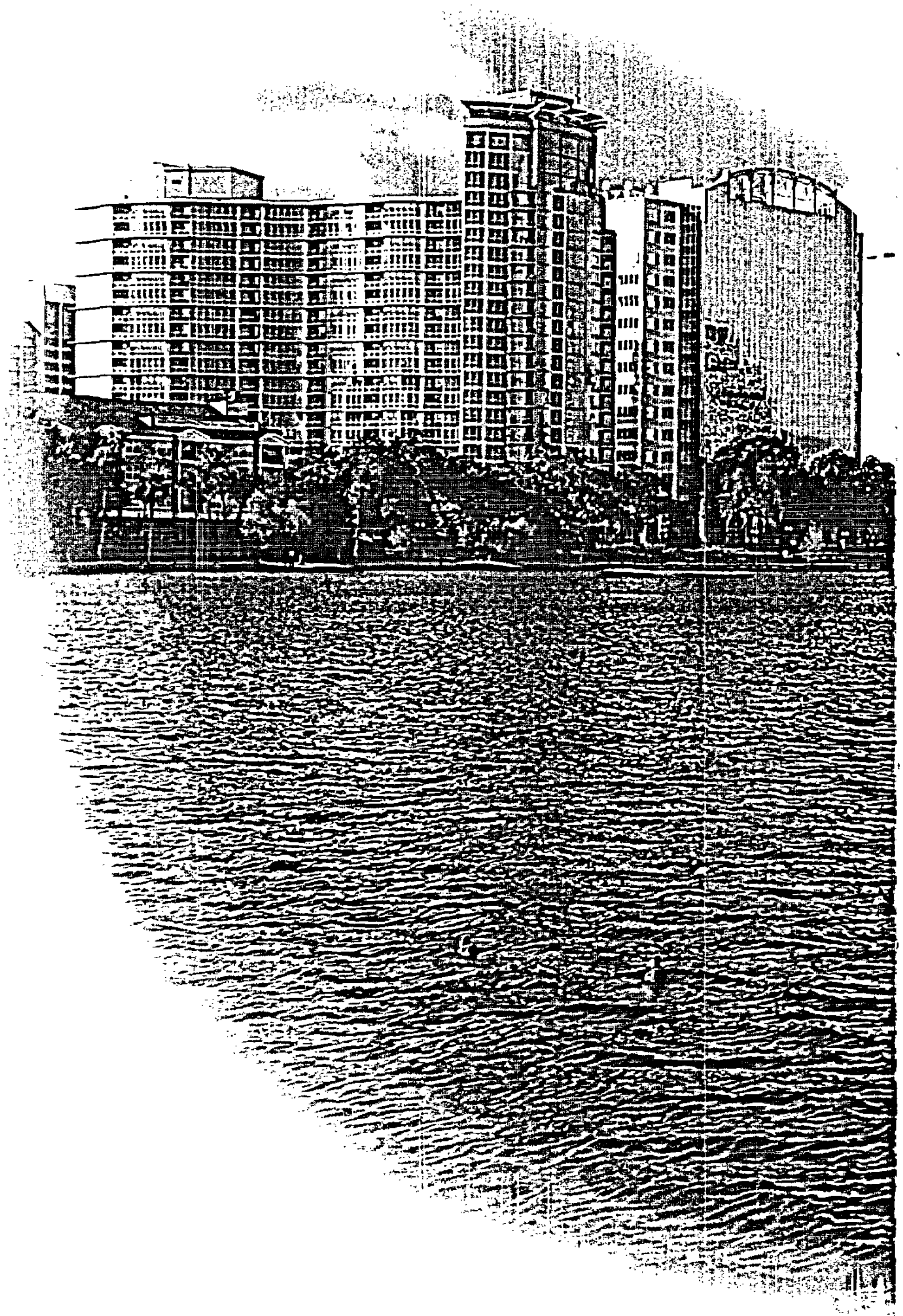

PRICEWATERHOUSECOOPERS

Seminole Electric Cooperative, Inc.

Consolidated Financial Statements
For the Years ended December 31, 2003 and 2002

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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Report of Independent Certified Public Accountants

To the Board of Trustees
Seminole Electric Cooperative, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenue and expenses and patronage capital, of comprehensive income and of cash flows present fairly, in all material respects, the financial position of Seminole Electric Cooperative, Inc. and its subsidiaries ("Seminole") at December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Seminole's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2004 on our consideration of Seminole'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.

