



CONSERVING WISELY

Orlando Utilities Commission
2009 Audited Financial Statements

FINANCIAL AND STATISTICAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

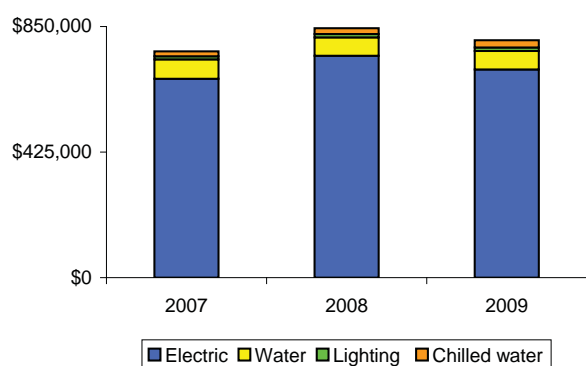
(Dollars in thousands)

	2009	2008	% Increase (Decrease)
Total operating revenues	\$ 803,415	\$ 844,182	-4.8%
Total operating expenses	\$ 670,749	\$ 712,977	-5.9%
Fuel for generation and purchased power	\$ 312,377	\$ 372,423	-16.1%
Interest, gain and net other income	\$ 16,883	\$ 22,843	-26.1%
Interest expense	\$ 77,048	\$ 74,167	3.9%
Income before contributions	\$ 72,501	\$ 79,881	-9.2%
Annual dividend	\$ 45,900	\$ 45,952	-0.1%
Utility plant, net	\$ 2,281,696	\$ 2,151,924	6.0%
Total assets	\$ 3,092,796	\$ 2,990,225	3.4%
Long-term debt, net	\$ 1,425,450	\$ 1,352,397	5.4%
Net assets	\$ 956,285	\$ 918,105	4.2%
Senior bond ratings (1)	AA, Aa1, AA	AA, Aa1, AA	
Debt service coverage:			
Current debt service	2.41	2.45	-1.6%

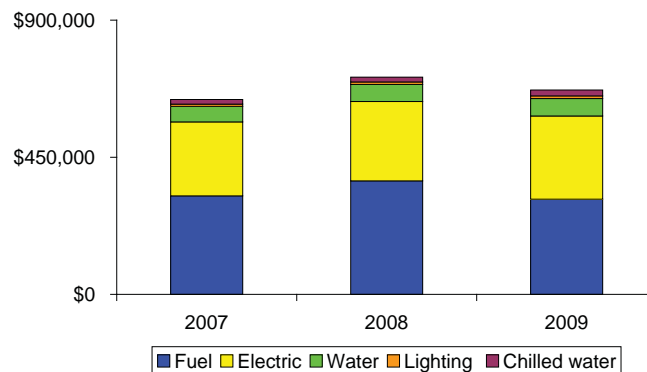
STATISTICAL HIGHLIGHTS (2)

Electric sales (MWH)	7,200,074	7,734,938	-6.9%
Water sales (MMGAL)	25,667	26,974	-4.8%
Lighting sales (MWH)	58,994	58,837	0.3%
Electric active services	203,944	203,803	0.1%
Water active services	135,189	137,142	-1.4%
Lighting active services	13,226	13,414	-1.4%
Chilled water active services	2,563	1,955	31.1%
Average annual residential use KWH	12,143	12,052	0.8%
Average residential revenue per KWH	\$ 0.115	\$ 0.115	0.6%
Average annual residential usage MGAL	119	125	-4.2%
Average residential revenue per MGAL	\$ 2.46	\$ 2.32	6.0%

Operating revenues at September 30
(Dollars in thousands)



Operating expenses at September 30
(Dollars in thousands)



(1) Bond Rating Agencies: Fitch Investors Service, Inc., Moody's Investors Service, and Standard & Poor's, respectively.

(2) For more detailed statistical information, see OUC's Financial & Statistical Information Report.

ORLANDO UTILITIES COMMISSION

September 30, 2009 and 2008

Table Of Contents

Management's Discussion and Analysis	2
Statement of Net Assets	10
Statements of Revenues, Expenses and Changes in Net assets	12
Statements of Cash Flows	13
Notes to Financial Statements	14
Required Supplemental Information	39
Report of Independent Auditors	40

Commission Members & Officers

Katie Porta

President

Maylen Dominguez Arlen

First Vice President

Dan Kirby, AIA, AICP

Second Vice President

Buddy H. Dyer

Mayor – Commissioner

Craig McAllaster

Commissioner

Kenneth P. Ksionek

Secretary

John E. Hearn

Elizabeth M. Mason

Assistant Secretaries

Management

Kenneth P. Ksionek

General Manager & Chief Executive Officer

Jan C. Aspuru

Vice President, Power Resources

W. Christopher Browder

Vice President & General Counsel

Clint P. Bullock

Vice President, Energy Delivery

Alvin C. Frazier

Vice President, Customer Service

Roseann E. Harrington

Vice President, Marketing, Communications & Community Relations

John E. Hearn

Vice President, Financial Services & Chief Financial Officer

Byron A. Knibbs

Vice President, Sustainable Services

Gregory T. Rodeghier

Vice President, Information Technology & Chief Information Officer

Denise M. Stalls

Vice President, Human & Environmental Resources

Robert D. Teegarden

Vice President, Water

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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, Ernst & Young LLP, OUC's independent public accountants, considers 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 disclosures necessary for a fair presentation of the information nor do they improperly include untrue statements of a material fact or statements of a misleading nature.



Kenneth P. Ksionek
General Manager &
Chief Executive Officer



John E. Hearn
Vice President &
Chief Financial Officer



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 results of operations, and should be read in conjunction with OUC's financial statements and accompanying notes, which follow this section.

Background

Orlando Utilities Commission was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida and is governed by a Board (the Board) consisting of five members including the Mayor of the City of Orlando. The Act confers upon OUC the rights and powers to set rates and charges for electric and water. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola Counties. In addition, OUC provides chilled water and lighting services.

Setting of Rates

The setting of electric and water rates are the responsibility of the Board. Rate changes are implemented after public workshops are held and approved by the Board.

In July 2008, the Board approved average bill rate increases for electric and water rates of 6.4% and 6.0%, respectively, which became effective on October 1, 2008. In January 2009, the Board approved average bill rate increases for electric and water of 13.7% and 7.8%, respectively, which became effective in March 2009.

Financial Reporting

OUC's financial statements are presented in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and in accordance with the accounting principles prescribed by the Financial Accounting Standards Board (FASB), where not in conflict with GASB. The accounting records are maintained in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) with the exception of contributions in aid of construction, which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and applies the accounting principles permitted by FASB Accounting Standards Codification 980 (ASC 980), "*Regulated Operations*," formerly known as Statement of Financial Accounting Standards No. 71. In accordance with these principles, the Board has taken various regulatory actions for ratemaking purposes that have resulted in the deferral of certain expenses or revenues. In 2009, regulatory actions taken by the Board resulted in the deferral of revenue and unanticipated gains in the amount of \$12.6 million, which will be recognized through the ratemaking process in future periods. In 2008, regulatory actions taken by the Board resulted in the recognition of \$18.8 million of revenue to offset budget shortfalls as a result of the economic downturn.

Basic Financial Statements

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

- **Statements of Net Assets:** These statements are prepared using the accrual method of accounting distinguishing current and long-term assets and liabilities, as well as the nature and amount of resources and obligations at a point in time.
- **Statements of Revenues, Expenses and Changes in Net Assets:** These statements present current and prior year revenues and expenses. In addition, included in these statements is the presentation of operating income, which is reported separately from non-operating income, contributions in aid of construction and annual dividend.
- **Statements of Cash Flows:** These statements are presented using the direct method and outline the sources and uses of cash as resulting from operations, non-capital related financing, capital related financing, and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

Condensed Statement of Net Assets

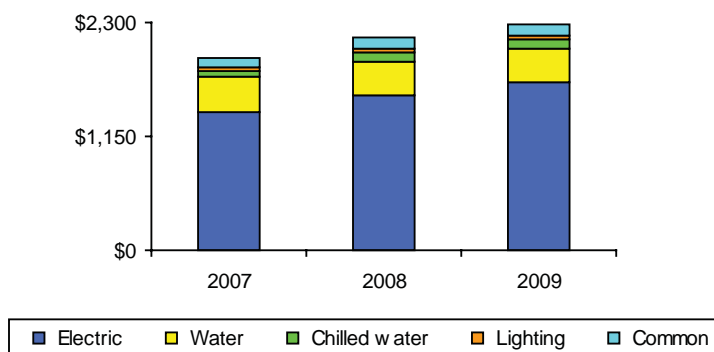
(Dollars in thousands)	Years ended September 30		
	2009	2008	2007
Assets			
Utility plant, net	\$ 2,281,696	\$ 2,151,924	\$ 1,934,223
Restricted and internally designated assets	462,519	505,172	536,172
Current assets	283,484	260,793	248,438
Other assets	65,097	72,336	71,421
Total assets	\$ 3,092,796	\$ 2,990,225	\$ 2,790,254
Liabilities and net assets			
Long-term debt, net	\$ 1,425,450	\$ 1,352,397	\$ 1,415,793
Current liabilities	400,499	437,550	186,213
Other liabilities and deferred credits	310,562	282,173	322,806
Net Assets:			
Invested in capital assets, net of related debt	782,268	762,640	674,949
Restricted net assets	660	1,468	8,335
Unrestricted net assets	173,357	153,997	182,158
Total liabilities and net assets	\$ 3,092,796	\$ 2,990,225	\$ 2,790,254

2009 Compared to 2008

Assets

Utility plant, net: In 2009, Utility plant, net increased \$129.8 million inclusive of a change in accumulated depreciation of \$82.4 million and the impact of the disposal of fully depreciated assets. Capital additions in the amount of \$247.4 million were expended in 2009 with approximately 40% of this amount or \$99.6 million being incurred for the construction of the new combined cycle generation facility at the Stanton Energy Center (Stanton B) and the supporting transmission switchyard upgrade. Additional large capital expenditures were incurred at Stanton Units 1 & 2 in the amount of \$17.2 million for system upgrades and on the Taft-Lakeland transmission line for capacity enhancements in the amount of \$8.3 million.

Utility plant, net at September 30
(Dollars in millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Restricted and internally designated assets: Restricted and internally designated assets decreased \$42.7 million in 2009 primarily due to the use of these funds for the construction of capital projects. Capital project funding from restricted assets, net of the issuance of construction bonds of \$100.0 million, was \$47.9 million and funding from designated assets from the capital reserve fund was \$32.1 million. Offsetting these uses was an increase in fuel stabilization funds in the amount of \$28.4 million as a result of declining natural gas costs as well as the settlement of the twenty-year prepaid gas agreement in the amount of \$8.0 million.

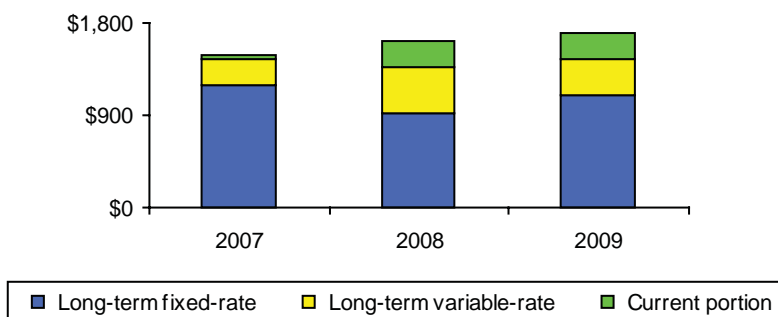
Current assets: Current assets increased \$22.7 million in 2009 as compared to 2008. Fuel for generation increased \$14.0 million as a result of increased coal supply at both OUC and non-OUC operated generation facilities. Margin deposits for interest rate swaps also increased \$12.1 million as compared to 2008 as a result of continued volatility in the financial markets, and deferred charges for the investments held in the fuel hedge program increased \$1.2 million as a result of higher fuel hedge volumes. Offsetting these increases was a decrease in miscellaneous receivables in the amount of \$5.9 million as a result of payments received for the completion of utility relocation projects.

Other assets: Other assets decreased \$7.2 million in 2009 as compared to 2008 primarily due to the decrease in regulatory costs for the asset retirement obligation in the amount of \$4.8 million as a result of securing additional information from the owner-operators related to the legal obligation for the decommissioning of the nuclear generation plants and the pending license extensions. In addition, other decreases were the result of the systematic recognition of deferred assets including the reclassification of \$2.5 million from the Advance pension funding amount to Prepaid expenses and deferred charges.

Liabilities

Long-term debt, net: Long-term debt, net increased \$73.1 million primarily due to the issuance of new construction bonds in the amount of \$100.0 million in May 2009. In addition, there was a decrease in long-term debt in the amount of \$19.5 million due to the refunding of the Series 2004 Bonds which matured in July 2009 in the amount of \$218.8 million offset by the reclassification of the current portion of the Series 2009B Bonds in the amount of \$199.3 million, which is scheduled to mature in June 2010. It is anticipated that the 2009B Bond Series will be refunded at their scheduled maturity date. As of September 30, 2009, OUC had an underlying credit rating of "AA" from both Standard & Poor's and Fitch Investors Service and rating of "Aa1" from Moody's Investors Service.

