

# 2<sup>nd</sup>

# Quarter Report

Letter to our members

## 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, 2004 and 2003.

## Operations:

Total revenues increased for all periods ended June 30, 2004, when compared to the same periods in 2003. The increase is primarily due to higher member sales, which reflect higher fuel and non-fuel revenues for all periods ended June 30, 2004. Higher member sales are primarily due to growth in demand and energy sales, as well as an increase in the rate charged per kilowatt hour (kWh). The average wholesale member power cost, including all rate schedules, increased 7.7% to 49.01 mills per kilowatt hour (kWh) for the quarter ended, increased 4.0% to 54.45 mills/kWh for the year to date ended, and increased 5.3% to 52.72 mills/kWh for the twelve months ended June 30, 2004. The increase in wholesale member cost is primarily due to higher fuel revenues produced by rising natural gas prices and higher fuel related purchased power costs. Fuel revenues per kWh for the quarter, year to date and twelve months ended June 30, 2004 increased 8.6%, 4.6% and 10.1%, respectively, when compared to these periods in 2003. Revenues from sales to non-members increased for the quarter and twelve months ended, but decreased for the year to date ended June 30, 2004.

Fuel expenses associated with generation facilities increased for all periods ended June 30, 2004. The increase in fuel expense is primarily due to higher natural gas prices used to supply the Payne Creek Generating Station (PCGS). Natural gas costs per dekatherm for the quarter, year to date, and twelve months ended increased 1.6%, 14.2% and 29.6%, respectively, when compared to 2003. Fuel costs at the Seminole Generating Station (SGS) decreased for all periods ended June 30, 2004 due to lower fuel consumption, although the average cost per ton consumed increased. The significant increase in the use of low cost petroleum coke for all periods served to partially offset the effect of higher coal prices on this average fuel cost per ton. Other production expenses increased for the year to date and twelve months ended June 30, 2004 primarily due to higher maintenance costs associated with SGS. Transmission expense decreased for all periods ended June 30, 2004 due to credits received as a result of a revision to the Network Transmission contract with Florida Power and Light Company.

Purchased power costs increased 20.8% for the quarter ended, 15.5% for the year to date, and 16.8% for the twelve months ended

June 30, 2004. The increase is primarily due to greater demand and energy purchases required to meet member load requirements. Administrative and General expense increased for the quarter and year to date ended June 30, 2004 primarily due to an increase in employee benefits and consulting expenses, but decreased for the twelve months ended due to full amortization in 2002 of the Walker County judgment.

Net interest expense was lower for all periods ended June 30, 2004 due to lower variable interest rates. Interest income increased for all periods ended June 30, 2004 due to interest received on the use of the loan funds (see investments). Other non-operating income, net increased for all periods ended June 30, 2004 due to sales of excess SO2 allowances. Similar sales of SO2 allowances were not made in the prior periods because of depressed market prices.

## Financial Position:

Utility plant, net decreased by \$13.2 million at June 30, 2004 compared to June 30, 2003, primarily due to depreciation, partially offset by utility plant additions. These additions primarily related to SGS and PCGS capital improvements and initial payments associated with equipment on order for the 2006 peaking plant, reflected in construction work in process.

The increase in investments was primarily due to a \$40.4 million investment in the RUS Cushion of Credit account. The use of RUS Cushion of Credit funds is restricted to payment of RUS Debt. Funds for the RUS Cushion of Credit account were primarily provided by proceeds of the final loan funds for the PCGS project. These loan funds represented a reimbursement of general funds that had been used to pay a portion of the project costs. While these funds are not expected to be needed until early 2005, the loan commitment was scheduled to expire in early 2004; therefore the funds were drawn near the end of 2003. Another increase in investments is due to the scheduled increase in the Lease Termination Fund, offset by the normal redemption of certain capital and subordinated term certificates.

Current assets increased \$10.7 million. The increase in receivables represents an increase in June sales. The increase in prepayments and other is due to increases in the fair value of natural gas hedges and the related NYMEX margin account established to facilitate natural gas hedging transactions.

