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

2001 Financial Statements

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

RESULTS OF OPERATIONS

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

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

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

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

FINANCIAL CONDITION

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

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

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

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

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

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

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

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

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

OTHER

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

CONSOLIDATED BALANCE SHEETS

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

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

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

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

CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES AND PATRONAGE CAPITAL

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

The accompanying notes are an integral part of these 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. The PCGS is a 500 megawatt, gas-fired combined cycle generating facility constructed by Seminole on an existing 1,300 acre site leased from Acuera Corp. (Acuera).

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

Operating Revenue

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

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

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

Utility Plant

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

Depreciation and Amortization of Utility Plant

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

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

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

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

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

Amortization of Deferred Gain

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

Gain on Lease/Leaseback

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

Deferred Charges

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

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

Long-Lived Assets

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

Deferred Credits

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

Accounting for Derivatives and Hedging Activities

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

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

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

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

Cash Equivalents

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

NOTE 3 UTILITY PLANT:

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

NOTE 4 INVESTMENTS:

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

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

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

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

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

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

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

NOTE 5 LONG-TERM LIABILITIES:

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

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

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

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

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

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

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

Obligations Under Capital Leases

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

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

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

NOTE 6 NET MARGINS AND EQUITY RESTRICTIONS:

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

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

NOTE 7 LINES OF CREDIT:

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

NOTE 8 INCOME TAXES:

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

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

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

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

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

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

NOTE 9 EMPLOYEE BENEFITS:

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

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

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

Accumulated postretirement benefit obligation (APBO):

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

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

NOTE 10 OPERATING LEASES:

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

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

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

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

NOTE 11 COMMITMENTS AND CONTINGENCIES:

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

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

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

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

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

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

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

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

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

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

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

PRICEWATERHOUSECOOPERS

To the Board of Trustees
Seminole Electric Cooperative, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenue and expenses and patronage capital, of comprehensive income and of cash flows present fairly, in all material respects, the financial position of Seminole Electric Cooperative, Inc. and its subsidiaries ("Seminole") at December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Seminole's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

PricewaterhouseCoopers LLP

February 22, 2002

Seminole Electric
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