Current and long-term debt, net at September 30
(Dollars in millions)



OUC's exposure to counterparty credit risk and liquidity risk has increased as a result of continued turmoil in the financial markets. To mitigate counterparty credit risk, OUC has remained vigilant in its review of its counterparty credit ratings, in accordance with its financial derivative policy, and to date, no circumstances have arisen to require OUC to terminate a counterparty agreement as a result of this requirement or any other policy provision. In respect to liquidity risk, volatility in the financial markets has increased interest rate swap margin deposits and at September 30, 2009 and 2008, margin deposits were \$29.1 million and \$17.0 million, respectively. To mitigate the impact of this risk, OUC has been evaluating its debt portfolio and has executed, subsequent to September 30, 2009, an option agreement with one of its interest rate swap counterparties granting them the right to terminate the agreement for an agreed upon period of time, in exchange for a lower fixed interest rate (see Note M). In addition, two interest rate hedges were terminated by OUC in 2009 resulting in swap termination gains of \$4.8 million of which \$2.5 million was deferred in accordance with Board action.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Current liabilities: Current liabilities have decreased \$37.1 million in 2009 as compared to 2008. A portion of this change was due to the decrease in the current portion of long-term debt in the amount of \$17.2 million. This change is a result of the reclassification of the Series 2009B Bonds scheduled to mature in June 2010 in the amount of \$199.3 million compared to the current portion of long-term debt of the Series 2004 Bonds, which matured in July 2008 in the amount of \$218.8 million. In addition, fuel and purchased power payables and vendor payables decreased \$16.7 million and \$7.6 million, respectively, as a result of moderating fuel prices and lower construction spending. Offsetting these changes was an increase in the amount of \$5.9 million for interest rate swap payables as a result of volatility in the financial markets.

Other liabilities and deferred credits: Other liabilities increased \$28.4 million in 2009. Moderating fuel prices in the energy markets, coupled with the prepaid gas termination settlement deferred gain in the amount of \$8.0 million, represented the largest portion of the \$29.0 million increase in fuel stabilization funds including \$0.6 million of accrued unbilled fuel revenue. In addition, other regulatory actions including the deferral of gains recognized from the termination of an interest rate swap in the amount of \$2.5 million and the deferral of revenue requirements for the development of a nuclear generation facility in the amount of \$2.2 million contributed to the increase. Offsetting these increases was the systematic recognition of the deferred gain from the Indian River power generation facility in the amount of \$4.0 million to mitigate depreciation related cost for Stanton Unit A (SECA), the replacement power generation facility.

2008 Compared to 2007

Assets

Utility plant, net: In 2008, utility plant increased \$217.7 million net of a change in accumulated depreciation of \$96.6 million. Major projects, which contributed to the increase in utility plant, included the new combined cycle generation facility and supporting transmission upgrades at the Stanton Energy Center in the combined amount of \$118.8 million; the new administration building, which opened in October 2008 in the amount of \$35.1 million; and the new chilled water facility at Lake Nona in the amount of \$12.9 million. In addition to these major projects, costs for significant capital improvements were incurred at Stanton Units 1 & 2 in the amount of \$22.6 million and on the Taft-Lakeland transmission line for capacity enhancements in the amount of \$5.8 million.

On November 13, 2007, OUC and Southern Power agreed to terminate the construction of the gasifier island portion of the new generation facility being constructed on the Stanton Energy Site. Included in the settlement agreement was a provision for an exchange of land to OUC for liquidating damages in the amount of \$22.5 million.

Restricted and internally designated assets: Restricted and internally designated assets decreased \$31.0 million in 2008. This change was the result of several items, including the use of \$31.5 million of fuel stabilization funds and the combined use of \$18.8 million of base rate and liability reduction stabilization funds. In addition, \$7.3 million from the renewal and replacement fund was used for the construction of the new administration building. Offsetting these changes was an increase in unspent construction bonds outstanding in the amount of \$16.3 million in 2008 compared to 2007. This change was due to the issuance of \$200.0 million of construction bonds in November 2007 for which there was \$78.6 million outstanding at September 30, 2008 compared to \$62.4 million outstanding from unspent construction funds at September 30, 2007.

Current assets: Current assets increased \$12.4 million in 2008 as compared to 2007. Volatility in the financial markets increased the margin deposit requirements for the 2008 bond series interest rate hedge in the amount of \$13.1 million. Growth in the fuel hedge program increased the margin deposit requirement in the amount of \$3.3 million. Offsetting these increases was a change related to the reclassification of \$7.7 million of prepaid turbine outage capital costs which were capitalized to fixed assets in 2008 from Prepaid expenses and other deferred charges.

Other assets: Other assets increased \$0.9 million as a result of the reclassification of \$4.4 million to the Asset retirement obligation regulatory asset from the fair value assets recorded under the heading of Utility plant, net offset by the systematic reclassification of long-term advance funded defined benefit pension costs in the amount of \$3.2 million classified under the heading of Deferred debt to Prepaid expenses and other deferred charges.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liabilities

Long-term debt, net: Long-term debt, net decreased \$63.4 million due to the reclassification of the Series 2004 Bonds scheduled to mature in July 2009 in the amount of \$216.9 million and other scheduled annual principal payments in the amount of \$46.0 million. These amounts were reclassified under the heading of Current portion of long-term debt. These changes were offset by the issuance of new construction bonds in the amount of \$200.0 million in November 2007.

Current liabilities: Total current liabilities increased \$251.3 million primarily due to the reclassification of the Series 2004 Bonds in the amount of \$218.8 million. Other changes in current liabilities were the result of increased fuel and purchased power payables in the amount of \$17.2 million and an increase in unrestricted accrued net swap payables in the amount of \$4.2 million. Additionally, OUC incurred \$1.2 million for eminent domain transition costs in 2008.

Other liabilities and deferred credits: Other liabilities decreased \$40.6 million in 2008 as a result of continued volatility in the energy markets and the use of \$26.6 million of fuel stabilization funds net of interest earnings. In addition, mild weather coupled with a weakening economy resulted in the use of \$18.8 million in base rate and liability reduction stabilization funds to mitigate revenue shortfalls.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

(Dollars in thousands)	Years ended September 30		
	2009	2008	2007
Operating revenues	\$ 803,415	\$ 844,182	\$ 765,825
Operating expenses	670,749	712,977	639,571
Operating income	132,666	131,205	126,254
Net non-operating expenses	60,165	51,324	41,241
Income before contributions	72,501	79,881	85,013
Contributions in aid of construction	11,579	18,734	24,362
Annual dividend	(45,900)	(45,952)	(45,700)
Increase in net assets	38,180	52,663	63,675
Net assets - beginning of year	918,105	865,442	801,767
Net assets - end of year	\$ 956,285	\$ 918,105	\$ 865,442

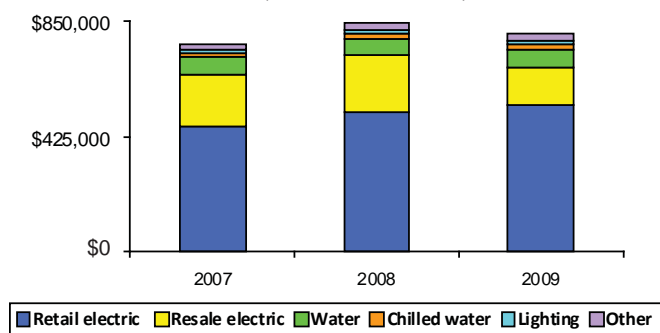
Changes in net assets

2009 Compared to 2008

Operating revenues: Operating revenues decreased \$40.8 million or 4.8% in 2009 as compared to 2008, inclusive of the \$18.8 million of stabilization revenue, which was recognized in 2008 to offset budget shortfalls. The primary driver of this change was a \$58.9 million decrease in fuel revenue as a result of moderating fuel prices. In addition, resale energy revenues decreased \$19.1 million as a result of the economic downturn and milder weather. Offsetting these decreases was an increase of \$31.8 million in energy revenues as a result of rate increases implemented in March 2009 and a \$5.2 million increase in chilled water revenues as a result of the commencement of the new chilled water district in Lake Nona.

Operating revenues

(Dollars in thousands)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating expenses: In 2009, total operating expenses were \$42.2 million or 5.9% lower than in 2008 primarily due to decreased fuel and purchased power costs in the amount of \$58.9 million as a result of moderating fuel prices.

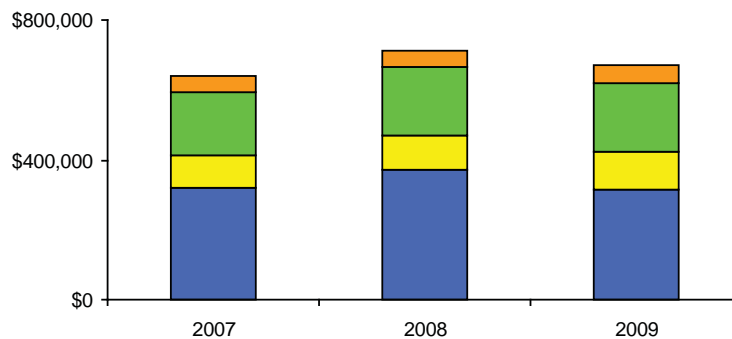
Unit/department expenses increased \$1.9 million or 1.0% in 2009 as compared to 2008. Although the year-over-year change was an increase, cost saving measures ranging from a hiring freeze to deferred maintenance activities garnered savings of \$10.2 million. These savings were offset by higher actuarial defined benefit pension costs of \$5.0 million, as a result of narrowing the pension corridor thresholds, and higher material costs inclusive of chemical costs of \$4.2 million.

Depreciation and amortization expense was \$110.1 million, an increase from 2008 of \$11.8 million or 12.0%. In addition to the increase in systematic depreciation and amortization expense as a result of additional capitalization of utility plant, impairment expenses for the change in usage of the Southeast water treatment plant and the decrease in fair market value for the old administration building in the amount of \$2.5 million and \$0.8 million, respectively, were recognized in 2009. Additional decommissioning expense in the amount of \$2.4 million and increased depreciation expense for the new administration building in the amount of \$2.0 million were also recognized in 2009.

Payments to other governments and taxes increased \$4.6 million or 9.9% in 2009 as compared to 2008. This increase was driven by the rate changes implemented in 2009.

The following chart compares expenses over the three-year period:

Operating expenses
(Excluding storm expenses)
(Dollars in thousands)



■ Fuel and purchased power ■ Depreciation and amortization ■ Unit/department ■ Payments and taxes

Net non-operating expenses: Total net non-operating expenses increased \$8.8 million or 17.2% in 2009 as compared to 2008. A portion of this change was due to higher interest expenses in the amount of \$2.9 million as a result of the issuance of \$100.0 million in construction bonds in May 2009. Interest and other income were recorded as an offset to interest expense and in 2009, interest income decreased \$6.0 million as a result of lower market interest rates, lower cash balances on hand and limited opportunities to capture investment gains.

Contributions in aid of construction: Contributions in aid of construction decreased \$7.2 million in 2009 as compared to 2008 as a result of a decrease in road and utility relocation projects and slower overall growth in the Central Florida area.

2008 Compared to 2007

Operating revenues: Operating revenues increased \$78.4 million in 2008 as compared to 2007. Changes in the fuel markets increased fuel revenue \$48.8 million in 2008. Retail electric energy increased \$10.4 million as a result of a rate modification in January 2007 and a 0.5% increase in consumption. In addition to the changes in year-over-year revenue amounts, OUC experienced budgetary revenue shortfalls for retail electric energy in the amount of \$20.6 million. To mitigate this shortfall, action was taken by the Board to recognize \$16.8 million of base rate and liability reduction stabilization funds. In addition to these changes, chilled water, lighting and other service fee revenues increased \$9.4 million due to growth in these business segments. Offsetting these increases was a decrease in water revenues in the amount of \$3.1 million. Consistent with retail electric energy revenues, projections for increased water revenues in 2008 fell short by \$5.7 million of which \$2.0 million was mitigated through the use of water stabilization funds.

Operating expenses: Operating expenses in 2008 were \$73.4 million higher than in 2007 primarily due to increased fuel and purchased power costs in the amount of \$49.2 million.

Unit/department expenses increased \$14.9 million in 2008 as compared to 2007. Increased labor and benefit costs in the amount of \$9.2 million were driven by annual merit adjustments and the implementation of a consolidated compensation and benefit market based study. Higher operating costs at the Stanton Energy Center generation facilities and changes in the economy, which impacted the amount of capitalized labor, increased operating costs in the amount of \$3.0 million and \$2.9 million, respectively, in 2008 as compared to 2007.

Costs of \$0.6 million for storm related expenses, net of anticipated recoveries were incurred in August 2008 as a result of Tropical Storm Fay.

Payments to other governments and taxes increased \$2.6 million in 2008 as compared to 2007. A portion of this change was the result of growth in the St. Cloud area and the corresponding increased revenue based payments in the amount of \$1.0 million.

