

# 2<sup>nd</sup>

# Quarter Report

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## To Our Members:

Seminole Electric Cooperative, Inc. (Seminole) is pleased to present the enclosed interim consolidated financial statements which include balance sheets, statements of revenue and expenses and patronage capital, and statements of cash flows as of or for the periods ended June 30, 2003 and 2002.

## Operations:

Total revenues increased for the quarter, year-to-date and twelve months ended June 30, 2003, compared to the same periods during 2002. Revenues from members increased 13.3% for the quarter, 11.9% for the year-to-date, and 11.0% for the twelve months ended June 30, 2003 when compared to 2002. Energy sales increased 5.6% for the quarter, 7.8% for the year-to-date, and 10.4% for the twelve months ended June 30, 2003. Due primarily to higher natural gas and purchased power related fuel costs, fuel revenues per kilowatt hour (kWh) for the quarter, year-to-date and twelve months ended June 30, 2003 increased 16.6%, 22.3%, and 12.6% respectively, when compared to 2002. Non-fuel revenues decreased for all periods ended June 30, 2003, generally the result of lower demand revenues due to milder weather, particularly in February and March, when compared to these periods in 2002. Wholesale member cost per kWh increased 7.3% for the quarter, 3.8% for the year-to-date, and 0.6% for the twelve months ended June 30, 2003 when compared to 2002. Non-member revenues and the average price per kWh sold increased for all periods ended June 30, 2003 when compared to the same periods in 2002. Provided within are two graphs showing a five-year trend of wholesale member cost (mills/kWh) and total energy sales to members and non-members.

Fuel expense increased for all periods ended June 30, 2003 primarily due to greater coal and petcoke consumption and an increase in natural gas prices when compared to the same periods in 2002. Fuel costs at the Payne Creek Generating Station (PCGS), which began commercial operation on January 1, 2002, increased due to market conditions that resulted in a higher average cost per dekatherm of natural gas. Total cost of fuel at the Seminole Generating Station (SGS) increased for the quarter and year-to-date ended June 30, 2003 and decreased for the twelve months ended June 30, 2003. Net kWh generated at SGS increased while fuel cost per kWh generated decreased for all periods when compared to 2002. Other production expenses increased 8.5% for the quarter, 6.5% for the year-to-date, and 12.3% for the twelve months ended June 30, 2003 primarily due to higher expenses incurred in the operation and maintenance of PCGS. Purchased power expense for the quarter, year-to-date, and twelve months ended increased 24.5%, 27.4%, and 8.5% respectively, when compared to 2002 primarily attributed to higher fuel related energy costs, partially offset by lower capacity prices during the same periods. Transmission expense increased for the quarter and twelve months ended, while decreasing

for the year-to-date. This is indicative of higher demand sales to member systems for the quarter and twelve months ended, and lower demand sales to member systems for the year-to-date ended June 30, 2003. Administrative and General expenses decreased for all periods ended June 30, 2003, primarily due to the full amortization of the Walker County settlement in 2002. Depreciation and Amortization for the current twelve month period is higher due to the addition of the PCGS to Seminole's asset base beginning in January 2002.

Net interest expense was higher for the twelve months ended June 30, 2003 primarily due to discontinuing the capitalization of interest related to construction of PCGS at December 31, 2001. Net interest expense was lower for the quarter and the year-to-date ended June 30, 2003 primarily due to lower debt balances. Presented within is a graph showing various components of expenses for the twelve months ended June 30, 2003, compared to 2002.

Non-operating income, net, is principally comprised of interest income. Interest income decreased for all periods ended June 30, 2003 due to lower short-term interest rates. Other Income, net increased for the current quarter and the year-to-date ended June 30, 2003 due to gains on nuclear decommissioning trust fund trading securities. Other Income, net decreased for the twelve months ended June 30, 2003 due to \$0.9 million of sales of excess SO<sub>2</sub> allowances in December 2001, somewhat offset by gains on nuclear decommissioning trust fund trading securities in 2003.