PricewaterhouseCoopers LLP

February 13, 2004

SEMINOLE ELECTRIC COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS

	December 31	
	2003	2002
ASSETS		
Utility plant:		
Plant in service	$ 1,074,460,489	$ 1,072,706,869
Construction work in progress	11,319,061	4,056,718
	1,085,779,550	1,076,763,587
Less accumulated depreciation and amortization	(441,205,429)	(416,466,162)
Utility plant, net	644,574,121	660,297,425
Investments:		
Investments in associated organizations	2,998,556	3,460,364
Funds held by trustees and special funds	66,729,025	63,439,520
Total investments	69,727,581	66,899,884
Current assets:		
Cash and cash equivalents	25,927,301	24,428,385
Other current investments	39,947,986	0
Receivables, principally for sales of electricity	81,876,569	79,749,297
Inventories, at average cost:		
Materials and supplies	19,460,382	19,039,303
Fuel	15,284,326	31,042,863
Prepayments and other	10,724,020	7,252,074
Total current assets	193,220,584	161,511,922
Deferred charges:		
Regulatory	23,419,972	36,042,042
Non-Regulatory	36,166,158	38,457,274
Total deferred charges	59,586,130	74,499,316
Total assets	$ 967,108,416	$ 963,208,547

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

SEMINOLE ELECTRIC COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS

	December 31 2003	December 31 2002
EQUITIES AND LIABILITIES		
Equities:		
Memberships	$ 1,000	$ 1,000
Patronage capital	76,927,550	75,098,372
Donated capital	31,715	31,715
Other margins and equities	3,917,839	4,393,321
Total equities	80,878,104	79,524,408
Long-term liabilities:		
Long-term debt	755,538,777	748,589,639
Obligations under capital leases	0	285,872
Other	14,485,177	7,600,213
Total long-term liabilities	770,023,954	756,475,724
Current liabilities:		
Current portion of:		
Long-term debt	35,084,307	31,547,242
Obligations under capital leases	285,872	262,762
Accounts payable	34,117,411	40,769,302
Other accrued liabilities	27,955,761	29,360,460
Total current liabilities	97,443,351	101,939,766
Deferred gain on sale-leaseback of plant	8,435,622	9,851,391
Other deferred credits	10,327,385	15,417,258
Commitments and contingencies (Notes 10 and 11)		
Total equities and liabilities	$ 967,108,416	$ 963,208,547

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

SEMINOLE ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES AND PATRONAGE CAPITAL

	For the years ended December 31, 2003	2002
Operating revenues	$ 798,693,898	$ 713,770,716
Operating expenses:		
Operation:		
Fuel	270,128,732	234,142,855
Other production expenses	76,821,190	75,253,835
Purchased power	296,893,984	242,448,133
Transmission	38,874,366	38,846,162
Administrative and general	19,406,851	23,414,642
Depreciation and amortization - non-fuel	34,221,348	33,052,714
Lease of coal-fired plant	26,647,435	27,114,994
Total operating expenses	762,993,906	674,273,335
Operating margins before interest expense	35,699,992	39,497,381
Interest expense, net of amounts capitalized	40,277,839	42,071,213
Operating deficits	(4,577,847)	(2,573,832)
Patronage capital credits	26,129	29,511
Net operating deficits after interest expense	(4,551,718)	(2,544,321)
Non-operating income:		
Interest income	4,183,771	4,762,831
Other income, net	2,784,514	131,047
Net margins	2,416,567	2,349,557
Patronage capital, beginning of year	75,098,372	73,352,675
Patronage capital retirements	(587,389)	(603,860)
Patronage capital, end of year	$ 76,927,550	$ 75,098,372

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

SEMINOLE ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,	
	2003	2002
Net margins	$ 2,416,567	$ 2,349,557
Other comprehensive income/(loss):		
Cash flow hedges:		
Beginning balance	4,393,321	(990,383)
Unrealized gain on derivatives	8,376,673	8,535,422
Less: Reclassification adjustment for derivative income included in net margins	8,852,155	3,151,718
Other comprehensive income	3,917,839	4,393,321
Comprehensive income	$ 6,334,406	$ 6,742,878