Net non-operating expense: Total net non-operating expenses increased \$10.1 million or 24.0% in 2008 as compared to 2007. The largest portion of this change was the result of a \$6.5 million decrease in interest income as a result of lower market interest rates and lower cash balances on hand inclusive of funds available from construction bond issues. Interest expense costs increased as a result of financial market conditions and the issuance of new construction bonds in the amount of \$200.0 million.

Contributions in aid of construction: Contributions in aid of construction decreased \$5.6 million or 23.1% in 2008 as compared to 2007 as a result of the weakening economy and the slowdown in growth in the Central Florida area.

STATEMENT OF NET ASSETS

Assets	Years ended September 30	
	2009	2008
(Dollars in thousands)		
Utility plant		
Utility plant in service	\$ 3,105,313	\$ 2,971,164
Allowances for depreciation and amortization	(1,304,803)	(1,222,394)
	1,800,510	1,748,770
Land	59,501	59,196
Construction work in progress	421,685	343,958
Total utility plant, net	2,281,696	2,151,924
Restricted and internally designated assets		
Restricted assets	122,985	167,303
Internally designated assets	339,534	337,869
Total restricted and internally designated assets	462,519	505,172
Current assets		
Cash and investments	47,253	49,607
Customer accounts receivable, less allowance for doubtful accounts (2009 - \$23,379, 2008 - \$17,093)	81,482	78,801
Miscellaneous receivables	5,731	12,479
Accrued utility revenue	40,050	37,149
Fuel for generation	19,950	5,972
Materials and supplies inventory	36,727	37,926
Accrued interest receivable	1,834	3,505
Prepaid expenses and deferred charges	50,457	35,354
Total current assets	283,484	260,793
Other assets		
Advance pension funding	34,268	36,792
Regulatory assets	13,393	19,841
Other deferred costs	14,532	12,224
Deferred debt costs	2,904	3,479
Total other assets	65,097	72,336
Total assets	\$ 3,092,796	\$ 2,990,225

See notes to the financial statements.

STATEMENT OF NET ASSETS

Liabilities

Years ended September 30

(Dollars in thousands)	2009	2008
Current liabilities		
Payable from restricted assets		
Current portion of long-term debt	\$ 247,616	\$ 264,844
Accrued interest payable on notes and bonds	27,552	28,093
Customer meter deposits	33,485	33,575
Total payable from restricted and designated assets	308,653	326,512
Payable from current assets		
Accounts payable and accrued expenses	56,395	83,002
Billings on behalf of state and local governments	13,388	13,005
Compensated absences and accrued wages	11,185	10,160
Accrued governmental payments	2,310	2,208
Accrued swap payables	8,568	2,663
Total payable from current assets	91,846	111,038
Total current liabilities	400,499	437,550
Other liabilities and deferred credits		
Regulatory liabilities	229,540	198,135
Deferred revenue	22,986	24,213
Asset retirement obligation and other liabilities	58,036	59,825
Total other liabilities and deferred credits	310,562	282,173
Long-term debt		
Bond and note principal	1,444,605	1,378,830
Unamortized discount/premium and deferred amount on refunding	(19,155)	(26,433)
Total long-term debt, net	1,425,450	1,352,397
Total liabilities	\$ 2,136,511	\$ 2,072,120
Net assets		
Invested in capital assets, net of related debt	\$ 782,268	\$ 762,640
Restricted	660	1,468
Unrestricted	173,357	153,997
Total net assets	\$ 956,285	\$ 918,105

See notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended September 30

(Dollars in thousands)	2009	2008
Operating revenues		
Retail electric revenues	\$ 543,270	\$ 518,825
Resale electric revenues	137,044	207,743
Water revenues	62,665	62,210
Chilled water revenues	23,988	19,170
Lighting revenues	12,046	11,288
Other revenues	24,402	24,946
Total operating revenues	803,415	844,182
Operating expenses		
Fuel for generation and purchased power	312,377	372,423
Unit/department expenses	196,786	194,905
Depreciation and amortization	110,068	98,312
Payments to other governments and taxes	51,356	46,713
Storm related expenses	162	624
Total operating expenses	670,749	712,977
Operating income	132,666	131,205
Non-operating income and expenses		
Interest income	10,649	16,684
Other income, net	2,263	2,188
Amortization of deferred gain on sale of assets	3,971	3,971
Interest expense	(77,048)	(74,167)
Total net non-operating expenses	(60,165)	(51,324)
Income before contributions	72,501	79,881
Contributions in aid of construction	11,579	18,734
Annual dividend	(45,900)	(45,952)
Increase in net assets	38,180	52,663
Net assets - beginning of year	918,105	865,442
Net assets - end of year	\$ 956,285	\$ 918,105

See notes to the financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years ended September 30	
	2009	2008
Cash flows from operating activities		
Cash received from customers	\$ 827,231	\$ 839,152
Cash paid for fuel and purchased power	(340,147)	(372,256)
Cash paid for unit/department expenses excluding salaries and benefits	(75,027)	(74,058)
Cash paid for salaries and benefits	(115,283)	(113,564)
Cash paid to other governments and taxes	(50,993)	(46,923)
Cash paid for storm recovery expenses	-	(624)
Net cash provided by operating activities	245,781	231,727
Cash flows from non-capital related financing activities		
Dividend payment	(45,900)	(45,952)
Net cash used in non-capital related financing activities	(45,900)	(45,952)
Cash flows from capital related financing activities		
Principal payments on long-term debt	(362,945)	(44,440)
Debt interest payments	(66,104)	(68,023)
Collateral deposits	(12,132)	(13,068)
Debt issuances	419,875	200,000
Debt issuance expenses	(3,955)	(1,623)
Construction and acquisition of utility plant, net of contributions	(237,983)	(302,678)
Net cash used in capital related financing activities	(263,244)	(229,832)
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	598,096	594,525
Gain on sale of investments	2,230	7,791
Purchases of investment securities	(497,435)	(634,030)
Investments and other income received	13,921	22,507
Net cash provided by/(used in) investing activities	116,812	(9,207)
Net decrease in cash and cash equivalents	53,449	(53,264)
Cash and cash equivalents - beginning of year	115,847	169,111
Cash and cash equivalents - end of year	\$ 169,296	\$ 115,847
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 132,666	\$ 131,205
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization of plant charged to operations	110,068	98,312
Depreciation charged to fuel for generation and purchased power	4,051	3,498
Depreciation of vehicles and equipment charged to unit/department expenses	6,126	3,233
Changes in assets and liabilities		
(Increase)/decrease in receivables and accrued revenue	(1,267)	8,166
(Increase)/decrease in fuel and materials and supplies inventories	(7,407)	12,744
(Decrease)/increase in accounts payable and accrued expenses	(20,786)	24,112
Decrease in deposits payable and deferred costs	(6,778)	(6,899)
Increase/(decrease) in stabilization and deferred revenue	29,108	(42,644)
Net cash provided by operating activities	\$ 245,781	\$ 231,727
Reconciliation of cash and cash equivalents		
Restricted and internally designated investments	\$ 88,494	\$ 42,206
Cash and investments	17,973	8,559
Construction and related funds	33,042	40,057
Debt service and related funds	29,787	25,025
Cash and cash equivalents - end of the year	\$ 169,296	\$ 115,847
Supplemental disclosure of non-cash financing activities		
Assets contributed in aid of construction	\$ 2,953	\$ 4,605
Fair value of investments	\$ (2,275)	\$ (2,312)
Amortization of debt related costs	\$ 3,689	\$ 3,594

NOTES TO FINANCIAL STATEMENTS

Note A – The Organization

Orlando Utilities Commission 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. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola Counties. In addition, OUC provides chilled water and lighting services.

OUC's governing Board (the 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 Statement No. 14, *"The Financial Reporting Entity"* and No. 39, *"Determining Whether Certain Organizations are Component Units."*

Within OUC's stand-alone government reporting structure are undivided interests in several power generation facilities, which are operated through participation agreements and are described in Note D. 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 are presented in conformity with generally accepted accounting principles for enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB) and in accordance with the accounting principles prescribed by the Financial Accounting Standards Board (FASB), where not in conflict with GASB. The accounting records are maintained in accordance with the accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC) with the exception of contributions in aid of construction, which are recorded in accordance with the standards prescribed by GASB.

OUC is a regulated enterprise and, as such, applies the accounting principles permitted by FASB Accounting Standards Codification 980 (ASC 980), *"Regulated Operations"* formerly known as Statement of Financial Accounting Standards No. 71. Under ASC 980, certain expenses and revenues are deferred and recognized in accordance with rate actions of the Board.

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

Measurement focus, basis of accounting, and financial statement presentation: OUC reports operating revenues and expenses separately from net non-operating expenses and contributions in aid of construction. Operating revenues and expenses generally result from producing and delivering utility service in the forms of electric, water, chilled water and lighting. The principal operating revenues are charges to retail and wholesale customers and are recorded net of the provision for uncollectible accounts. Operating expenses include fuel and purchased power, unit/department, taxes, and depreciation on capital assets. Net non-operating expenses include financial and investment activities. Contributions in aid of construction are primarily comprised of impact fees assessed for the future expansion and development of OUC's water system, as well as developer contributions to OUC's electric and water systems above the required obligation to serve levels.

Setting of rates: 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.

Note B – Summary of Significant Accounting Policies (continued)

Periodically, OUC performs a rate adequacy study to determine the electric base and fuel revenue requirements. Based on this study, current cost-of-service studies, and regulations of the FPSC regarding electric rate structures, OUC develops the electric rate schedules. Prior to the implementation of any rate change, OUC notifies customers individually, convenes a public workshop, presents the rates to the Board for approval and files the proposed tariffs with the FPSC. Water rate requirements are studied and prepared in a similar manner excluding filing a notification with the FPSC.

In July 2008, the Board approved rate increases for retail electric fuel rates and retail water rates which became effective on October 1, 2008. These increases were projected to result in an overall 6.4% increase in electric retail rates and an overall 6.3% increase in water retail rates in 2009. In January 2009, the Board approved an overall rate increase for retail electric to become effective on March 1, 2009. This rate increase was projected to result in a 13.7% average bill increase with 10.3% and 3.4% to energy and fuel rates, respectively. In respect to water rates, the Board approved an average bill increase of 7.8%.

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 Board for approval prior to the beginning of the fiscal year. OUC’s annual operating budget and capital plan are approved and adopted, respectively, in the month of August preceding the upcoming fiscal year. The legal adoption of OUC’s operating budget and capital plan are not required.

In accordance with OUC’s budget policy and bond resolutions, actual revenues and expenses are compared to the budget by operating unit, as well as by line item, and submitted to the Board monthly.

In January 2009, as a result of the continuing impacts of the economic downturn, the Board approved and adopted an amended operating budget and capital plan, respectively, for the year ending September 30, 2009.

Utility plant: Utility plant is stated at historical cost with the exception of the fair value assets recorded in accordance with FERC Order 631, *“Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations”* and impaired assets recorded in accordance with Statement of Governmental Accounting Standard No. 42, *“Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.”* Fair value assets are recognized over the license period of the nuclear generation facility and are subject to periodic re-measuring.

Historical utility plant costs include the costs of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering. Interest expense is not a component of OUC’s historical utility plant costs.

Assets are depreciated systematically using the straight-line method over the estimated useful life considering FERC guidelines or license period of the asset. The cost of electric or water utility plant assets retired, together with removal costs less salvage, are charged to accumulated depreciation. In addition, when utility plant constituting an operating unit or system is sold or disposed of and the net proceeds are at least \$500,000, the gain or loss on the sale or disposal is deferred and proceeds, if applicable, are placed in the Renewal and Replacement fund in accordance with the Board-approved Policy on Accounting Treatment of Disposal of Capital Assets.

The consolidated average annual composite depreciation rates for 2009 and 2008 inclusive of impairment expenses were 3.5% and 3.3%, respectively. Depreciation is calculated using the following estimated lives:

Electric	5 – 50 years
Water	3 – 67 years
Chilled Water	3 – 40 years
Lighting	5 – 20 years
Common	2 – 40 years

In addition, nuclear fuel is included in utility plant and amortized to fuel expense as it is used.

Intangible assets: In accordance with the implementation of Statement of Governmental Accounting Standards No. 51, *“Accounting and Financial Reporting for Intangible Assets,”* all intangible assets excluding those exempt from this standard including goodwill, are classified under the heading of Utility plant, net. These assets are recognized, measured and depreciated consistent with OUC’s capitalization criteria.

NOTES TO FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

Cash, cash equivalents and investments: Cash and cash equivalents are reported under the heading of restricted and internally designated assets and current assets. OUC's cash and cash equivalents include all authorized instruments purchased with an original maturity date of three months or less, including all investments in money market funds.

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 are recorded at their amortized cost in accordance with OUC's ratemaking model and its intention to retain these investments until the underlying debt has reached maturity or the series has been refunded. 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 and recorded as a component of Interest income in 2009 and 2008 were \$2.2 million and \$7.8 million, respectively. Realized gains recognized as a result of bond refunding are included in Unamortized discount and deferred amount on refunding, and at September 30, 2009 and 2008, there were no deferred gains of this nature. Premiums and discounts on bonds and other investments are amortized using the effective interest method.