## Financial Position:

Utility plant, net decreased by \$16.2 million at June 30, 2003 compared to June 30, 2002, primarily due to depreciation, partially offset by utility plant additions. The decrease in investments was primarily due to the closing of the escrow account related to the Walker County litigation and the normal redemption by the issuer of certain capital and subordinated term certificates held by Seminole, partially offset by a scheduled increase in the Lease Termination Fund.

Current assets increased approximately \$4.4 million from last year. The primary sources of cash and cash equivalents for the twelve months ended June 30, 2003 were net margins adjusted for non-cash items (primarily depreciation), a decrease in inventories, and proceeds from investments, net. Uses of cash and cash equivalents included payments of long-term debt, an increase in receivables, utility plant additions, and an increase in deferred charges. The increase in other current investments resulted from the purchase of short-term investments. The increase in receivables represents an increase in unrecovered fuel adjustment true-up

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**SEMINOLE ELECTRIC COOPERATIVE, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited) (Thousands)**

**June 30**

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Utility plant:		
Plant in service	\$ 1,075,561	\$ 1,065,018
Construction work in progress	9,031	5,143
	<u>1,084,592</u>	<u>1,070,161</u>
Less accumulated depreciation and amortization	(432,909)	(402,254)
Utility plant, net	651,683	667,907
Investments:		
Investments in associated organizations	3,012	3,475
Funds held by trustees	65,103	71,047
Total investments	68,115	74,522
Current assets:		
Cash and cash equivalents	26,468	34,505
Other current investments	3,122	2,970
Receivables, principally for sales of electricity	93,123	66,748
Inventories, at average cost:		
Materials and supplies	19,020	18,470
Fuel	18,927	34,934
Prepayments and other	5,485	4,111
Total current assets	166,145	161,738
Deferred charges:		
Regulatory	29,120	64,946
Non-Regulatory	37,538	39,145
Total deferred charges	66,658	104,091
	<u>\$ 952,601</u>	<u>\$ 1,008,258</u>
<b>EQUITY AND LIABILITIES</b>		
Equity:		
Memberships	\$ 1	\$ 1
Patronage capital	72,489	76,229
Other margins and equities	5,440	1,816
Donated capital	32	32
Total equity	77,962	78,078
Long-term liabilities:		
Long-term debt	729,956	767,002
Obligations under capital leases	146	420
Other	14,152	7,326
Total long-term liabilities	744,254	774,748
Current liabilities:		
Current portion of:		
Long-term debt	32,801	30,617
Obligations under capital leases	274	252
Accounts payable	34,090	30,948
Other accrued liabilities	43,397	67,460
Total current liabilities	110,562	129,277
Deferred gain on sale-leaseback of plant	9,144	10,559
Other deferred credits	10,679	15,596
	<u>\$ 952,601</u>	<u>\$ 1,008,258</u>
Current ratios	1.50	1.25

revenues of \$13.2 million, and increased June sales of \$13.1 million. The decrease in inventories at June 30, 2003, compared to the same period last year, is mainly due to a decrease in coal inventory at SGS. The increase in other current assets is due to increases in the fair value of the natural gas hedges and the related NYMEX margin account established to facilitate natural gas hedging transactions.

The decrease in regulatory deferred charges is primarily associated with the full amortization of the Walker County settlement, and the amortization of costs relating to the termination of certain coal transportation contracts. The decrease in non-regulatory deferred charges is mostly the amortization of debt costs of \$2.5 million, partially offset by an increase in capitalized software of \$0.6 million.

Total equity decreased \$0.1 million, reflecting twelve months ended net deficits of \$3.1 million, and a \$0.6 million patronage capital credit retirement in 2003, offset by an increase in Other Comprehensive Income (OCI) of \$3.6 million. OCI occurs 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 cash flow hedges are recorded in OCI.