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**SEMINOLE ELECTRIC COOPERATIVE, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited) (Thousands)**
**June 30**

	2004	2003
<b>ASSETS</b>		
Utility plant:		
Plant in service	\$ 1,084,366	\$ 1,075,561
Construction work in progress	12,196	9,031
	<u>1,096,562</u>	<u>1,084,592</u>
Less accumulated depreciation and amortization	(458,066)	(432,909)
Utility plant, net	638,496	651,683
Investments:		
Investments in associated organizations	2,318	3,012
Funds held by trustees	108,604	65,103
Total investments	110,922	68,115
Current assets:		
Cash and cash equivalents	22,392	26,468
Other current investments	3,269	3,122
Receivables, principally for sales of electricity	100,867	93,123
Inventories, at average cost:		
Materials and supplies	19,049	19,020
Fuel	19,726	18,927
Prepayments and other	11,549	5,477
Total current assets	176,852	166,137
Deferred charges:		
Regulatory	16,744	30,818
Non-regulatory	32,704	37,538
Total deferred charges	49,448	68,356
	<u>\$ 975,718</u>	<u>\$ 954,291</u>
<b>EQUITY AND LIABILITIES</b>		
Equity:		
Memberships	\$ 1	\$ 1
Patronage capital	80,032	72,489
Other margins and equities	8,674	7,130
Donated capital	32	32
Total equity	88,739	79,652
Long-term liabilities:		
Long-term debt	734,345	729,956
Obligations under capital leases	0	146
Other	15,134	14,152
Total long-term liabilities	749,479	744,254
Current liabilities:		
Current portion of:		
Long-term debt	36,799	32,801
Obligations under capital leases	146	274
Accounts payable	31,253	34,090
Other accrued liabilities	51,587	43,397
Total current liabilities	119,785	110,562
Deferred gain on sale-leaseback of plant	7,728	9,144
Other deferred credits	9,987	10,679
	<u>\$ 975,718</u>	<u>\$ 954,291</u>
Current ratios	1.48	1.50

Regulatory deferred charges decreased primarily due to scheduled amortization of previously deferred expenses relating to the termination of certain coal transportation contracts. Non-Regulatory deferred charges decreased primarily due to the reclassification of computer software to utility plant per RUS regulations, and the scheduled amortization of deferred debt costs and related refinancing premiums.

Total equity increased \$9.1 million, reflecting twelve months ended net margins of \$7.5 million, and an increase of \$1.6 million in Other Comprehensive Income.

Long-term debt increased in 2004 due to \$39.8 million in loan draws from the remaining available FFB debt for the PCGS project, offset by scheduled payments of long-term debt. Other long-term liabilities increased mostly due to the scheduled accretion of an Asset Retirement Obligation for Crystal River 3 (CR3) nuclear decommissioning.

Current liabilities increased \$9.2 million in 2004. Other accrued liabilities increased \$8.2 million primarily associated with accrued purchased power. The current portion of long-term debt increased \$4.0 million from 2003. The decrease in accounts payable is due to a decrease associated with the timing of other payments at each period end, and to decreases in purchased power invoices for June purchases outstanding at period-end.

Working capital at June 30, 2004 of \$57.1 million was \$1.5 million higher than last year. This increase in working capital reflects an increase in receivables and prepayments and other, and a decrease in accounts payable, offset by an increase in other accrued liabilities, a decrease in cash and cash equivalents, and an increase in the current portion of long-term debt. Seminole had a current ratio of 1.48 at the end of June 2004 compared to 1.50 for the previous year.

**Other Matters:**

On April 6, 2004, RUS approved amendments to the Wholesale Power Contracts (WPC) between Seminole and each of seven of Seminole's ten distribution cooperative members, representing approximately 57% of Seminole's current load. These amendments extend the initial term of the WPC for those seven members by 25 years, through 2045. The amendments did not alter the members' obligation to purchase substantially all of their electric power and energy requirements from Seminole during the term of the WPC. The three members that have not entered into amendments to extend the initial term of their WPC with Seminole are Clay Electric Cooperative, Inc. (Clay), Lee County Electric Cooperative, Inc. (Lee), and Suwannee Valley Electric Cooperative, Inc., representing approximately 20%, 21%, and 2% respectively, of Seminole's current load. Discussions continue among Seminole and all of its members regarding additional amendments to the WPC that could result in some or all of these three members also extending the initial term of their WPC with Seminole.

On April 27, Seminole was formally served with a complaint filed on December 30, 2003 in Clay County, FL, by two of its largest members, Clay and Lee. The complaint raises contractual and fiduciary duty claims related to the adoption of rate schedule SECI-7, which was approved by both the Seminole Board of Trustees and RUS in late 1998 and implemented effective January 1, 1999. While Seminole denies the allegations, the parties have been involved in settlement discussions and have agreed that during the continuing course of these discussions, Seminole will not be required to serve its formal response to the complaint.