Investments maintained in OUC's Defined Benefit and Other Post-Employment Benefit Trust funds were reported at quoted market value as of their actuarial valuation date. See valuation information related to these trust funds following the footnotes under the heading of Required Supplemental Information.

Restricted and internally designated assets: Funds classified as restricted assets represent cash, cash equivalents and investments, which were designated by law, bond requirements or regulatory statutes. Funds classified as internally designated assets also represent cash, cash equivalents and investments for which OUC has a customer obligation or the Board has taken action to designate.

Accounts receivable: OUC bills customers monthly on a cyclical basis. Revenue is recognized in the period in which it was earned net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated based upon OUC's historical experience with collections and current energy market conditions. Bad debt for estimated uncollectible accounts was recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets in the amount of \$7.0 million and \$5.8 million for the years ended September 30, 2009 and 2008, respectively.

The net customer accounts receivable balance of \$81.5 million and \$78.8 million at September 30, 2009 and 2008, respectively, includes billings on behalf of the State and other local governments of \$13.4 million and \$13.0 million, respectively, for 2009 and 2008. As OUC acts as billing agent, these amounts do not flow through OUC's Statements of Revenues, Expenses and Changes in Net Assets.

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

Accrued utility revenue: This amount represents services provided to retail customers but not billed at the end of the fiscal year for electric, water, chilled water and lighting. Accrued unbilled revenue at September 30, 2009 and 2008 was \$40.1 million and \$37.1 million, respectively, including unbilled electric fuel revenues in the amount of \$12.6 million and \$12.1 million, respectively.

Fuel for generation: Fuel oil and coal are reported at current cost which is adjusted on a monthly basis in accordance with market band fuel indices. Fuel for generation at September 30, 2009 and 2008 was \$20.0 million and \$6.0 million, respectively.

Materials and supplies inventory: Materials and supplies are reported at standard cost, which approximates weighted average cost as older inventory with no recent activity remain consistent (at weight average cost) and high turning inventories are marked to current cost. Costs are evaluated on a periodic basis in conjunction with OUC's contractual material and supply agreements. Materials and supplies at September 30, 2009 and 2008 were \$36.7 million and \$37.9 million, respectively.

Prepaid expenses and deferred charges: Prepaid expenses represent costs that are anticipated to be recognized in the Statements of Revenues, Expenses and Changes in Net Assets in the near future including service agreement costs and the current portion of the advance pension funding. Deferred charges represent costs such as margin deposits and deferred fuel hedge costs. Prepaid expenses and deferred charges at September 30, 2009 and 2008 were \$50.5 million and \$35.4 million for which margin deposits (see Note H – Interest rate swaps) were \$29.1 million and \$17.0 million, respectively.

Note B – Summary of Significant Accounting Policies (continued)

Advance pension funding asset: The advance pension funding asset originated in association with the issuance of the pension obligation bonds. The amortization of this deferred asset is being recognized consistent with the annual actuarial valuation report and was \$34.3 million and \$36.8 million at September 30, 2009 and 2008, respectively. The outstanding balance for the pension obligation bonds, Series 2003T Bonds, were \$40.6 million and \$43.8 million at September 30, 2009 and 2008, respectively.

Deferred debt costs: Deferred debt costs represent costs related to bond issuances, which are amortized using the bonds outstanding method and recorded net of accumulated amortization. Deferred costs related to bond series scheduled to mature in the next 12 months are included under the heading of Prepaid expenses and deferred charges.

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, counterparty credit worthiness and overall program compliance. In addition, the Energy Risk Management Program incorporates specific volume and financial limits which begin at 40% of the approved fuel budget of the current year (the 1st year) and graduate down in 5% increments to 20% of the forecasted annual fuel budget for the 5th year.

The recording of fuel derivatives was included on the Statements of Net Assets at their quoted market value. Associated margin deposits were segregated from these values and at September 30, 2009 and 2008 were \$4.8 million and \$5.8 million, respectively. Terminated hedge derivative amounts are deferred and recognized as a component of Fuel for generation and purchased power in the month for which the option was scheduled to expire. Fuel hedges outstanding, including fuel volumes at September 30, were as follows:

(Dollars in thousands)	2009		2008	
	Quantity	Value	Quantity	Value
Fair value gas charges (mmbtu)	8,240	\$13,926	7,490	\$5,921
Fair value oil charges (bbl)	140	1,426	381	1,107
Total fair value charges	<u>8,380</u>	<u>\$15,352</u>	<u>7,871</u>	<u>\$7,028</u>
Fair value gas gains	1,520	\$515	1,180	\$940
Fair value oil gains	-	-	-	-
Total fair value gains	<u>1,520</u>	<u>\$515</u>	<u>1,180</u>	<u>\$940</u>

Recognized fuel hedge costs were \$22.5 million and \$4.1 million for the years ended September 30, 2009 and 2008, respectively.

Interest rate swaps: 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 counterparty and included as a component of Interest expense. No fair market value amounts related to these agreements are recorded on the Statements of Net Assets. Fair value amounts of these financial instruments are included in Note H along with information related to the termination of two interest rate derivative instruments in 2009.

Financial related derivative transactions terminated prior to their original maturity date are recognized as a component of Interest expense unless otherwise authorized by Board action to be deferred and recognized over a period consistent with the original underlying bonds still outstanding.

Accounts payable and accrued expenses: Accounts payable and accrued expenses include liabilities incurred in conjunction with vendor payables, fuel and purchased power costs, accrued expenses for self insurance expenses and other accounts payable and accrued expenses.

NOTES TO FINANCIAL STATEMENTS

Note B – Summary of Significant Accounting Policies (continued)

The following table summarizes the significant payable balances included under this heading at September 30:

(Dollars in thousands)	2009	2008
Vendor payables	\$ 25,465	\$ 30,940
Fuel & purchased power payables	24,850	41,551
Accrued self insurance expenses	2,887	3,019
Other accounts payable and accrued expenses	3,193	7,492
Total	\$ 56,395	\$ 83,002

Pollution remediation obligations: In accordance with SGAS No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," OUC has recognized liabilities in the amounts of \$0.6 million and \$0.4 million at September 30, 2009 and 2008, respectively, under the heading of Accounts payable and accrued expenses.

OUC and the City of Orlando are jointly performing remediation activities on a site adjacent to a parcel of land owned by OUC. To date, OUC has capitalized costs of \$0.6 million for these activities in anticipation of a land sale.

Compensated absences and accrued wages: OUC accrues vacation leave for all employees annually on January 1. Sick leave is earned annually on the employee's anniversary date and is accrued based on a ratio of sick leave taken to sick leave earned. This ratio is then used to determine an employee's payout at either the retirement rate of 50% or termination rate of 25%. No payout is available for employees with less than 2 years of employment. Compensatory time is accrued when earned. At September 30, 2009 and 2008, the estimated liability for compensated absences and accrued wages was \$11.2 million and \$10.2 million, respectively.

Deferred revenue: Deferred revenue represents advanced funds received for future services that are amortized over a period consistent with the service agreement. In October 1999, in conjunction with the sale of the Indian River Plant, OUC received prepaid transmission access fees that are being amortized over the life of the agreement. Deferred revenue related to this agreement at September 30, 2009 and 2008 was \$12.6 million and \$13.5 million, respectively.

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 received from customers for construction commitments.

The asset retirement obligation was determined based on the most recent approved Florida Public Service Commission (FPSC) report provided to OUC by the owner-operators of these plants. The amount estimated for OUC's share of the decommissioning cost 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. This liability is systematically accreted over a life consistent with each plant's license period. Asset retirement obligations recorded at September 30, 2009 and 2008 were \$36.6 million and \$37.3 million and \$14.2 million and \$13.5 million, for St. Lucie Unit 2 and Crystal River Unit 3, respectively.

License expirations for St. Lucie and Crystal River are 2043 and 2016, respectively; however, it is anticipated that Crystal River will secure a license extension through 2036.

Unamortized discount/premium and deferred amount on refunding: Unamortized discount/premium on outstanding bonds is recorded in the year of issuance. Amortization of these amounts is recorded using the bonds outstanding method based on the individual serial maturities and is presented net of accumulated amortization.

Deferred amounts on refunding represent deferred gains or losses from bond refundings and are amortized over the shorter of the lives of the refunded debt, using the straight-line method and are presented net of accumulated amortization.

Unamortized discount/premium including underwriter discounts and deferred amounts on refunding related to bond series scheduled to mature within the next 12 months are included under the heading of Current-portion of long-term debt outstanding.

Note B – Summary of Significant Accounting Policies (continued)

Contributions in aid of construction: Funds received from developers and customers for assets owned and maintained by OUC, funds received for system development fees and donated assets are recorded as 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.

Net assets: OUC classifies its net assets into three components as follows:

- **Invested in capital assets, net of related debt:** This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding debt balances, net of unamortized debt expenses.
- **Restricted:** This component consists of net assets with external constraints placed on their use. Constraints include those by debt indentures, grants or laws and regulations of other governments and those established by law through constitutional provisions or enabling legislation.
- **Unrestricted:** This component of net assets consists of net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

Review of new accounting standards: In 2009, the Statement of Governmental Accounting Standards (SGAS) No. 52, *“Land and Other Real Estate Held as Investments by Endowments,”* became effective. The scope of this standard established accounting and financial reporting for land and other real estate held as investment by endowments. OUC does not maintain any assets of this nature and as such this standard is not applicable to OUC’s operations. In February 2009, SGAS No. 54, *“Fund Balance Reporting and Governmental Fund Types,”* was issued. This standard establishes accounting and financial reporting standards for all governments that report governmental funds. As an enterprise fund, this standard is not applicable to OUC. In March 2009, SGAS No. 55, *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,”* and No. 56, *“Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements,”* were issued. These standards incorporate existing generally accepted accounting guidance into the Governmental Accounting Standards Board’s (GASB) authoritative literature. As these standards have already been incorporated, they do not have a material impact on OUC’s financial position.

In 2008, OUC implemented Statement of Governmental Accounting Standards No. 48, 49 and 51, *“Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,”* *“Accounting and Financial Reporting for Pollution Remediation Obligations”* and *“Accounting and Financial Reporting for Intangible Assets,”* respectively. The implementation of these standards did not have a material impact on OUC’s financial position.

Issued but not yet effective: In June 2008, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards No. 53, *“Accounting and Financial Reporting for Derivative Instruments,”* to address the recognition, measurement and disclosure of information for derivative instruments. This statement is effective for periods beginning after June 15, 2009 and as such will be adopted by OUC in 2010. The impact to OUC’s financial position is currently being evaluated and has not yet been determined.

Reclassifications: Certain amounts in 2008 have been reclassified to conform to the 2009 presentation.

NOTES TO FINANCIAL STATEMENTS

Note C – Utility Plant

Activity for the years ended September 30, 2009 and September 30, 2008 were as follows:

Utility Plant, Net (Dollars in thousands)	September 2008	Additions	Transfers	Retirements/ reclassifications	September 2009
Utility plant					
Electric	\$ 2,186,936	\$ 13,949	\$ 69,060	\$ (9,743)	\$ 2,260,202
Water	475,923	2,692	8,913	(2,056)	485,472
Chilled Water	81,471	-	15,740	(465)	96,746
Lighting	73,587	18	3,090	(122)	76,573
Shared/customer service	153,247	1,464	54,336	(22,727)	186,320
Total utility plant	2,971,164	18,123	151,139	(35,113)	3,105,313
Accumulated depreciation					
Electric	(933,837)	(67,389)	55	(2,141)	(1,003,312)
Water	(144,800)	(18,136)	20	1,989	(160,927)
Chilled Water	(16,795)	(3,664)	-	788	(19,671)
Lighting	(28,108)	(2,938)	-	86	(30,960)
Shared/customer service	(98,854)	(13,708)	(75)	22,704	(89,933)
Total accumulated depreciation	(1,222,394)	(105,835)	-	23,426	(1,304,803)
Total depreciable utility plant, net	1,748,770	(87,712)	151,139	(11,687)	1,800,510
Land and other non-depreciable assets	59,196	436	-	(131)	59,501
Construction work in progress	343,958	228,866	(151,139)	-	421,685
Utility plant, net	\$ 2,151,924	\$ 141,590	\$ -	\$ (11,818)	\$ 2,281,696

Utility Plant, Net (Dollars in thousands)	September 2007	Additions	Transfers	Retirements/ reclassifications	September 2008
Electric	\$ 2,112,303	\$ 19,822	\$ 64,893	\$ (10,082)	\$ 2,186,936
Water	456,590	4,907	14,965	(539)	475,923
Chilled Water	72,032	56	9,383	-	81,471
Lighting	64,642	-	9,139	(194)	73,587
Shared/customer service	149,171	2,902	1,471	(297)	153,247
Total utility plant	2,854,738	27,687	99,851	(11,112)	2,971,164
Accumulated depreciation					
Electric	(871,046)	(67,264)	(8)	4,481	(933,837)
Water	(128,013)	(17,281)	33	461	(144,800)
Chilled Water	(14,129)	(2,945)	9	270	(16,795)
Lighting	(25,532)	(2,615)	-	39	(28,108)
Shared/customer service	(89,643)	(9,475)	(34)	298	(98,854)
Total accumulated depreciation	(1,128,363)	(99,580)	-	5,549	(1,222,394)
Total depreciable utility plant, net	1,726,375	(71,893)	99,851	(5,563)	1,748,770
Land and other non-depreciable assets	31,632	5,020	22,544	-	59,196
Construction work in progress	176,216	290,604	(122,395)	(467)	343,958
Utility plant, net	\$ 1,934,223	\$ 223,731	\$ -	\$ (6,030)	\$ 2,151,924

Asset impairment costs, recorded as a component of depreciation and amortization expenses, were recognized in 2009 for the change in asset usage of the Southeast water treatment plant in the amount of \$2.5 million and the decrease in fair market value of the former administration building in the amount of \$0.8 million. No impairment costs were recognized in 2008.