Long-term liabilities decreased primarily by scheduled payments of debt principal, offset by the recognition of an Asset Retirement Obligation (ARO) for Crystal River 3 (CR3) nuclear decommissioning of \$6.4 million, a scheduled increase in the Lease Termination Obligation of \$2.2 million, and an increase in operating provisions of \$0.4 million. The CR3 ARO occurs as a result of adopting Statement of Financial Accounting Standards No. 143 (SFAS 143). Pursuant to SFAS 143, an entity shall recognize the fair value for an ARO in the period in which it is incurred and recognize period-to-period changes in the liability for an ARO resulting from the passage of time (accretion). Seminole had previously classified its estimated nuclear decommissioning liability in deferred credits, whereas recently issued RUS guidelines categorize this liability in other long-term liabilities.

Current liabilities were lower primarily due to the payment of the Walker County settlement and decreases in accrued interest and purchased power payables, offset by increases in accrued liabilities for PCGS natural gas purchases, accounts payable due to various payment timing differences, and the current portion of long-term debt.

The decrease in other deferred credits results from transferring the existing CR3 nuclear decommissioning liability balance to other long-term liabilities.

Working capital at June 30, 2003 of \$55.6 million was \$23.1 million higher than last year. This change in working capital was due to an increase in receivables, a decrease in other accrued liabilities and an increase in prepayments and other, offset by a decrease in fuel inventory, cash and cash equivalents, an increase in accounts payable, and an increase in the current portion of long-term debt. Seminole had a current ratio of 1.50 at the end of June 2003 compared to 1.25 for the previous year.

### Other Matters:

Resulting from an all-source bidding process, in February 2003 the Seminole Board of Trustees approved an amendment to a contract with Progress Energy of Florida for the purchase of an additional 150 MW of peaking and/or intermediate capacity, beginning in late 2006. In March 2003, the Seminole Board of Trustees approved a contract with Pratt & Whitney Power Systems for the purchase of five aero-derivative peaking generators representing approximately 300 MW of capacity, to be placed in service by Seminole in late 2006. The preferred site for this new peaking generation project is at PCGS.

The accompanying consolidated balance sheets, statements of operations and statements of cash flows are unaudited. However, in

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**SEMINOLE ELECTRIC COOPERATIVE, INC.  
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES AND PATRONAGE CAPITAL  
(Unaudited) (Thousands)**

	Three Months Ended June 30		Six Months Ended June 30		Twelve Months Ended June 30	
	2003	2002	2003	2002	2003	2002
Operating revenue	\$ 176,148	\$ 155,385	\$ 388,491	\$ 346,178	\$ 756,083	\$ 678,668
Operating expenses:						
Operation:						
Fuel	64,725	58,480	129,249	111,905	251,487	202,463
Other production expenses	21,696	20,003	39,968	37,524	77,698	69,180
Purchased power	78,242	62,862	143,600	112,681	273,367	251,955
Transmission	9,437	8,978	19,562	19,831	38,577	34,287
Administrative and general	4,897	6,115	10,067	12,318	21,163	23,434
Depreciation and amortization	8,628	8,097	17,010	16,398	33,665	29,461
Lease of coal-fired plant	6,691	6,764	13,390	13,526	26,979	27,322
	<u>194,316</u>	<u>171,299</u>	<u>372,846</u>	<u>324,183</u>	<u>722,936</u>	<u>638,102</u>
Operating margins/(deficits) before interest charges	(18,168)	(15,914)	15,645	21,995	33,147	40,566
Interest charges net of amounts capitalized	9,998	10,524	20,143	21,131	41,083	36,870
Operating margins/(deficits)	<u>(28,166)</u>	<u>(26,438)</u>	<u>(4,498)</u>	<u>864</u>	<u>(7,936)</u>	<u>3,696</u>
Patronage capital credits	0	0	0	6	23	80
Net operating margins/(deficits)	<u>(28,166)</u>	<u>(26,438)</u>	<u>(4,498)</u>	<u>870</u>	<u>(7,913)</u>	<u>3,776</u>
Nonoperating income:						
Interest income	1,035	1,246	2,049	2,408	4,404	5,626
Other income, net	397	131	427	202	356	1,159
Net margins/(deficits)	<u>(26,734)</u>	<u>(25,061)</u>	<u>(2,022)</u>	<u>3,480</u>	<u>(3,153)</u>	<u>10,561</u>
Patronage capital, beginning of period	99,810	101,894	75,098	73,353	76,229	66,272
Patronage capital retirements	(587)	(604)	(587)	(604)	(587)	(604)
Patronage capital, end of period	<u>\$ 72,489</u>	<u>\$ 76,229</u>	<u>\$ 72,489</u>	<u>\$ 76,229</u>	<u>\$ 72,489</u>	<u>\$ 76,229</u>
Megawatt hours sold - members	3,775,763	3,574,709	7,223,197	6,699,850	14,694,440	13,314,663
Megawatt hours sold - non-members	53,795	61,387	144,285	154,742	317,596	309,842
Wholesale member cost - mills/kWh	45.50	42.40	52.35	50.44	50.07	49.79
Total sales - mills/kWh	45.45	42.21	52.15	49.96	49.81	49.29
TIER					0.93	1.22
DSC					0.92	1.20