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

SEMINOLE ELECTRIC COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2003	2002
Cash flows from operating activities:		
Net margins	$ 2,416,567	$ 2,349,557
Adjustments to reconcile to cash:		
Depreciation and amortization	51,524,106	55,035,759
Amortization of deferred gain on lease/leaseback	(1,240,811)	(1,198,442)
Lease expense/lease payment difference	(344,878)	346,857
Change in assets and liabilities:		
Receivables	(2,135,028)	(12,258,831)
Inventories	15,337,458	(6,246,044)
Prepayments and other	(4,988,996)	141,030
Deferred charges	(1,748,256)	(3,228,124)
Other long-term liabilities	(1,369)	(1,546)
Accounts payable	(6,651,891)	5,200,067
Other accrued liabilities	(233,352)	(12,939,586)
Total adjustments	49,516,983	24,851,140
Net cash provided by operating activities	51,933,550	27,200,697
Cash flows from investing activities:		
Utility plant additions, net of retirements	(17,935,236)	(11,908,457)
(Purchases of)/proceeds from investments, net	(39,939,720)	6,600,145
Net cash used in investing activities	(57,874,956)	(5,308,312)
Cash flows from financing activities:		
Proceeds from long-term borrowings	39,838,000	0
Payments of long-term debt	(31,547,527)	(29,649,593)
Payments of capital lease obligations	(262,762)	(241,521)
Payments of patronage capital credits	(587,389)	(603,860)
Net cash provided by/(used in) financing activities	7,440,322	(30,494,974)
Net increase/(decrease) in cash and cash equivalents	1,498,916	(8,602,589)
Cash and cash equivalents, beginning of year	24,428,385	33,030,974
Cash and cash equivalents, end of year	$ 25,927,301	$ 24,428,385
Supplemental disclosure: Interest paid	$ 36,039,031	$ 37,808,522

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

SEMINOLE ELECTRIC COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COOPERATIVE:

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

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

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

At December 31, 2003, 170 employees or approximately 36% of the total workforce were covered by a four year collective bargaining agreement with Utility Workers Union of America expiring on June 30, 2007.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

Operating Revenue

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

Operating revenue consists primarily of sales of electric power and energy by Seminole, a facilities use charge for Seminole's transmission lines serving a single member cooperative, and by-product sales. Member revenues include amounts resulting from a fuel and purchased power adjustment clause which provides for billings to reflect increases or decreases in fuel and fuel related purchased power costs. The levelized fuel rate is based on costs projected by Seminole for a twelve-month period. Any over-recovery or under-recovery of costs plus an interest factor are to be refunded or billed to the members semi-annually. At the members option, refunds of over-recoveries may be deferred with interest every six months until such time as the member elects to have the over-recovery including accumulated interest refunded. Over-recoveries of approximately $1.6 million and under-recoveries of approximately $9.9 million at December 31, 2003, and 2002, respectively, are recorded in accrued liabilities or accounts receivable until refunded or billed.

Included in operating revenue are approximately $774 million and $696 million of revenue from members for the years ended December 31, 2003 and 2002, respectively, of which approximately $79 million and $68 million primarily related to December sales are included in receivables at December 31, 2003 and 2002, respectively.

Utility Plant

Utility plant owned by Seminole is stated at original cost. Such cost includes applicable supervisory and overhead cost, plus net interest charged during construction. The amounts of interest capitalized during 2003 and 2002 were approximately $0.4 million and $0.2 million, respectively. The cost of maintenance and repairs, including renewals and replacements of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. (See Accounting for Asset Retirement Obligations.) Certain leased transportation equipment is valued at the total net present value of minimum lease payments.

Depreciation and Amortization of Utility Plant

Seminole provides for depreciation on owned utility plant using composite rates applied annually on a straight-line basis that will amortize the original cost of depreciable property over its estimated useful life. The average rates for 2003 and 2002 were as follows:

	2003	2002
Coal-fired production plant	3.10%	3.10%
Combined cycle production plant	3.00%	3.00%
Transmission plant	2.75%	2.75%
General plant	7.94%	8.22%
Nuclear production plant	4.51%	4.51%

Depreciation expense amounted to approximately $31.3 million and $31.1 million for 2003 and 2002, respectively.

Improvements to the leased coal-fired production plant are amortized over the remaining life of the base lease term. The related composite amortization rates were 7.37% and 7.18% for 2003 and 2002, respectively.

Amortization of leased assets under capital leases amounted to approximately $0.3 and $0.2 million in 2003 and 2002, respectively.

Long-Lived Assets

Seminole evaluates, on a regular basis, whether events and circumstances have occurred that indicate the carrying amounts of utility plant and deferred charges may warrant revision or may not be recoverable. Seminole measures impairment of these long-lived assets based on estimated future undiscounted cash flows from operations. At December 31, 2003, the net utility plant and net unamortized deferred charges balances are not considered to be impaired.

Accounting for Asset Retirement Obligations

Seminole adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" effective January 1, 2003. The statement requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Seminole has reviewed all of our assets. Seminole has no legal obligation to retire any asset except for Seminole's share in decommissioning the CR3 nuclear plant.