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

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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	
	2004	2003	2004	2003	2004	2003
Operating revenue	\$ 200,866	\$ 176,148	\$ 415,442	\$ 388,491	\$ 825,646	\$ 756,083
Operating expenses:						
Operation:						
Fuel	71,397	64,725	131,177	129,249	272,057	251,487
Other production expenses	21,685	21,696	42,139	39,968	78,992	77,698
Purchased power	94,508	78,242	165,879	143,600	319,173	273,367
Transmission	8,375	9,437	18,752	19,562	38,065	38,577
Administrative and general	5,289	4,897	11,097	10,067	20,437	21,163
Depreciation and amortization	8,607	8,628	17,137	17,010	34,348	33,665
Lease of coal-fired plant	6,635	6,691	13,261	13,390	26,518	26,979
	<u>216,496</u>	<u>194,316</u>	<u>399,442</u>	<u>372,846</u>	<u>789,590</u>	<u>722,936</u>
Operating margins/(deficits) before interest charges	(15,630)	(18,168)	16,000	15,645	36,056	33,147
Interest charges net of amounts capitalized	9,664	9,998	19,486	20,143	39,621	41,083
Operating deficits	<u>(25,294)</u>	<u>(28,166)</u>	<u>(3,486)</u>	<u>(4,498)</u>	<u>(3,565)</u>	<u>(7,936)</u>
Patronage capital credits	0	0	1	0	27	23
Net operating deficits	<u>(25,294)</u>	<u>(28,166)</u>	<u>(3,485)</u>	<u>(4,498)</u>	<u>(3,538)</u>	<u>(7,913)</u>
Nonoperating income:						
Interest income	1,470	1,035	2,695	2,049	4,829	4,404
Other income, net	3,769	397	3,894	427	6,252	356
Net margins/(deficits)	<u>(20,055)</u>	<u>(26,734)</u>	<u>3,104</u>	<u>(2,022)</u>	<u>7,543</u>	<u>(3,153)</u>
Patronage capital, beginning of period	100,087	99,810	76,928	75,098	72,489	76,229
Patronage capital retirements	0	(587)	0	(587)	0	(587)
Patronage capital, end of period	<u>\$ 80,032</u>	<u>\$ 72,489</u>	<u>\$ 80,032</u>	<u>\$ 72,489</u>	<u>\$ 80,032</u>	<u>\$ 72,489</u>
*Megawatt hours sold - members	3,977,313	3,775,763	7,452,116	7,223,197	15,185,410	14,694,440
Megawatt hours sold - non-members	96,017	53,795	151,429	144,285	402,433	317,596
*Wholesale member power cost - mills/kWh	49.01	45.50	54.45	52.35	52.72	50.07
Total sales - mills/kWh	48.82	45.45	54.12	52.15	52.44	49.81
TIER					1.16	0.93
DSC					1.09	0.92

\*All rate schedules

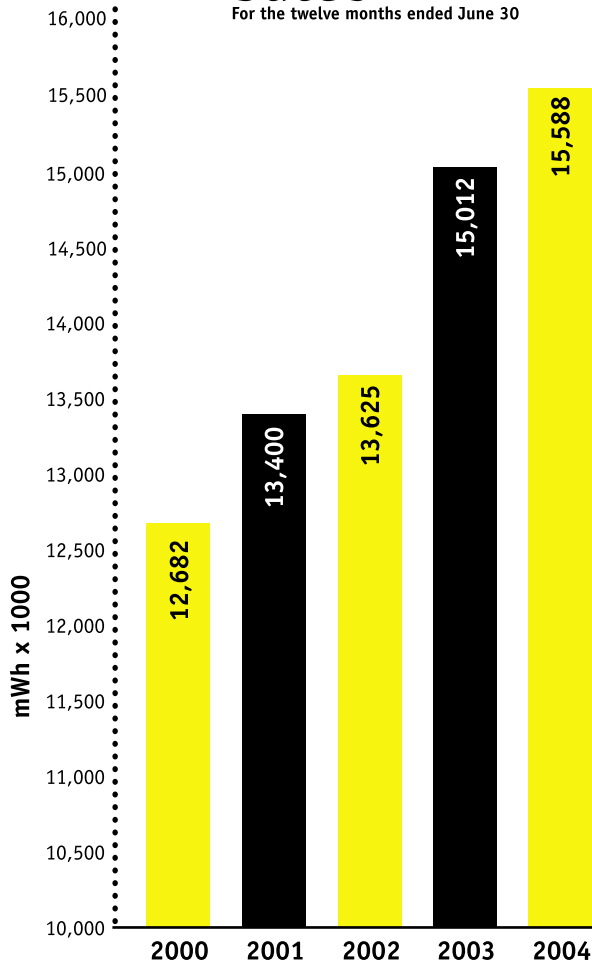
**SEMINOLE ELECTRIC COOPERATIVE, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited) (Thousands)**