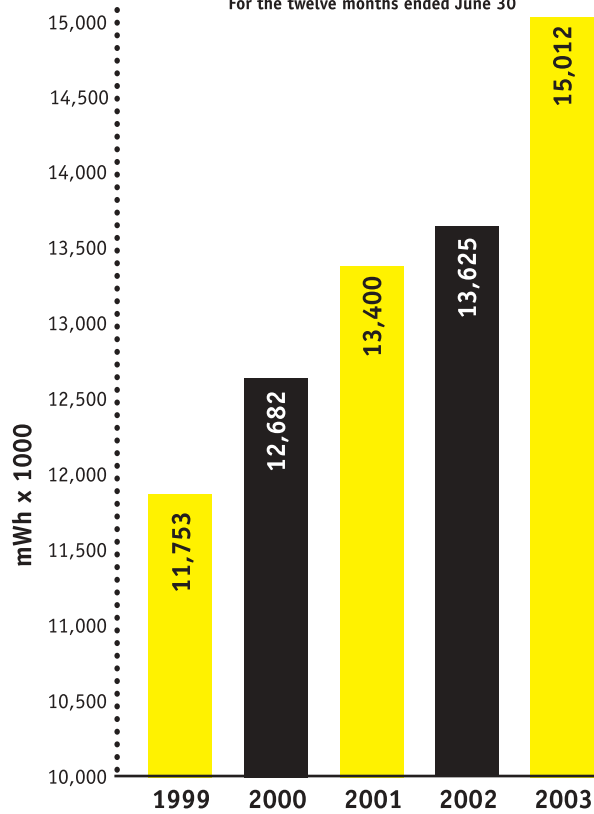
## Cash Flows

### SEMINOLE ELECTRIC COOPERATIVE, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Thousands)

	<u>Three Months</u> Ended June 30	<u>Six Months</u> Ended June 30		<u>Twelve Months</u> Ended June 30
	2003	2002		2003
Cash flows from operating activities:				
Net margins (deficits)	\$ (26,734)	\$ (25,061)		\$ (3,153)
Adjustments to reconcile to cash:				
Depreciation and amortization	12,606	13,470	27,203	52,999
Gain on lease/leaseback transactions	(299)	(292)	(584)	(1,214)
Lease expense/lease payment difference	(50)	123	262	0
Change in assets and liabilities:				
Receivables	(14,762)	(6,922)	743	(26,375)
Inventories	4,505	(6,744)	(8,872)	14,762
Prepayments and other	2,187	1,179	(195)	2,044
Deferred charges	(20)	114	265	(2,077)
Other long-term liabilities	0	0	(2)	0
Accounts payable	(3,250)	3,980	(4,621)	3,142
Other accrued liabilities	(927)	(10,771)	3,394	(1,804)
Total adjustments	(10)	(5,863)	17,593	41,477
Net cash provided by/(used in) operating activities	(26,744)	(30,924)	21,073	38,324
Cash flows from investing activities:				
Utility plant additions, net of retirements	(6,294)	(1,335)	(2,662)	(17,241)
Proceeds from investments, net	(290)	(1,318)	(5,113)	8,745
Net cash used in investing activities	(6,584)	(2,653)	(7,775)	(8,496)
Cash flows from financing activities:				
Proceeds from long-term borrowings	0	0	0	0
Payments of long-term debt	(6,489)	(6,076)	(11,102)	(37,026)
Payments of capital lease obligations	0	0	(118)	(252)
Payments of patronage capital credits	(587)	(604)	(604)	(587)
Net cash used in financing activities	(7,076)	(6,680)	(11,824)	(37,865)
Net increase/(decrease) in cash and cash equivalents	\$ (40,404)	\$ (40,257)	\$ 1,474	\$ (8,037)
				\$ 10,561