The CR3 decommissioning asset retirement obligation has been calculated as the fair value at CR3's initial start of operations, January 1, 1977. The fair value has been calculated using a site specific study, using Seminole's credit-adjusted risk-free interest rate. Decommissioning expenditures are expected to occur over a twenty-six year period ending in 2041. The initial fair value has been increased by accretion to a value of $6.1 million at January 1, 2003. 2003 accretion increased this to $6.6 million at December 31, 2003. This liability is shown in long-term liabilities. Seminole previously had a liability for CR3 decommissioning shown in deferred credits. The value of this previous liability was $4.7 million at December 31, 2002. The transition adjustment has been deferred as a regulatory asset, under a SFAS No. 71 expense deferral plan.

Seminole has established an external nuclear decommissioning trust fund (NDTF) in compliance with regulations prescribed by the Nuclear Regulatory Commission. The trust fund balance is $5.5 million at December 31, 2003. Annual cash deposits will be made to the NDTF to bring it in line with the obligation to decommission CR3. An amount equal to these cash deposits will be expensed annually and collected through rates to members.

Amortization of Deferred Gain on Sale-Leaseback

Deferred gain on sale-leaseback of coal-fired production plant is being amortized on a straight-line basis over the base lease term of twenty-five years commencing in 1985 and is reflected as a reduction of operating expenses. Amortization for 2003 and 2002 was $1.4 million.

Gain on Lease/Leaseback

In December 1997, Seminole entered into three long-term lease/leaseback transactions for a portion of its Palatka generating station. These transactions are characterized as sales and leasebacks for income tax purposes, but are reflected as financing transactions for financial reporting purposes. Beginning in 1998, the net cash benefit to Seminole totaling approximately $28.2 million is being recognized on a straight-line basis over the twenty-three year leaseback period in the amount of approximately $1.2 million annually pursuant to SFAS No. 71 and as authorized by the Board of Trustees.

Deferred Charges: Regulatory

In December 1998, the Seminole Board of Trustees authorized the implementation of an expense deferral plan pursuant to the provisions of SFAS No. 71 relating to costs to be incurred associated with the termination of certain coal transportation contracts. At December 31, 2003 and 2002, deferred charges included the unamortized balance of $13.2 million and $27.4 million, respectively, related to marine equipment lease termination costs, operating costs of the leased marine equipment subsequent to coal transportation contract terminations and prior to sale, and certain other costs which have been deferred pursuant to this plan. The deferred costs associated with the coal transportation contract terminations are being amortized to fuel expense on a cost per ton basis through 2004, reflecting the shortest remaining term of the contracts terminated. Amortization of deferred costs associated with the coal transportation contract terminations was approximately $14.2 million in 2003 and 2002.

In May 2003, the Seminole Board of Trustees authorized the implementation of an expense deferral plan pursuant to the provisions of SFAS No. 71 relating to the CR3 decommissioning asset retirement obligation transition adjustment and subsequent accounting (see Asset Retirement Obligations.) At January 1, 2003 and December 31, 2003 regulatory deferred charges included $1.1 and $0.9 million, respectively, of net CR3 decommissioning asset retirement obligation transition adjustment.

Also included in regulatory deferred charges is the net book value of $7.5 million and $7.4 million at December 31, 2003 and 2002, respectively relating to the straight line recognition of the gain on the lease/leaseback transactions.

Also included in regulatory assets is $1.9 and $1.3 million as of December 31, 2003 and 2002 respectively, are unrealized losses relating to the ineffective portion of put premiums on gas hedging. These losses will be expensed as the gas is purchased.

Deferred Charges: Non-Regulatory

At December 31, 2003 and 2002, non-regulatory deferred charges included unamortized debt costs and related refinancing premiums of approximately $34.1 million and $36.5 million, respectively. These deferred charges will be recovered through rates over the remaining lives of the related debt ranging up to seventeen years. Amortization of these deferred charges amounted to approximately $2.5 million in 2003 and 2002.

Other non-regulatory deferred charges include primarily software costs. Capitalized software costs are accounted for under Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), and are included in deferred charges at cost less accumulated amortization. These costs are being amortized over periods up to five years. The amount capitalized under SOP 98-1 as of December 31, 2003 and December 31, 2002 was $2.4 million and $2.0 million, respectively. Amortization in 2003 and 2002 totaled approximately $0.4 and $0.2 million, respectively.

Other Deferred Credits

At December 31, 2003 and 2002, other deferred credits primarily included deferred lease expense which represents the difference between cash payments and expense recognized on a straight-line basis related to the operating lease of certain generating facilities, and a reserve for CR3 decommissioning costs. The CR3 decommissioning liability at December 31, 2002, was moved to other long-term liabilities in 2003 (see Asset Retirement Obligations.) These deferred credits are non-regulatory and have been authorized by the Board of Trustees.