**Cash Flows**

	Three Months Ended June 30		Six Months Ended June 30		Twelve Months Ended June 30	
	2004	2003	2004	2003	2004	2003
Cash flows from operating activities:						
Net margins/(deficits)	\$ (20,055)	\$ (26,734)	\$ 3,104	\$ (2,022)	\$ 7,543	\$ (3,153)
Adjustments to reconcile to cash:						
Depreciation and amortization	13,030	13,803	25,917	26,678	53,440	54,511
Amortization of gain on lease/ leaseback transactions	(310)	(299)	(620)	(599)	(1,262)	(1,214)
Lease expense/lease payment difference	(221)	(50)	(427)	(85)	(687)	0
Change in assets and liabilities:						
Receivables	(35,678)	(14,762)	(18,990)	(13,374)	(7,752)	(26,375)
Inventories	1,851	4,505	(4,031)	12,136	(829)	14,762
Prepayments and other	(116)	1,637	3,240	4,084	(5,832)	4,420
Deferred charges	264	(667)	290	(2,471)	(1,666)	(5,965)
Other long-term liabilities	0	0	(4)	0	(5)	0
Accounts payable	(12,509)	(3,250)	(2,864)	(6,679)	(2,837)	3,142
Other accrued liabilities	21,441	(927)	24,030	14,529	9,268	(1,804)
Total adjustments	(12,248)	(10)	26,541	34,219	41,838	41,477
Net cash provided by/(used in) operating activities	(32,303)	(26,744)	29,645	32,197	49,381	38,324
Cash flows from investing activities:						
Utility plant additions, net of retirements	(3,739)	(6,294)	(9,277)	(7,995)	(19,217)	(17,241)
Proceeds from investments, net	(482)	(290)	(3,153)	(2,968)	(40,124)	8,745
Net cash used in investing activities	(4,221)	(6,584)	(12,430)	(10,963)	(59,341)	(8,496)
Cash flows from financing activities:						
Proceeds from long-term borrowings	0	0	0	0	39,838	0
Payments of long-term debt	(7,303)	(6,489)	(20,610)	(18,478)	(33,680)	(37,026)
Payments of capital lease obligations	0	0	(140)	(129)	(274)	(252)
Payments of patronage capital credits	0	(587)	0	(587)	0	(587)
Net cash provided by/(used in) financing activities	(7,303)	(7,076)	(20,750)	(19,194)	5,884	(37,865)
Net increase/(decrease) in cash and cash equivalents	\$ (43,827)	\$ (40,404)	\$ (3,535)	\$ 2,040	\$ (4,076)	\$ (8,037)