On November 13, 2007, OUC and Southern Power agreed to terminate the construction of the gasifier island portion of the Stanton Unit A generation facility classified under the heading of Construction work in progress at September 30, 2007. In exchange for OUC's agreement to terminate the construction of the gasifier island, liquidating damages in the amount of \$22.5 million were provided to OUC in the form of real property located in Orange County, Florida. The fair value of the land was estimated to be \$27.5 million, and as such OUC remitted to Southern Power an additional \$5 million in 2008.

Note D – Jointly Owned Operations

OUC operated: OUC maintains fiscal, budgetary and operating control at four (4) 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. OUC also maintains operational control of a wastewater treatment facility at the Stanton Units 1 & 2 sites through an agreement with Orange County.

Non-OUC operated: OUC maintains an undivided participant interest with Southern Company at their Stanton Unit A combined cycle generation facility located at OUC's Stanton Energy Center, 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 controls are not maintained by OUC with the exception of fuel related services at Stanton Unit A where OUC retains responsibility as fuel agent for the initial 10 years of operation. Funds secured in this role as fuel agent are restricted on the Statements of Net Assets and disclosed in Note E.

OUC and non-OUC operated agreements and the related undivided interests are as follows:

Facility name	Agreement year	Total facility net megawatt capacity	OUC undivided ownership interest	Net OUC megawatt capacity
Crystal River Unit 3 (CR3)	1975	890	1.60%	14
McIntosh Unit 3 (MAC3)	1978	364	40.00%	146
St. Lucie Unit 2 (SL2)	1980	850	6.09%	52
Stanton Unit 1 (SEC1)	1984	425	68.55%	291
Indian River Combustion Turbines (IRP - A&B)	1988	76	48.80%	37
Indian River Combustion Turbines (IRP - C&D)	1990	224	79.00%	177
Stanton Unit 2 (SEC2)	1991	425	71.59%	304
Stanton Unit A (SECA)	2001	633	28.00%	177

Plant balances and construction work 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.

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

Generation facility (Dollars in thousands)	2009				2008			
	Utility plant	Accumulated depreciation	Net book value	Utility plant	Accumulated depreciation	Net book value		
SEC2	\$ 424,469	\$ 146,572	\$ 277,897	\$ 418,538	\$ 134,882	\$ 283,656		
SEC1	341,021	173,759	167,262	327,496	164,463	163,033		
MAC3	176,573	99,698	76,875	158,373	94,047	64,326		
SL2	146,384	79,118	67,266	142,642	76,063	66,579		
SECA	74,318	17,775	56,543	75,971	14,561	61,410		
IRP	66,264	48,193	18,071	65,693	45,987	19,706		
CR3	23,599	13,105	10,494	22,567	13,254	9,313		
Total	\$ 1,252,628	\$ 578,220	\$ 674,408	\$ 1,211,280	\$ 543,257	\$ 668,023		

NOTES TO FINANCIAL STATEMENTS

Note E – Cash, Cash Equivalents and Investments

OUC maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with 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, as well as other types authorized by the investment policy.

Unexpended funds from the sale of bonds, debt service funds, and other special funds are included in the Restricted and internally designated section of the Statements of Net Assets. The use of these funds is designated in accordance with applicable debt indentures, Board action, or any other laws and regulations established through legislation.

In compliance with Governmental Accounting Standards Board No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," all equity and debt securities are recorded at their fair values with gains and losses recorded as a component of interest income in the Statements of Revenues, Expenses and Changes in Net Assets. At September 30, 2009 and 2008, the total amount of deposits and investments were \$509.2 million and \$554.1 million, respectively.

The investment policy, inclusive of the portfolio weighing guidelines noted below, provides management with guidelines to ensure that risks associated with these assets are mitigated. The following are the key controls which OUC utilizes to mitigate investment risk:

- **Interest rate risk:** OUC's investment policy requires a minimum of 10% of the operating portfolio be held in highly marketable securities with maturities not exceeding 30 days. This requirement enables OUC to mitigate fair value changes within the portfolio and reduce its exposure to this risk. In addition, the investment policy limits maturities based on investment type and credit strength and entrusts OUC's management to execute transactions in accordance with the "prudent person" rule requiring the evaluation of current market conditions to ensure that overall interest rate risks that might adversely affect the portfolio value are mitigated.
- **Custodial credit risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty, OUC's deposits may not be returned or OUC will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. OUC does not have a deposit policy for custodial credit risk, and as such, \$67.0 million and \$69.4 million of investments held in money market funds and interest-bearing qualified public depository accounts were exposed to this risk as of September 30, 2009 and 2008, respectively. OUC views this type of risk as minimal due to its use of Qualified Public Depositories (QPDs) of the State of Florida or money market mutual funds rated no less than Aaa, AAAm or equivalent with a stable net asset value of \$1 per share and daily liquidity.
- **Credit risk:** To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, OUC limits investments to those rated, at a minimum, "A-1" or equivalent for commercial paper and "A" or equivalent for medium-term corporate notes by nationally recognized rating agencies.
- **Concentration risk:** This is the risk of loss associated with the extent of OUC's investment in a single issuer. OUC places no limit on the amounts invested in any one issuer. The following are the investment concentrations greater than 5% for a single issuer, exclusive of U.S. Treasury notes, as of September 30:

Investment type	2009	2008
U.S. Agencies:		
Federal Home Loan Banks	18%	43%
Federal Home Loan Mortgage Corporation (Freddie Mac)	17%	25%
Federal National Mortgage Association (Fannie Mae)	13%	14%
SunTrust interest bearing depository account	10%	6%

- **Foreign currency risk:** This is the risk of loss associated with changes in exchange rates which could adversely affect investment valuations. As OUC is not authorized to invest in foreign currency, there is no exposure to this risk.

NOTES TO FINANCIAL STATEMENTS

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

The following table summarizes OUC's investment policy including maximum portfolio weighting:

Investment type	Credit guidelines	Maximum portfolio weighting	Portfolio weighting at September 30:	
			2009	2008
Certificates of deposit	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	5%	-	-
High-grade corporate notes	Minimum rating of "A+", "A1" by at least 2 nationally recognized rating agencies.	10%	6%	2%
Taxable municipal bonds	Minimum "A1" rating by a nationally recognized rating agency	10%	-	1%
Bankers acceptances	Inventory based with an unsecured, uninsured and unguaranteed obligation rating of at least P-1 and A, and A-1 and A by Moody's and S&P, respectively. Bank must be ranked in the top 100 banks in terms of total assets by the American Bank's yearly report.	10%	-	-
Money market funds	Limited to funds that meet a stable net asset value of \$1 per share and are not rated less than Aaa, AAAM or equivalent by at least one nationally recognized rating agency.	20%	3%	3%
Commercial paper	Minimum rating of "A-1", "P-1" and "F1" by at least 2 nationally recognized rating agencies.	20%	-	-
Interest-bearing qualified public depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	20%	10%	6%
Local government surplus funds investment pool	Qualified under the laws of the State of Florida.	25%	-	-
Treasury notes	Direct obligations that are unconditionally guaranteed by the United States Government.	100%	31%	1%
U.S. agencies	Indebtedness issued by government-sponsored enterprises (GSE), which are non-full faith and credit by the United States Government.	100%	50%	87%
Repurchase and reverse repurchase agreements	Secured transactions executed under a master repurchase agreement with collateral limited to direct governmental and agency obligations with terms of <10 years and held and maintained by a third party trust at a market value of 102% of the cash value.	50% and 20%, respectively	-	-

The following schedule discloses the weighted average maturity in years for each of the investment classifications at September 30:

Investment type	2009	2008
U.S. Agencies	3.22	2.61
Corporate Bonds	1.99	0.56
Treasury Notes	1.94	9.50

NOTES TO FINANCIAL STATEMENTS

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

The following schedule discloses OUC's cash, cash equivalents and investments at September 30.

(Dollars in thousands)	2009	2008
Cash	\$ 17,994	\$ 10,536
Cash equivalents		
Money Market	76,996	50,401
U.S. Treasuries	64,306	-
U.S. Agencies	-	54,910
Corporate bonds	10,000	-
Total cash equivalents	151,302	105,311
Total cash and cash equivalents	169,296	115,847
Investments		
U.S. Agencies	223,435	422,196
U.S. Treasuries	97,911	3,796
Corporate notes and commercial paper	18,521	12,261
Total investments	339,867	438,254
Total cash, cash equivalents and investments	\$ 509,163	\$ 554,100
Restricted and internally designated assets		
Restricted assets		
Nuclear generation facility decommissioning funds	\$ 46,633	\$ 42,901
Debt service reserve funds	45,692	45,773
Construction fund	30,660	78,629
Total restricted assets	122,985	167,303
Internally designated assets		
Stabilization funds	131,503	101,431
Debt service sinking funds	75,835	72,632
Renewal and replacement fund	51,095	51,095
Deposits and advances	50,616	51,609
Capital reserve	-	32,140
Liability reduction fund	20,384	20,380
Self-insurance fund	10,101	8,582
Total internally designated assets	339,534	337,869
Total restricted and internally designated assets	462,519	505,172
Other funds		
Cash and investments	47,253	49,607
Less: accrued interest receivable from restricted and internally designated assets	(610)	(679)
Total cash, cash equivalents and investments	\$ 509,163	\$ 554,100

Note F – Regulatory Deferrals

Based on regulatory action taken by the Board and accounting guidance provided from the Financial Accounting Standards Board (FASB), OUC has recorded the following regulatory assets and liabilities that will be included in the ratemaking process and recognized as expenses and revenues, respectively, in future periods.

Regulatory assets:

- Loss on defeasance:** In December 2006, OUC used proceeds from the Liability Reduction Fund to defease portions of the Series 2001, 2001A and 2003A Bonds (\$109.8 million) in anticipation of yielding a favorable rate differential between the interest earnings from the Liability Reduction funds and the defeased debt. In conjunction with this defeasance, loss in the amount of \$10.9 million was recognized and is being amortized over an eight- year period, a period consistent with the originally scheduled recovery period. The deferred amount at September 30, 2009 and 2008 was \$7.5 million and \$8.7 million, respectively.
- Deferred interest costs:** This amount represents the deferral of interest costs incurred in association with the Series 1993 and 1993B Bonds as a result of differing short-term and long-term rates at the time of bond issuance. The amount of deferred charges at September 30, 2009 and 2008 were \$5.3 million and \$5.7 million, respectively. Deferred charges are currently amortized to interest expense over the remaining period of the original bond series.
- Asset retirement obligation costs:** In accordance with FERC Order 631, “Accounting, Financial Reporting and Rate Filing Requirements for Asset Retirement Obligations,” the difference between all retirement obligation expenses and income will be recognized as a regulatory asset or liability for financial and rate recovery purposes.

At September 30, 2008, the deferred amount for asset retirement obligation costs was \$5.4 million. In 2009, as a result of clarifying specifically identified non-regulatory costs, the asset retirement obligation decreased \$1.4 million, net of the decommissioning liability change. In addition, accretion costs of \$2.4 million were recognized in 2009 as a component of depreciation expense. Lastly, net interest earnings and gains exceeded annual decommissioning costs, decreasing this deferred regulatory asset an additional \$1.0 million. As a result of all these changes, the asset retirement obligation regulatory asset at September 30, 2009 was \$0.6 million.

The following is a summary of OUC’s regulatory assets:

(Dollars in thousands)	September 30	
	2009	2008
Loss on defeasance	\$ 7,478	\$ 8,724
Deferred interest costs	5,305	5,713
Asset retirement obligation costs	610	5,405
Total regulatory assets	\$ 13,393	\$ 19,842

Regulatory liabilities:

- 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). In accordance with this action, a portion of the amount (\$45.0 million) was designated to offset generating facility demand payments. In 2004, the Board approved the systematic recognition of the remaining gain amount (\$99.0 million), including residual funds remaining from the portion of gain designated to offset generating facility demand payments, to be recognized over a period consistent with the life of the Stanton Unit A generation plant, which came on-line in 2004. As a result of this action, OUC has recognized gains of \$4.0 million annually and the deferred gain on sale amount at September 30, 2009 and 2008 was \$77.1 million and \$81.1 million, respectively.
- Deferred gain on settlement:** As a result of an eminent domain action in July 2005, the Florida Department of Transportation (FDOT) took possession of OUC’s administration building parking garage. In exchange for taking possession of OUC’s garage and the underlying land, the FDOT provided OUC with an adjacent land parcel and a cash settlement of \$15.0 million. In accordance with Governmental Accounting Standards Board Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,” the assets associated with this transaction were determined to be impaired and were written down to the lower of cost or fair market value for an impairment expense of \$6.7 million in 2005. In 2009, as a result of declining property values, the administration building was written down an additional \$0.8 million.