Accounting for Derivatives and Hedging Activities

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

To reduce the exposure to natural gas price fluctuation risks, Seminole entered into natural gas hedging transactions, futures and puts, in 2003 and 2002. The future transactions are designated as cash flow hedges and are deemed to be highly effective. The put transactions have a component of the fair value that is ineffective. The ineffective component of the put has been deferred to regulatory assets under a SFAS No. 71 expense deferral plan. Both components of the fair value will be reclassified into earnings as the gas is purchased. For the years ended December 31, 2003 and 2002, net gains of $8.9 million and $4.2 million, respectively, were reclassified into earnings and are included in "Fuel" or "Purchased Power" in the Consolidated Statement of Revenue and Expenses and Patronage Capital. Other Comprehensive Income reflects a $4.0 million and $5.4 million gain related to the future transactions as of December 31, 2003 and 2002, respectively. Regulatory deferred charges reflects a $1.9 and $1.3 million loss related to the ineffective components of the puts at December 31, 2003 and 2002, respectively. Based on fair values at December 31, 2003, approximately $2.0 million net gain at December 31, 2003 is expected to be reclassified into earnings and included in "Fuel" or "Purchased Power" within the next twelve months as gas is purchased. In 2002, Seminole established a NYMEX margin account to facilitate the gas hedging transactions for 2003 and beyond. This margin account is included in "Prepayments and Other" on the Consolidated Balance Sheet. Seminole made an initial deposit for this account and must keep a maintenance margin. The fair market value changes to this account resulted in excess margins of approximately $3.8 and $3.7 million at December 31, 2003 and December 31, 2002, respectively. Seminole has a right to call for cash payment from the excess margin, and did so several times in 2003 and in January, 2004.

On December 13, 2001, Seminole entered into a two-year agreement to swap the variable interest rate on a portion of the pollution control revenue bonds, on which the interest rate varies weekly, for a fixed interest rate of 2.99%. The transaction is designated as a cash flow hedge and is deemed highly effective, and therefore no ineffective losses were recognized in earnings for 2003 and 2002. Other Comprehensive Income reflects losses of $.03 million and $1.0 million related to the interest rate swap transaction as of December 31, 2003 and 2002 respectively. The losses are reclassified into earnings when the underlying pollution control revenue bond interest is incurred. This transaction terminates January 15, 2004.

<u>Cash Equivalents</u>

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

Consolidation of Variable Interest Entities

In December 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" , an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" which is effective for nonpublic enterprises by the beginning of the first annual period beginning after December 15, 2004. This interpretation requires that an enterprise that consolidates a variable interest entity is the primary beneficiary of the variable interest entity. Seminole will adopt FASB Interpretation No. 46 on January 1, 2005, and, based on current circumstances, does not believe that the impact of adoption of this interpretation will have a material impact on Seminole's financial position or results of operations.

Reclassifications

Certain reclassifications have been made to the 2002 statements to conform to current classifications. There were no changes to net margins as previously reported.

NOTE 3 - UTILITY PLANT:

	December 31, 2003	December 31, 2002
Owned property:		
Coal-fired production plant	$ 601,908,399	$ 606,429,177
Combined cycle plant	228,235,497	225,378,876
Transmission plant	168,588,198	168,252,074
General plant	23,953,767	23,176,516
Nuclear plant, including fuel	25,359,706	23,133,836
	1,048,045,567	1,046,370,479
Transportation equipment under capital leases	2,538,591	2,538,591
Leasehold improvements of coal-fired production plant	23,876,331	23,797,799
	1,074,460,489	1,072,706,869
Construction work in progress	11,319,061	4,056,718
	1,085,779,550	1,076,763,587
Accumulated depreciation and amortization:		
Owned property	(425,540,471)	(402,610,171)
Leased transportation equipment	(2,369,323)	(2,097,134)
Leasehold improvements	(13,295,635)	(11,758,857)
	(441,205,429)	(416,466,162)
	$ 644,574,121	$ 660,297,425

NOTE 4 – INVESTMENTS:

	December 31, 2003	December 31, 2002
Investments in associated organizations:		
CFC:		
Membership	$ 1,000	$ 1,000
Capital term certificates	1,442,520	1,445,721
Subordinated term certificates	1,033,635	1,473,213
Patronage capital certificates	491,154	505,084
Other	30,247	35,346
	$ 2,998,556	$ 3,460,364
Funds held by trustees and special funds:		
Pollution control bond funds	$ 15,494,628	$ 15,599,664
Nuclear decommissioning trust fund	5,506,795	4,740,732
Lease termination fund	45,727,602	43,099,124
	$ 66,729,025	$ 63,439,520
Other Current Investments	$ 39,947,986	$ 0

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

It is not practical to estimate the fair value of CFC capital term certificates due to the nature and maturity of these investments. Of these investments, $1,442,520 are required as a condition of membership and of loans provided to Seminole by CFC. Of the approximately $1.4 million carrying amounts at December 31, 2003 and 2002, $63,307 matures in 2075 and $918,124 matures in 2080. Both of these amounts pay 5% annual interest. Additionally, $364,283 matures in 2030 and pays 3% annual interest, and $96,806 in 2003 and $100,007 in 2002, bears no interest and amortizes through 2019.