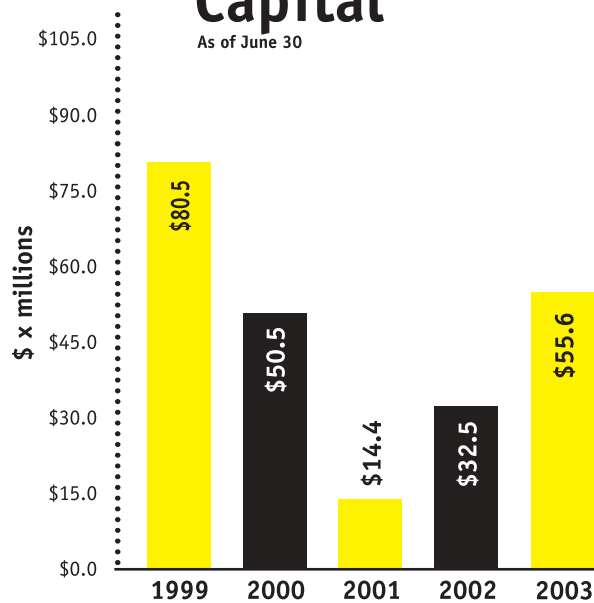
## Total Energy Sales

For the twelve months ended June 30



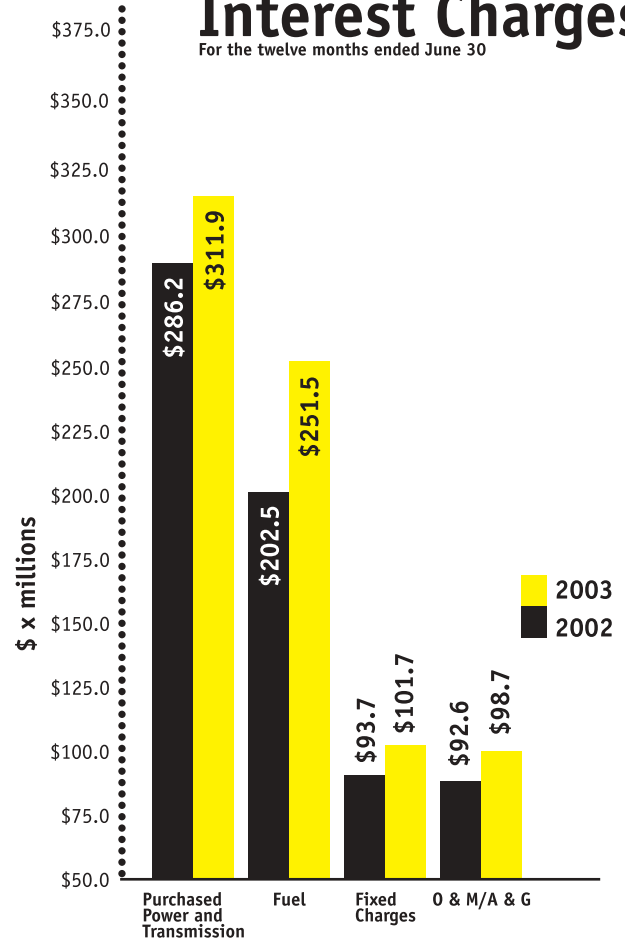
## Working Capital

As of June 30



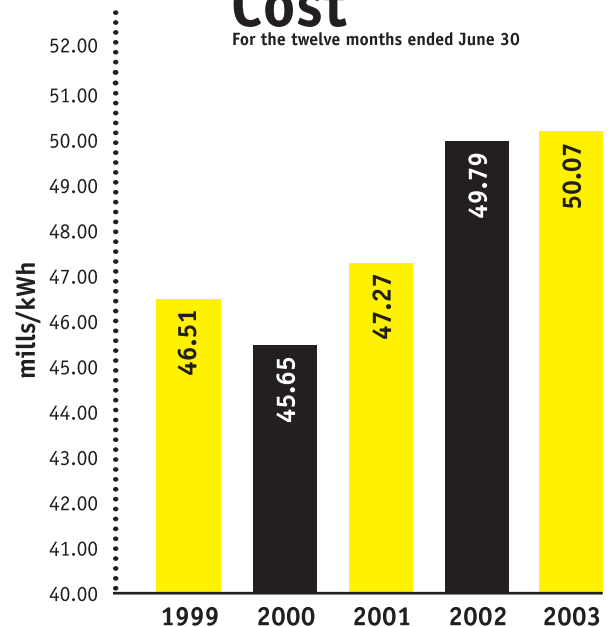
## Operating Expenses & Interest Charges

For the twelve months ended June 30



## Wholesale Member Cost

For the twelve months ended June 30



the opinion of management, all adjustments (consisting only of normal recurring adjustments) have been made and this report constitutes a fair and accurate representation of the consolidated financial position and operation of Seminole and its subsidiaries for the periods presented. These statements are prepared in accordance with generally accepted accounting principles and, in all material respects, in accordance with the RUS Uniform System of Accounts. Certain reclassifications have been made to previously reported amounts to conform to current classifications. There has been no change to net margins as previously reported. These statements should be read in conjunction with the financial statements and related notes included in Seminole's 2002 annual report.



John W. Geeraerts  
Vice President, Financial Services  
July 31, 2003

**Board Officers**

- John W. Drake  
*President*
- Mal Green  
*Vice President*
- William C. Phillips  
*Secretary/Treasurer*
- William T. Mulcay, Jr.  
*Assistant Secretary/Treasurer*

**Chief Executive Officer**

Richard J. Midulla  
*Executive Vice President & General Manager*

**Please direct inquiries to:**

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Web Address:  
[www.seminole-electric.com](http://www.seminole-electric.com)

**Owned by those we serve – 10 member distribution cooperatives:**

- Central Florida Electric Cooperative  
*Chiefland, FL*
- Clay Electric Cooperative  
*Keystone Heights, FL*
- Glades Electric Cooperative  
*Moore Haven, FL*
- Lee County Electric Cooperative  
*North Fort Myers, FL*
- Peace River Electric Cooperative  
*Wauchula, FL*
- Sumter Electric Cooperative  
*Sumterville, FL*
- Suwannee Valley Electric Cooperative  
*Live Oak, FL*
- Talquin Electric Cooperative  
*Quincy, FL*
- Tri-County Electric Cooperative  
*Madison, FL*
- Withlacoochee River Electric Cooperative  
*Dade City, FL*



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