NOTES TO FINANCIAL STATEMENTS

Note F – Regulatory Deferrals (continued)

In addition to the impairment expense in 2005, OUC accrued transition costs of \$6.0 million for relocation expenses related to the new administration facility. Accrued transition costs outstanding at September 30, 2009 and 2008 were \$0.1 million and \$1.0 million, respectively.

The remaining proceeds from the settlement, \$2.3 million, were deferred and are included on the Statements of Net Assets at September 30, 2009 and 2008.

- **Deferred wholesale trading profits:** This account represents a portion of profits generated from resale sales. In August 2008, the Board approved the use of \$10.8 million in electric wholesale trading profits to offset budget shortfalls in 2008. No funds were approved for usage in 2009.
- **Electric and water rate stabilization:** The Board established these accounts for costs (revenues) that are to be recovered by (used to reduce) rates in periods other than when incurred (realized). In August 2008, the Board approved the use of \$2.0 million from the water stabilization fund and up to \$6.0 million from the electric base stabilization fund to cover revenue shortfalls in 2008. No funds were approved for usage in 2009.
- **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 inclusive of accrued utility revenue and fuel costs incurred at September 30, 2009 and 2008. In addition, in accordance with Board action, the \$8.0 million settlement received in conjunction with the termination of OUC's interest in the 20-year natural gas prepaid supply agreement (see Note I) has been included in this fund. These funds will be recognized consistent with other fuel stabilization funds through the rate-making process.
- Other stabilization funds: In accordance with Board action the following funds have been deferred:
 - **Deferred gain on swap termination:** This amount was recognized in association with the early termination of an interest rate swap agreement. As the underlying bonds are scheduled to mature in October 2011, the Board approved a portion of the gain, \$2.5 million, to be recognized consistent with the life of the outstanding bonds.
 - **Deferred nuclear revenue requirements:** This amount was deferred as a result of delays associated with OUC's participation in the construction of a new nuclear generation facility. In 2009, development costs in the amount of \$2.2 million were anticipated to be incurred and as a result of project delays, costs have not been incurred. These amounts are anticipated to be recognized consistent with the recognition of nuclear generation development costs.
 - **Deferred health insurance reserve:** This account was established to mitigate unexpected increases in medical costs to employees. Funds deferred at September 30, 2009 and 2008 were \$0.6 million.

In conjunction with the recording of these regulatory liabilities, the Board has internally designated certain cash and investments to fund these deferrals (see Note E) with the exception of accrued uncollected utility revenue included in fuel stabilization. Regulatory liability funds earn the same interest rate as OUC's operating investment portfolio.

(Dollars in thousands)	September 30	
	2009	2008
Fuel stabilization	\$ 93,149	\$ 64,180
Rate stabilization	34,992	33,329
Deferred wholesale trading profits	16,616	16,612
Other stabilization funds	5,321	582
Deferred revenue regulatory liabilities	150,078	114,703
Deferred gain on sale of assets	77,161	81,132
Deferred gain on settlement	2,300	2,300
Deferred gain regulatory liabilities	79,461	83,432
Total regulatory liabilities	\$ 229,539	\$ 198,135

Note G – Insurance Programs and Claims

Insurance Programs

OUC is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions, and natural disasters. In addition, OUC is exposed to risks of loss due to injuries and illness of its employees. These risks are managed through OUC's self-insurance program and third-party insurance coverage. Under the self-insurance program, OUC is liable for all claims up to certain maximum amounts per occurrence. Claims in excess of \$250 thousand for healthcare coverage and \$500 thousand for workers compensation are covered by insurance at September 30, 2009 and 2008. The self-insured reserve for general and automobile liability claims increased to \$2.0 million at September 30, 2009 from \$1.0 million at September 30, 2008.

The healthcare benefits program is administered by an insurance company (administrator). The administrator is responsible for processing the claims in accordance with OUC's benefit specifications and is reimbursed regularly for claims paid. Incurred claims include current period payments, as well as estimated incurred but not received claims based on actuarial information received in conjunction with OUC's annual State of Florida self-insurance filing.

Liabilities associated with the healthcare programs are determined based on actuarial studies and include amounts for claims that have been incurred but not reported. For workers compensation claims, liabilities are determined from estimates provided by the adjusting insurance agency based on amounts already paid and the age and type of claim. Liabilities associated with general and automobile coverage are determined based on historic information in addition to estimated costs for current pending claims. These liabilities are included in the Statements of Net Assets under the heading of Accounts payable and accrued expenses. Self-insurance program liability at September 30, 2009 and 2008 is as follows:

(Dollars in thousands)	Workers compensation	General and automobile liability	Health and medical claims	Total
Balance at September 30, 2007	\$ 495	\$ 250	\$ 1,523	\$ 2,268
Payments, net of recoveries	(200)	(257)	(11,857)	(12,314)
Incurred claims	340	682	12,043	13,065
Balance at September 30, 2008	635	675	1,709	3,019
Payments, net of recoveries and adjustments	(402)	(614)	(14,269)	(15,285)
Incurred claims	481	249	14,423	15,153
Balance at September 30, 2009	\$ 714	\$ 310	\$ 1,863	\$ 2,887

Claims

It is the opinion of OUC's general counsel that OUC, 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 thousand or a total of \$200,000 thousand 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.

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

Nuclear liability insurance: 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 to the amount of insurance available from private sources and an industry retrospective payment plan. Both majority owners, Florida Power & Light, and Progress Energy Corporation, maintain private liability insurance of \$300 million and \$500 million per site, respectively, 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 a maximum payout of \$117.5 million per unit per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed \$17.5 million per incident per 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.

NOTES TO FINANCIAL STATEMENTS

Note G – Insurance Programs and Claims (continued)

Any losses in excess of that amount are self-insured, such that OUC would be responsible for its pro-rata share of any losses in excess of insurance coverage. See Note D for OUC's ownership interest in St. Lucie Unit 2 and Crystal River Unit 3.

On behalf of all the co-owners of St. Lucie Unit 2 and Crystal River Unit 3, FPL and Progress Energy, respectively, each carry in excess of \$2 billion of property damage insurance; however, substantially all insurance proceeds must first be used to satisfy decontamination and clean-up cost before they can be used for repair or restoration of plants.

Note H – Long-Term Debt

The following schedules summarize the long-term debt activity for fiscal years ended September 30, 2009 and 2008.

Series (Dollars in thousands)	Final principal payment	Interest rates (%)	September 2008	Additions during year	Decreases during year	September 2009	Current portion
1992 Bonds	2010	6.00%	\$ 111,970	\$ -	\$ 35,195	\$ 76,775	\$ 37,270
1996A Bonds	2023	3.75%	60,000	-	-	60,000	-
2001 Bonds	2023	4.00 - 5.25%	82,000	-	6,485	75,515	6,725
2001A Bonds	2020	4.00 - 5.25%	16,555	-	160	16,395	-
2002A Bonds	2017	Variable rate (1)	120,000	-	-	120,000	-
2002B Bonds	2022	Variable rate (1)	100,000	-	100,000	-	-
2002C Bonds	2027	5.00 - 5.25%	25,685	-	-	25,685	-
2003 Bonds	2025	3.50%	54,775	-	-	54,775	-
2003A Bonds	2022	3.00 - 5.00%	110,755	-	140	110,615	145
2003B Bonds	2022	4.00 - 5.00%	94,635	-	890	93,745	920
2003T Bonds	2018	3.92 - 5.29%	43,755	-	3,175	40,580	3,290
2004 Bonds	2009	3.00 - 5.25%	216,900	-	216,900	-	-
2005A Bonds	2011	3.50 - 4.00%	40,525	-	-	40,525	-
2005B Bonds	2025	4.55 - 5.00%	120,000	-	-	120,000	-
2006 Bonds	2023	4.00 - 5.00%	123,515	-	-	123,515	-
2007 Bonds	2016	Variable & fixed rate (2)	120,705	-	-	120,705	-
2008 Bonds	2033	Variable rate (1)	200,000	-	-	200,000	-
2009A Bonds	2039	5.25%	-	100,000	-	100,000	-
2009B Bonds	2033	2.00 - 5.00%	-	311,775	-	311,775	197,650
Total debt			1,641,775	411,775	362,945	1,690,605	246,000
Less current portion			(262,945)	(246,000)	(262,945)	(246,000)	-
Total long-term debt			\$ 1,378,830	\$ 165,775	\$ 100,000	\$ 1,444,605	246,000
Current portion of unamortized discounts							1,616
Current portion of long-term debt, net							<u>\$ 247,616</u>

(1) Variable rates that ranged from 0.12% to 6.00% for the year ended September 30, 2009.

(2) Variable and fixed rates range from 0.00% to 6.65% and 4.00% to 5.00%, respectively, for the year ended September 30, 2009.

NOTES TO FINANCIAL STATEMENTS

Note H – Long-Term Debt (continued)

Series (Dollars in thousands)	Final principal payment	Interest rates (%)	September 2007	Additions during year	Decreases during year	September 2008	Current portion
1992 Bonds	2010	5.90 - 6.00%	\$ 145,235	\$ -	\$ 33,265	\$ 111,970	\$ 35,195
1996A Bonds	2023	4.10%	60,000	-	-	60,000	-
2001 Bonds	2023	4.00 - 5.25%	88,085	-	6,085	82,000	6,485
2001A Bonds	2020	4.00 - 5.00%	16,710	-	155	16,555	160
2002A Bonds	2017	Variable rate (1)	120,000	-	-	120,000	-
2002B Bonds	2022	Variable rate (1)	100,000	-	-	100,000	-
2002C Bonds	2027	5.00 - 5.25%	25,685	-	-	25,685	-
2003 Bonds	2025	5.00%	54,775	-	-	54,775	-
2003A Bonds	2022	2.50 - 5.00%	110,895	-	140	110,755	140
2003B Bonds	2022	3.00 - 5.00%	95,500	-	865	94,635	890
2003T Bonds	2018	3.60 - 5.29%	46,830	-	3,075	43,755	3,175
2004 Bonds	2009	3.00 - 5.25%	216,900	-	-	216,900	216,900
2005A Bonds	2011	3.50 - 4.00%	40,525	-	-	40,525	-
2005B Bonds	2025	4.55 - 5.00%	120,000	-	-	120,000	-
2006 Bonds	2023	4.00 - 5.00%	124,370	-	855	123,515	-
2007 Bonds	2016	Variable & fixed rate (2)	120,705	-	-	120,705	-
2008 Bonds	2033	Variable rate (1)		200,000		200,000	-
Total debt			1,486,215	200,000	44,440	1,641,775	262,945
Less current portion			(44,440)	(262,945)	(44,440)	(262,945)	-
Total long-term debt			\$ 1,441,775	\$ (62,945)	\$ -	\$ 1,378,830	262,945
Current portion of unamortized discounts							1,899
Current portion of long-term debt, net							<u>\$ 264,844</u>

(1) Variable rates that ranged from 1.19% to 7.90% for the year ended September 30, 2008.

(2) Variable and fixed rates range from 3.02% to 6.07% and 4.00% to 5.00%, respectively, for the year ended September 30, 2008.

The following is a schedule of long-term debt and interest payables for bonds and notes outstanding at September 30, 2009. Interest for fixed-rate debt was included at their stated rates and variable-rate debt with offsetting interest rate swaps was included at their fixed rates.

Year ended (Dollars in thousands)	Principal	Interest	Total
2009	\$ 48,350	\$ 62,931	\$ 111,281
2010	248,730	75,271	324,001
2011	82,680	72,402	155,082
2012	44,065	68,879	112,944
2013	46,135	66,849	112,984
2014-2018	270,340	299,485	569,825
2019-2023	441,430	218,995	660,425
2024-2028	203,590	120,758	324,348
2029-2033	205,285	55,782	261,067
2034-thereafter	100,000	19,157	119,157
Total	\$ 1,690,605	\$ 1,060,509	\$ 2,751,114

General bond resolution: On October 9, 2001 the General Bond Resolution was adopted. Bonds issued after this date fall under the provisions of this resolution. On November 12, 2003, the 51% consent threshold was met to enact the provisions of this resolution including ranking all debt obligations without preference, priority, or distinction. The following are some key provisions of the resolution:

- **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 the rate covenant.

NOTES TO FINANCIAL STATEMENTS

Note H – Long-Term Debt (continued)

- **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 designate 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.