Investments in CFC subordinated term certificates are required as a condition of guarantees provided to others by CFC on behalf of Seminole and are generally priced at market rates at the time of issuance. These investments bear interest at various rates with a combined average of approximately 5.6% and 5.9% at December 31, 2003 and 2002, respectively. At December 31, 2003 and 2002, the estimated fair values of these investments of approximately $1.0 million and $1.5 million, respectively, are based on the current rates offered by CFC for this type of required investment.

Funds held by trustees for pollution control bond funds are recorded at amortized cost and are considered to be held-to-maturity investments. The investments in the nuclear decommissioning trust fund (NDTF) are also considered held-to-maturity except for certain investments held by the NDTF which are invested in equity mutual funds and are valued at market prices. During 2003, the fair value related to the NDTF equity securities, which are available for sale, increased approximately $0.3 million. At December 31, 2003 and 2002, the estimated fair values of these funds of approximately $21.0 million and $20.3 million, respectively, are based on quoted market prices for the securities held by the trustees.

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

Other Current Investments

The amount shown in other current investment at December 31, 2003, includes a CFC medium term note to be held-to-maturity. The interest rate is 1.86% and it matures December 15, 2004. At December 31, 2003, the estimated fair value of this investment is approximately $39.9 million and is based on quoted market prices offered by CFC for this type of investment.

NOTE 5 - LONG-TERM LIABILITIES:

Long-Term Debt

	December 31,	
	2003	2002
First mortgage notes payable to Federal Financing Bank (FFB), guaranteed by RUS, principal due in various installments through 2020, Interest at fixed rates, from 4.458% to 7.295%	$587,749,604	$573,366,396
First mortgage notes payable to RUS, principal due in various installments through 2019, interest at 5.00%	6,174,592	6,496,402
Pollution control revenue bonds payable to the Putnam County Development Authority, guaranteed by CFC, principal due in various installments through 2014, interest at adjustable rates, currently 3.28% and 1.02%	114,850,000	120,350,000
First mortgage notes payable to CFC, principal due in various installments through 2019, interest at adjustable rates, currently 2.55%	7,584,259	7,855,183

Lease termination obligation payable To State Street Bank and Trust at maturity in 2020, interest imputed at a fixed rate of 3.05%	74,264,629	72,068,900
	790,623,084	780,136,881
Less current portion	(35,084,307)	(31,547,242)
	$755,538,777	$748,589,639

The estimated maturities and annual sinking fund requirements of all long-term debt, at interest rates as of December 31, 2003 for the four years subsequent to December 31, 2004, are presented below:

Year ending December 31,	Annual Maturities and Sinking Fund Requirements
2005	$ 37,581,051
2006	$ 40,031,435
2007	$ 42,665,802
2008	$ 61,972,674
2009	$ 62,508,445

On November 5, 2003, the remaining available FFB debt in the amount of $39.8 million was drawn at an effective interest rate of 4.458%.

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

At December 31, 2003 and 2002, the estimated fair value of long-term debt including current portion but excluding the lease termination obligation, is approximately $787 million and $798 million, respectively. For Seminole's long-term debt with interest rates substantially fixed to final maturity, and for that portion that is subject to interest rate adjustment more than six months from year end, fair value is estimated based on the present value of the underlying cashflows. For that portion of long-term debt that reprices to market rates at intervals of six months or less, the carrying amount has been used as a reasonable estimate of fair value. The fair value of the lease termination obligation is not determinable since it is not marketable.

Obligations Under Capital Leases

At December 31, 2003, Seminole was obligated under a capital lease of rail transportation equipment which base lease term expires in 2004. The following is a schedule of future lease payments under the lease together with the present value of the net minimum lease payments as of December 31, 2003:

Year ending December 31,	
2004	$ 304,461
Thereafter	0
Total minimum lease payments	304,461
Less amount representing interest	(18,589)
Present value of minimum lease payments	285,872
Less current principal portion	(285,872)
	$ 0

This transportation equipment lease provides for renewal and option to purchase the equipment at fair market value at various dates or upon expiration. During 2003 and 2002, payments under the rail transportation equipment lease in the amount of approximately $0.3 million were included as a cost of fuel inventory and expensed based on the tons of coal burned throughout the year.