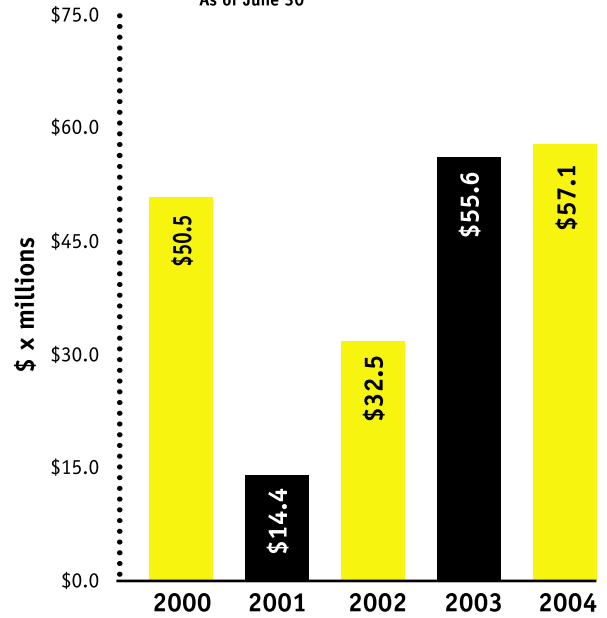
## Total Energy Sales

For the twelve months ended June 30



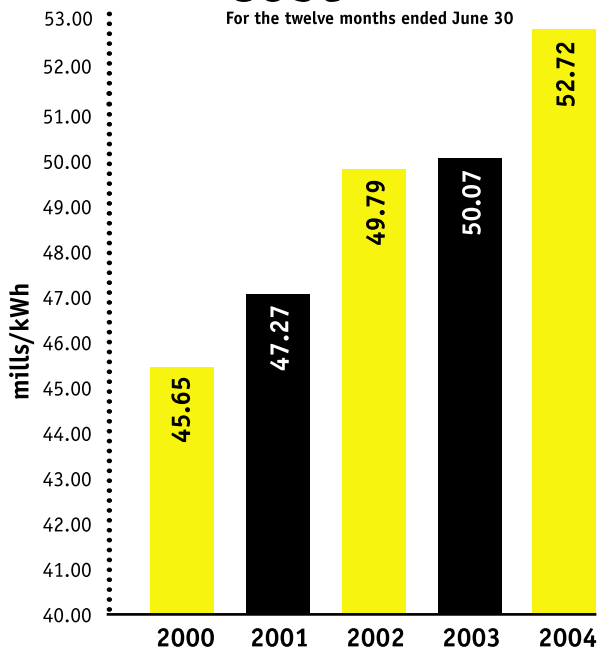
## Working Capital

As of June 30



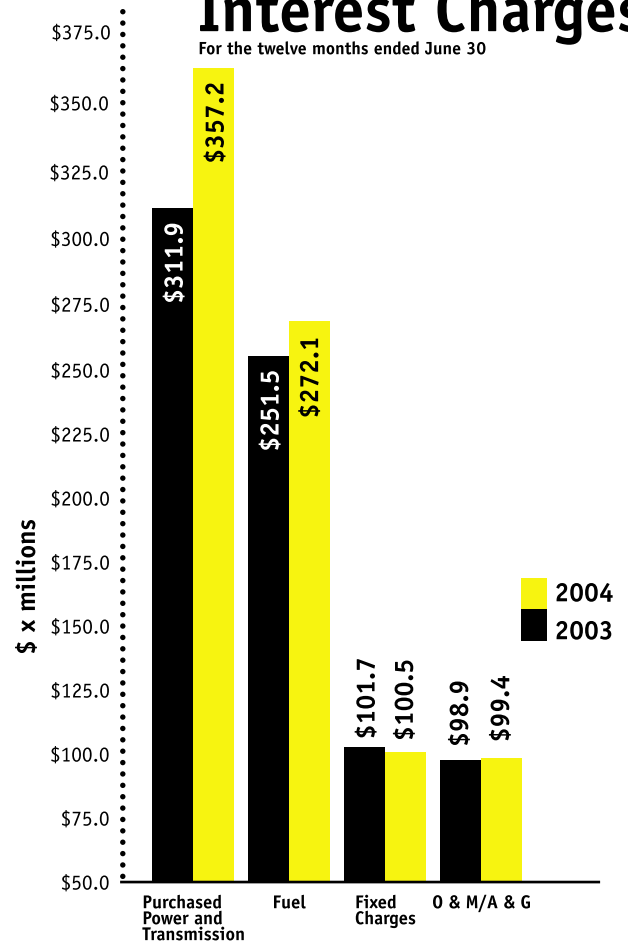
## Wholesale Member Cost

For the twelve months ended June 30



## Operating Expenses & Interest Charges

For the twelve months ended June 30



## Board, Chief Officer & Cooperatives

### Board Officers

John W. Drake  
*President*

Mal Green  
*Vice President*

Robert W. Strickland  
*Secretary/Treasurer*

### Chief Executive Officer

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

### Please direct inquiries to:

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*Vice President, Financial Services*

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### 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*

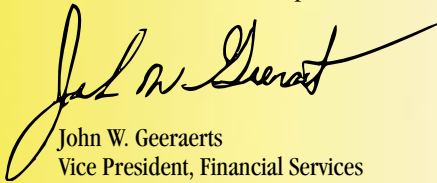
Suwannee Valley Electric Cooperative  
*Live Oak, FL*

Talquin Electric Cooperative  
*Quincy, FL*

Tri-County Electric Cooperative  
*Madison, FL*

Withlacoochee River Electric Cooperative  
*Dade City, FL*

in 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 2003 annual report.



John W. Geeraerts  
Vice President, Financial Services  
July 31, 2004



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