Issued bonds: In May 2009, OUC issued the Series 2009A Bonds in the amount of \$100.0 million at a premium of \$1.5 million and a fixed-rate coupon, paid semi-annually, at a rate of 5.25%. Proceeds from the sale of the bonds were used to finance the 2009 capital plan with the remaining amount outstanding at September 30, 2009 to be used to fund the 2010 capital plan. The all-in interest cost, which includes the par, premium, underwriters discount cost and cost of issuance, for the bonds was 5.21%. The bonds will mature between October 1, 2034 and October 1, 2039.

In June 2008, OUC issued variable-rate debt in the amount of \$200.0 million with the intent to hedge the debt with a forward starting fixed-payer interest rate swap agreement becoming effective in conjunction with this bond issuance. Proceeds from the sale of the bonds were used to finance the 2008 and 2009 capital plans. In October 2009, OUC executed an updated swap agreement with its fixed-payer interest rate swap counterparty modifying the terms of the interest rate swap agreement. See Note M for additional information.

Refunded and defeased bonds: Consistent with accounting guidance, all refunded and defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statement of Net Assets. The 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. Interest earned or accrued on these escrow funds have been pledged and will be used for the payment of the principal and interest on each respective bond series.

In June 2009, OUC issued the Series 2009B Bonds at a par of \$311.8 million with a premium of \$6.6 million. The proceeds from the offering were escrowed for the remarketing of the Series 2002B Variable Rate Bonds and the retirement of the Series 2004 Bonds in the amounts of \$100.0 million and \$216.9 million, respectively. The refunding resulted in the recognition of a deferred accounting loss of \$0.2 million, which is being amortized over the life of the refunding issue.

Sale proceeds from the issue were invested in United States Treasury obligations in an irrevocable escrow deposit trust fund. Such United States Treasury obligations matured as of July 1, 2009 and provided sufficient funds to satisfy the outstanding debt principal on the refunded Bonds. The refunding is summarized below:

Debt issued	Month issued	Par amount issued	Par amount refunded	PV savings	Accounting loss	Savings % of refunded bonds	Debt refunded
Series 2009B	June	\$ 311,775	\$ 316,900	\$ -	\$ 232	\$ -	Series 2002B, 2004

The balance outstanding at September 30, 2009 and 2008 for defeased bonds was \$346.1 million.

Remarketed bonds: In October 2008, OUC issued bonds to remarket the Series 1996A and 2003 Bonds in the amounts of \$60.0 million and \$54.8 million, respectively. For both series, sale proceeds were remitted to bondholders and no present value savings were recognized as the remarketings were completed on mandatory purchase dates. Deferred costs associated with the original issues continue to be amortized on a straight-line basis until maturities of October 2023 for the Series 1996A Bonds and October 2025 for the Series 2003 Bonds.

Note H – Long-Term Debt (continued)

Interest rate swaps: OUC limits its execution of interest rate swap agreements to major financial institutions with a minimum credit rating of “Aa3” or “AA-” by any two nationally recognized credit rating agencies or have a subsidiary rated “AAA” by at least two nationally recognized credit rating agencies per the derivatives policy. Although termination of the swap agreement may result in OUC making or receiving a termination payment, OUC does not anticipate nonperformance by a counterparty and to date no instances of nonperformance have occurred.

In accordance with each interest rate swap agreement, margin deposit thresholds have been established. These thresholds require OUC to remit to its counterparty deposits to mitigate their exposure to interest rate risks. As a result of continued market volatility and the fair value liability of certain interest rate swaps in excess of their contractual thresholds, margin deposits in the amount of \$29.1 million and \$17.0 million were held by OUC counterparties at September 30, 2009 and 2008, respectively.

The following schedule summarizes OUC’s fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2009 and 2008. Issuance costs associated with these agreements are deferred and amortized over the life of the underlying bond agreement. The notional amounts below are the basis for which interest is calculated; however, the notional amounts are not exchanged.

Series (Dollars in thousands)	Notional amount	OUC pays	Rate paid	Rate received	Termination date	2009 Fair value liability	2008 Fair value asset/ (liability)	Counterparty credit rating
2002A	\$ 72,000	Fixed	3.596%	67% of Libor	10/1/2017	\$ (7,530)	\$ (4,218)	Aa2 / A+ / A+
2002A	48,000	Fixed	3.596%	67% of Libor	10/1/2017	(5,010)	(2,793)	A3 / A / A+
2002B (1)	60,000	Fixed	3.530%	67% of Libor	10/1/2022	(6,136)	(2,962)	A3 / A / A+
2002B (1)	40,000	Fixed	3.530%	67% of Libor	10/1/2022	(4,078)	(1,979)	Aa2 / A+ / A+
2003 (2)	36,000	Variable	SIFMA	3.099%	10/1/2008	-	448	Aa2 / AA- / AA-
2003 (2)	24,000	Variable	SIFMA	3.099%	10/1/2008	-	299	A1 / A+ / AA-
2004 (3)	135,000	Variable	SIFMA	3.114%	7/1/2009	-	795	Aa2 / AA- / AA-
2004 (3)	90,000	Variable	SIFMA	3.114%	7/1/2009	-	611	Aaa / AAA
2005A (4)	40,000	Variable	SIFMA	4.976%	10/3/2011	-	2,888	Aaa / AA- / AA-
2007	22,615	Fixed	3.64%	CPI + 105 bps	10/1/2015	(1,235)	(398)	A1 / A / A+
2007	13,400	Fixed	3.66%	CPI + 105 bps	10/1/2016	(710)	(200)	A1 / A / A+
2008 (5)	200,000	Fixed	4.559%	99.38% of Libor	10/1/2033	(25,342)	(21,506)	A1 / A / A+
2009B (6)	100,000	Fixed	4.442%	SIFMA	10/1/2027	(18,546)	(7,157)	A2 / A / A
Total	\$ 881,015					\$ (68,587)	\$ (36,172)	

- (1) The Series 2002B Variable Rate Bonds were refunded in July 2009. The swap agreement remains and now acts as a fixed-rate hedge for a portion of the Series 2009B Bonds.
- (2) The interest rate swaps for the Series 2003 Bonds matured on October 1, 2008 in accordance with the terms of the agreement.
- (3) The interest rate swaps for the Series 2004 Bonds were terminated on October 24, 2008 prior to the refunding on July 1, 2009. A gain of \$1.28 million was realized as a result of this early termination.
- (4) The interest rate swap for the Series 2005A Bonds was terminated on December 23, 2008, resulting in a \$3.5 million gain, which, in accordance with Board action, will be amortized through October 1, 2011. In 2009, OUC recognized \$0.95 million.
- (5) See Note M for changes to this agreement subsequent to September 30, 2009.
- (6) In November 2005, OUC entered into a forward starting swap to synthetically lock in historically low long-term fixed rates in anticipation of the Series 2004 Bonds maturity and subsequent remarketing on July 1, 2009.

Variable rate credit facilities: Underlying the Series 2002A and 2008 Variable Rate Bonds, OUC maintains standby credit facilities. Credit facility counterparties are evaluated consistent with the criteria outlined for interest rate swaps. Credit facilities available at September 30, 2009 and 2008 were \$323.5 million and \$424.7 million, respectively.

Note I – Commitments and Contingent Liabilities

Fuel for generation and purchased power commitments: As owner-operator of Stanton Units 1 & 2 and the Indian River combustion turbine generation facilities, OUC and its participants have entered into fuel supply and transportation contracts. As fuel agent for the Stanton A generation facility owned and operated by Southern Company, OUC has secured fuel supply and transportation contracts for periods consistent with its fuel agent agreement. Lastly, as owner-operator of the new Stanton B generation facility, fuel supply and transportation contracts have been secured in anticipation of commercial operations beginning in 2010.

NOTES TO FINANCIAL STATEMENTS

Note I – Commitments and Contingent Liabilities (continued)

The following schedule summarizes OUC's commitments for fuel for generation and purchased power at September 30, 2009:

Year ended (Dollars in thousands)	Amount
2010	\$ 126,395
2011	\$ 97,937
2012	\$ 60,509
2013	\$ 58,924
2014	\$ 54,505
2015-2019	\$ 247,182

In September 2006, OUC along with several other Florida municipalities became a project participant in a 20-year natural gas pre-pay supply agreement with Florida Gas Utility (FGU). In conjunction with this agreement, FGU secured revenue bonds in the amount of \$694.2 million to pre-pay natural gas for the term of the agreement. As a project participant, OUC had the right to acquire natural gas at its proportionate ownership share, 23.855%, for the term of the agreement, at a discounted price. The agreement had an indexed-based pricing structure such that the cost of natural gas under the contract floated with the market. In May 2009, FGU and its counterparty terminated their agreement resulting in the underlying bonds being defeased and the recognition of a termination gain in the amount of \$8.0 million to OUC. In accordance with Board action, this gain was deferred and included as a component of fuel stabilization (see Note F). In 2009 and 2008, prior to the termination of this agreement, OUC acquired \$4.7 million and \$18.0 million in gas supply through this agreement.

Power generation plant commitment: In 2005, the Board approved the execution of the joint development of a new generation facility including a gasifier island at the Stanton Energy Center. On November 13, 2007, OUC and Southern Power agreed to terminate the construction and participant agreements related to the gasifier island portion of the project. The new generation facility, Stanton Unit B (SECB) remains on target for an in-service date of December 2009. Total costs for SECB are projected to be \$296.2 million, for which OUC has incurred \$262.4 million as of September 30, 2009.

Chilled water commitment: In June 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. In March 2004, the Board authorized the dissolution of this agreement and as such, acquired TCS's 51% operational interest in the chilled water operations. In addition to the acquisition price of \$24.4 million, contingent payments are due upon the securing of new customer contracts in certain chilled water operating loops. In 2008, OUC made a contingency payment in the amount of \$0.7 million to the entity which acquired TCS Suez-Degs of Orlando. Additional contingency payments of \$4.4 million are anticipated to be incurred in 2010.

Dispatch agent contingent liability: OUC is the contract dispatcher for certain of the generating assets of Florida Municipal Power Authority (FMPA). FMPA was recently assessed penalties by Florida Power & Light (FPL) under its Open Access Transmission Tariff, and FMPA has asserted that as their contract dispatcher, OUC may be liable to FMPA for a portion of these penalties. Although OUC does not believe that it has breached any of its obligations under its contract with FMPA, OUC is assisting FMPA in their investigation and FERC challenge of the FPL penalty.

Regulation: The electric utility industry has been and will in the future be affected by a number of legislative and regulatory factors. The following summarizes the key regulations impacting OUC:

- **Deregulation:** Although a handful of states have enacted legislation or issued orders designed to deregulate the production and sale of electricity, no legislative or regulatory action that would result in retail competition has been executed in the State of Florida. At this time, the only opportunities for unrestricted competition of new generation at the wholesale level are for plants that are below the size threshold subject to mandatory siting under the Florida Electrical Power Plant Siting Act. All other plants (including all steam and solar generating plants with 75 megawatts or more of generating capacity) must either be built by retail-serving utilities that have a demonstrated need for the plant, or by independent power producers that have contracts to sell their plants' output to such Florida retail-serving utilities.

Note I – Commitments and Contingent Liabilities (continued)

- **Federal regulation:** In March of 2005, the Clean Air Interstate Rule (CAIR) and the Clean Air Mercury Rule were issued by the Environmental Protection Agency (EPA). On February 8, 2008, the D.C. Circuit vacated EPA's rule removing power plants from the Clean Air Act list of sources of hazardous air pollutants. At the same time, the Court vacated the Clean Air Mercury Rule. EPA is reviewing the Court's decisions and evaluating its impacts. On December 23, 2008, the D.C. Circuit remanded, without vacature, EPA's Clean Air Interstate Rule. The CAIR program was effective January 1, 2009. In February 2009, EPA voluntarily withdrew its appeal petition indicating that it intends to develop emissions standards for power plants under Section 112 of the Clean Air Act ("MACT standards"). In July 2009, the EPA issued a proposed information collection request as a first step in the rulemaking process for the new MACT standards. OUC continues to monitor and review the impact of these developments on the equipment procurement and installation of projects that would ensure compliance with these regulations.
- In 2009, the American Clean Energy and Security Act was proposed. This Act includes provisions establishing emission levels and a cap-and-trade plan. At this time, the Act has not been approved although management believes it is becoming more apparent that potential legislation is likely. The estimated cost of compliance with this legislation is subject to significant uncertainties although it is estimated that compliance costs would be significant.
- **Florida state regulation:** Legislation collectively known as the Florida Energy Efficiency and Conservation Act ("FEECA") provides the FPSC with the authority to establish goals every five years to encourage electric utilities to increase the efficiency of energy consumption, limit the growth of energy consumption and minimize weather-sensitive peak demands. Conservation goals were last established for the FEECA utilities in August 2004.
- Therefore, new goals must be established by January 2010. Although the FPSC's ruling for the next five years has not yet been affirmed, OUC has been proactively addressing conservation and management believes it has appropriately budgeted costs to implement demand-side management, conservation and customer education programs.
- **Open access transmission:** In accordance with FERC rulemaking for mandatory non-discriminatory open transmission system access, OUC has adopted a "safe harbor" open access transmission tariff (OATT). To ensure compliance with this regulation, mandatory reliability standards were adopted by FERC. The monitoring of these standards is being performed by the Florida Regional Coordinating Council (FRCC) and in February 2009, the FRCC completed its first audit of OUC, finding OUC to be in substantial compliance with the reliability standards that were tested.