NOTE 6 - NET MARGINS AND EQUITY RESTRICTIONS:

Under provisions of the RUS mortgage, until total equity equals or exceeds forty percent of total assets, the distribution of capital contributed by members is limited generally to twenty-five percent of patronage capital and margins of the next preceding year where, after giving effect to such distribution, the total equity will equal or exceed twenty percent of total assets. Distributions may be made, however, in such amounts as may be approved by RUS through waiver of the aforementioned restrictions. Such distributions to members totaled $587,389 and $603,860 in 2003 and 2002, respectively, representing amounts equal to 25% of 2002 and 2001 net margins, respectively. The RUS mortgage requires Seminole to design its wholesale rates with a view towards maintaining, on a calendar year basis, a Times Interest Earned Ratio (as defined in the agreement) of not less than 1.0 and a Debt Service Coverage Ratio (as defined in the agreement) of not less than 1.0. An RUS stipulation arising from the sale of tax benefits requires Seminole to design its wholesale rates to provide an annual Times Interest Earned Ratio of not less than 1.05.

In 2003 and 2002, Seminole achieved a Times Interest Earned Ratio of 1.05, and a Debt Service Coverage Ratio of 1.05 and 1.07 respectively.

NOTE 7 - LINES OF CREDIT:

Seminole has available lines of credit totaling $75 million, of which $25 million is committed and $50 million is uncommitted. None of these were drawn at December 31, 2003 and 2002. RUS policy governs use of these funds.

NOTE 8 - INCOME TAXES:

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

Seminole's rate-making methods provide that any income taxes related to current operations are recognized as expense and are recovered through rates when currently payable. In addition, income tax credits are accounted for as a reduction of taxes currently payable in the period utilized. In 2003 and 2002, net operating losses of approximately $33,000 and $3.4 million, respectively, were generated from non-patronage activity. At December 31, 2003, net operating losses of approximately $58.2 million are available to offset future taxable income, expiring in years through 2023. Furthermore, alternative minimum tax (AMT) credits of approximately $1.0 million, which do not expire, are available to offset regular income tax liabilities.

Temporary differences in certain items of income and expense for tax and financial reporting purposes result primarily from depreciation, amortization and sale-leaseback of plant. Seminole has recorded the following noncurrent deferred tax asset, valuation allowance and noncurrent deferred tax liability in 2003 and 2002:

	2003	2002
Noncurrent deferred tax asset	$22,900,000	$30,800,000
Less: Valuation allowance	(22,900,000)	(30,800,000)
Net noncurrent deferred tax asset	0	0
Noncurrent deferred tax liability	0	0
Net noncurrent deferred tax asset/liability	$ 0	$ 0

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

The noncurrent deferred tax asset reflects deductible temporary differences and net operating loss carryforwards at statutory rates, plus investment tax credits (through 2002) and AMT credits. Based on Seminole's historical transactions and the exclusion of patronage dividends from taxable income, it is not anticipated that Seminole will have future taxable income sufficient to fully realize the benefit of the existing tax credits and net operating loss carryforwards at December 31, 2003. A valuation allowance has been recorded to reduce deferred tax assets relating to tax credits and net operating loss carryforwards. The valuation allowance decreased from 2002 to 2003 due to the expiration of net operating loss carryforwards and investment tax credits, and a reduction of AMT credits due to a refund of previously paid AMT.

The noncurrent deferred tax liability reflects taxable temporary differences at statutory rates.

NOTE 9 - EMPLOYEE BENEFITS:

Substantially all Seminole employees participate in the National Electric Cooperative Association (NRECA) Retirement and Security Program (the Program), a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501 (a) of the Internal

Revenue code. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Due to the nature of the multi-employer plan, specific employer information is not available. Seminole also has a retirement savings plan for all employees that is qualified under Section 401 (k) of the Internal Revenue Code.

The following lists Seminole's pension obligations:

	2003	2002
NRECA Pension Plan	$ 3,745,000	$ 3,296,000
401 (k) Savings Plan	$ 654,000	$ 655,000

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

The following sets forth the plan's status reconciled with amounts reported in Seminole's consolidated balance sheets at December 31, 2003 and 2002. The plan is funded on a pay-as-you-go basis.

Accumulated postretirement benefit obligation (APBO):

	2003	2002
Active plan participants not yet fully eligible	$ 2,759,400	$ 2,958,400
Fully eligible active plan participants	1,457,000	1,288,800
Retirees and dependents	522,200	302,800
Other plan participants	60,200	49,900
Total APBO	4,798,800	4,599,900
Unrecognized gain from past experience	1,544,900	1,391,900
Unrecognized prior service cost	277,400	318,000
Accrued postretirement benefit liability	$ 6,621,100	$ 6,309,800

Net periodic postretirement benefit included the following components:		
Service cost	$ 349,800	$ 308,200
Interest cost on accumulated benefit obligation	287,800	285,700
Amortization of actuarial gain	(79,200)	(69,700)
Amortization of prior service cost	(40,600)	(40,600)
Net periodic postretirement benefit cost	$ 517,800	$ 483,600

These costs are based on assumptions in interest rates and health care trends as listed below which reflect Seminole's best estimate of the plan's future expense, and is based on current active and retired plan participants.

	2003	2002
Discount Rate	6.75%	7.00%
Rate of Compensation increase	3.50%	4.50%
Health care cost trend rate	14.00%	9.00%
Rate which the cost trend rate is assumed to decline (the ultimate trend rate)	5.50%	5.50%
Year that the rate reaches the ultimate trend rate	2012	2009

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated post-retirement benefit obligation by $268,100 or 5.5% at year-end 2003 and net periodic cost by $42,100 or 6.6% for the year. The net effect of changes in assumptions for health care cost trend rates, and weighted average discount rate caused an increase in the APBO at December 31, 2003. The unrecognized net gain in excess of ten percent of the APBO is being amortized over the fifteen remaining service years of active plan participants, in the amount of $79,200 per year.

Seminole expects to contribute $4,816,000 to its pension and 401 (k) plans, and $530,000 to its other postretirement benefit plan in 2004.

NOTE 10 - OPERATING LEASES:

At December 31, 2003, Seminole was obligated under certain leases of generating facilities and rail transportation equipment for which base lease terms expire on various dates through 2009. The lease of the generating facilities contains a variable interest rate component that could affect future lease payments. Base rental obligations under these leases are payable as follows:

Year ending December 31,

2004	$ 37,656,000
2005	$ 38,334,000
2006	$ 38,522,000
2007	$ 38,555,000
2008	$ 38,588,000
Thereafter	$ 36,163,000

These leases generally provide for renewals at the lower of a stipulated fixed renewal rental or fair market rental and options to purchase facilities and/or equipment at fair market value at various dates or upon expiration. Lease payments for the rail transportation equipment leases totaled approximately $2.5 million in 2003 and 2002. These payments were included as a cost of fuel inventory and expensed based on the tons of coal burned throughout the year.

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Seminole is purchasing a significant portion of the coal for SGS under a long-term contract expiring in 2010. Contract terms specify minimum annual purchase commitments of 2.25 million tons, subject to force majeure conditions, and prices which are subject to adjustment for changes in costs. Total purchases under this long-term coal contract were approximately $51.9 million and $67.6 million in 2003 and 2002, respectively.

Seminole is required to transport a significant portion of its coal and petroleum coke to be received at SGS under an agreement with a rail carrier, such agreement expiring no earlier than December 31, 2006. Total charges under this contract were approximately $51.7 million and $55.6 million in 2003 and 2002, respectively.

Seminole has long-term contracts for the transportation of natural gas for PCGS terminating in 2020. These contracts require annual capacity reservation payments for the next five years (2004 through 2008) of $13.2 million per year. The capacity reservation payments are partially based on proposed rates by Florida Gas Transmission Company in Federal Energy Regulatory Commission (FERC), Docket Number RP-04-012-000, which are subject to refund if ordered by FERC.

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

Year ending December 31,

2004	$ 96,300,000
2005	$ 107,900,000
2006	$ 117,500,000
2007	$ 117,400,000
2008	$ 118,100,000

Total charges, including capacity payments, under these contracts were approximately $181.0 million and $167.6 million for 2003 and 2002, respectively.

In the normal course of business Seminole has ongoing disputes with some of its power suppliers. During 2003, several disputes were settled resulting in refunds relating to purchased power costs recorded in prior periods totaling approximately $0.6 million, not including interest. This amount was recorded in 2003 as a reduction to purchased power expenses.

In October 2003, Energy Transfer Group, L.L.C., (ETG) a power marketer, filed suit against Seminole in the Circuit Court of the Twelfth Judicial Circuit in and for Manatee County, Florida, Case No. 2003-CA-5901. This case arises from a business arrangement between ETG and one of Seminole's members. ETG alleges contract interference and promissory estoppel on the part of Seminole and asserts that it enjoys the status of a third party beneficiary to the wholesale power contract between Seminole and its member. Seminole is vigorously contesting these allegations and believes that the resolution of this case will not result in a material adverse impact on Seminole's financial condition or its operations.

Seminole is a party to litigation involving various other claims arising in the normal course of business. In the opinion of management the ultimate resolution of these matters will not result in a material adverse impact on Seminole's financial condition or its operations.