Note J – Major Agreements

City of Orlando: OUC pays to the City of Orlando (City) a revenue based payment and an income-based dividend payment. The revenue based payment is recorded as an operating expense and is derived to yield a payment based on 6% of gross retail electric and water billings and 4% of chilled water billings for retail customers within the City limits. The income-based dividend payment is recorded as a reduction to net assets in the Statement of Revenues, Expenses and Changes in Net Assets and is derived to yield a payment of 60% of net income before contributions.

Prior to 2008, the revenue and income based payments were remitted based on actual revenue billed and income before contributions, respectively. Beginning in 2008 and ending in 2011, in conjunction with Board action, these payments were fixed based on projected revenues and income before contributions. Revenue and income based payments for the years ended September 30, 2009 and 2008 were \$27.3 million and \$45.9 million and \$25.1 million and \$46.0 million, respectively. Fixed revenue and income based payments for 2010 and 2011 are \$74.4 million and \$76.6 million, respectively.

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.

NOTES TO FINANCIAL STATEMENTS

Note J – Major Agreements (continued)

Billed revenue for this interlocal agreement is included under the heading of Resale electric revenue and was \$67.4 million and \$58.2 million, respectively, for the years ended September 30, 2009 and 2008. Revenue based payments and net debt service payments recorded under the heading of Payments to other governments for the years ended September 30, 2009 and 2008 were \$7.2 million and \$7.0 million, 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 to other governments and taxes on the Statement of Revenues, Expenses and Changes in Net Assets. Revenue based payments were \$1.2 million and \$1.1 million for the years ended September 30, 2009 and 2008, respectively.

In 2007, OUC and Orange County established an agreement, as a result of the termination of the gasifier island portion of SECB, to co-sponsor community-based projects in the amount of \$1.0 million over a 10-year period that would provide environmentally beneficial NOx, greenhouse gas and/or toxic emission reductions. In February 2009, this agreement was modified to assist Orange County with the construction of a one megawatt photovoltaic demonstration and research facility on Phase V of the Orange County Convention Center. This facility was completed in 2009 and payment in the amount of \$1.5 million was remitted to Orange County. In addition, in accordance with the modified agreement, OUC has and will continue to provide in-kind marketing for the Education Center within the Orange County Convention Center.

Note K – Pension Plans

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. Benefits in this plan vest after five years of service and are earned for up to a maximum service period of 30 years. OUC also offers, subject to annual approval by the General Manager, a supplementary cost of living adjustment (COLA) for employees covered under the defined benefit pension plan.

OUC is the administrator of the plan, and as such, has the authority to make changes thereto.

Annually actuarial reports are prepared with the most recent revised report being completed for the period ending September 30, 2009 and 2010. To better match the budgetary and ratemaking requirements, the actuarial reports received each February disclose the valuation of plan assets and actuarial liabilities as of the beginning of the current fiscal year for required contribution levels in the subsequent fiscal year. In 2009, as a result of the second consecutive year of market losses, the valuation of plan assets and actuarial liabilities and the annual required contribution was prepared using the valuation at October 1, 2008 for the year ending September 30, 2009.

Periodically, the plan issues stand-alone financial statements, in accordance with generally accepted accounting principles. The most recent statement issued was for the year ending September 30, 2007. This report may be obtained by writing to OUC Defined Benefit Pension Plan Trust, 100 West Anderson Street, Orlando, Florida 32801.

Funding policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. 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.

The rate of contribution, based on annual covered payroll, required by OUC for the year ending September 30, 2009 and 2008 was 32.71% and 19.12%, respectively. This increase was due to a reduction in the actuarial value of the plan assets as a result of the market downturn.

In November 2003, OUC issued taxable pension bonds in the amount of \$55.3 million to advance fund the plan. Proceeds from this issuance were remitted to the defined benefit trust and have been included as a component of the net pension asset. Interest earnings on this advance funding are included as a component of the annual pension cost under the heading of "Adjustment to ARC."

Note K – Pension Plans (continued)

In addition, this advance funding has been included as a deferred asset under the heading of Other assets in the Statements of Net Assets. The amortization of this asset is consistent with the annual pension cost and for the year ending September 30, 2009 and 2008 was \$2.5 million and \$3.2 million, respectively. The net pension asset related to this advance funding was \$34.3 million and \$36.8 million in 2009 and 2008, respectively.

Actuarial methods and assumptions: OUC recognizes annual pension costs in accordance with GASB Statement No. 27, “Accounting for Pensions by State and Local Government Employers” and based on information obtained from the annual actuarial report. GASB Statement No. 27 also requires recognition of a net pension asset or obligation for the cumulative differences between the annual pension cost and employer contributions to the plan.

Annual actuarial amounts are calculated using the aggregate cost method and are based upon the following approved actuarial assumptions for the valuation periods of 2008 and 2006 for required contribution levels in 2009 and 2008, respectively.

	October 1	
	2008	2006
Investment rate of return	8.00%	8.00%
Projected salary increases	5.50%	5.50%
Inflation component	4.00%	4.00%

In addition to modifying the valuation date from October 1, 2007 to October 1, 2008 for the year ending September 30, 2009, the actuarial assumption for the pension corridor was modified. The pension corridor is used to establish boundaries around the market value of assets as compared to the actuarial value of the plan assets and, as such, capture cost differentials for current period recognition. In 2009, the pension corridor thresholds were reduced from a range of 80%-120% to 90%-110% resulting in a reduction in the actuarial value of assets from \$270.1 million to \$254.4 million and an increase in the annual required contribution from \$5.0 million to \$9.97 million.

The ad-hoc cost-of-living adjustment (COLA), which has historically been approximately 1.5%, has not been included in the actuarial valuation report. This annual adjustment is subject to approval by the General Manager and is non-binding to OUC. Preliminary actuarial findings indicate that the inclusion of the COLA, at average historical rates, would increase the 2009 annual required contribution (ARC) by approximately \$7.1 million.

Annual pension cost and net pension asset: Actuarial amounts for the annual pension cost are calculated using the aggregate method, which as noted in the guidance, does not identify or separately amortize unfunded actuarial assets/obligations. The actuarial value of assets/obligations was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period as well as incorporating the recognition of the current year impacts associated with corridor changes. The following are the pension costs and the net pension assets at September 30.

(Dollars in thousands)	September 30	
	2009	2008
Actuarial required contribution (ARC)	\$ 9,970	\$ 5,665
Interest earnings on net pension asset	(3,298)	(3,578)
Adjustment to ARC	6,881	7,077
Annual pension cost	13,553	9,164
Contributions applicable to pension period	10,249	5,907
Change in net pension asset	(3,304)	(3,257)
Beginning net pension asset	40,947	44,204
Ending net pension asset	37,643	40,947
Less current portion	(3,375)	(4,155)
Long-term advance pension funding asset	\$ 34,268	\$ 36,792

NOTES TO FINANCIAL STATEMENTS

Note K – Pension Plans (continued)

The following table summarizes three-year trend information for the pension plan including the annual pension cost. In addition, the schedule includes the amount of current year funds contributed and the percentage of funds contributed inclusive of the pension bond annual amortization.

Years ended (Dollars in thousands)	Annual pension cost (APC)	Current year contributions	Percentage of APC contributed
2009	\$ 13,553	\$ 13,496	100%
2008	\$ 9,164	\$ 9,120	100%
2007	\$ 9,530	\$ 8,940	94%

Funded status and funding progress: At September 30, 2008, the most recent actuarial valuation date and the valuation period for the year ending September 30, 2009, the plan was 85.6% funded. The actuarial accrued liability for benefits was \$297.1 million and the actuarial value of the plan assets was \$254.4 million for an unfunded actuarial accrued liability (UAAL) of \$42.8 million. The covered payroll (annual payroll of active employees hired prior to January 1, 1998 who did not elect to transition to the defined contribution plan) was \$30.5 million and the ratio of the UAAL to the covered payroll was 140.4%. The fair value of the plan assets, based on published investment market rates, at September 30, 2008 was \$231.3 million.

At September 30, 2006, the actuarial valuation date used for the year ending September 30, 2007, the plan was 94.1% funded. The actuarial liability for benefits was \$285.8 million and the actuarial value of the plan assets was \$268.9 million for an unfunded actuarial liability (UAAL) of \$16.9 million. The covered payroll was \$31.0 million and the ratio of the UAAL to the covered payroll was 54.5%. The fair value of the plan assets, based on published investment market rates, at September 30, 2006 was \$252.7 million.

In addition, following the notes to the financial statements, under the heading of Required Supplemental Information, is the schedule of funding progress presenting multi-year trend information. As anticipated, the impact of the decline in the financial markets in 2008 has decreased the actuarial value of the plan assets. This trend is anticipated to continue as investment values decreased in 2009, and the fair value of the plan assets at September 30, 2009, based on published market rates, were \$219.1 million.

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. At September 30, 2009 and 2008, active employees enrolled in this pension plan were 688 and 714, respectively.

Under the plan, each eligible employee, upon commencement of employment, is required to contribute 4% of their salary, with OUC matching an equivalent amount. In addition, OUC voluntary contributions are permitted and matched by OUC up to an additional 2%. Employees are fully vested after one year of employment. Total contributions for the years ended September 30, 2009 and September 30, 2008 were \$4.6 million (\$2.1 million employer and \$2.5 million employee) and \$4.2 million (\$1.9 million employer and \$2.3 million employee), respectively.

Note L – Other Post-Employment Benefits

Health and Medical Insurance

Plan description: OUC offers medical and dental coverage, as well as life insurance coverage, to all employees who retire on or after attaining age 55 with at least 10 years of service or at any age after completing 25 or more years of service. Secondary health coverage is available to those retirees who are Medicare eligible. Post-employment benefits are also offered in the area of utility discounts for employees who were hired prior to 1985.

Contribution requirements of the plan members are determined by the Board. Currently, medical and dental benefits, inclusive of secondary health coverage for Medicare eligible employees, are fully subsidized for employees retiring under the defined benefit pension plan. Employees retiring under the defined contribution pension plan are not subsidized, although implicit subsidies are provided to those employees electing to pay for medical and dental coverage at approved premium rates. At September 30, 2009, 1,126 plan participants (443 active employees and 683 retired employees) were eligible for fully subsidized medical and dental coverage, and 673 plan participants were eligible for implicit subsidy benefits.

OUC is the administrator of this single-employer other post-employment benefit plan and as such has the authority to make changes thereto. Consistent with the defined benefit plan disclosed in Note K – Pension Plans and the implementation of an Other Post-employment Benefit Trust in 2008, the plan will issue stand-alone financial statements on a periodic basis.

Funding policy: In accordance with the implementation of Governmental Accounting Standard No. 45 in September 2007 (GASB Statement No. 45), “Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions” (OPEB), funding for post-employment benefits is established from actuarial valuations and is approved in conjunction with the Board’s approval of the annual budget. In 2008, an OPEB Trust (Trust), similar to the Defined Benefit Pension Trust, was established to retain funds for the future payment of other post-employment benefit costs. The Trust agreement was set up such that OUC will contribute to the Trust and periodically withdraw amounts to reimburse operations for costs incurred on a pay-as-you-go basis. In the future, it is anticipated the Trust will reach a sufficient funding level to directly disburse annual benefit payments and as such reimbursements to operations will no longer be necessary.

The annual required contribution provided to OUC as part of the actuarial valuation report prepared on October 1, 2008 for the year ended September 30, 2009, and the actuarial valuation report prepared on October 1, 2007 for the year ended September 30, 2008 was \$13.7 million and \$13.9 million, respectively. A portion of the annual OPEB cost was funded on a pay-as-you-go basis in 2009 and 2008 in the amounts of \$7.3 million and \$6.0 million, respectively. The remaining portion of the annual OPEB cost, \$6.4 million and \$7.9 million, was paid to the Trust in 2009 and 2008, respectively.

The rate of contribution, based on annual covered payroll for the years ended September 30, 2009 and 2008 was 20.5% and 22.2%, respectively.

Actuarial methods and assumptions: Projection of benefits for financial reporting purposes is based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of actuarial methods and assumptions used including techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events into the future; as such, these actuarial amounts are subject to continual valuation. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over a 20-year period beginning in October 2006.

In the October 1, 2008 actuarial valuation, the frozen entry age normal cost method with an increasing normal cost pattern consistent with the salary increase assumption was used. The actuarial assumptions include the following:

	October 1	
	2008	2007
Investment rate of return	8.00%	8.00%
Projected salary increases	5.50%	5.50%
Annual health care cost trend rate	9.00%	10.00%

NOTES TO FINANCIAL STATEMENTS

Note L – Other Post-Employment Benefits (continued)

Annual OPEB cost and net OPEB obligation: OUC's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) actuarially determined in accordance with the parameters of GASB Statement No. 45. In 2009 and 2008, OUC's ARC and OPEB expense was \$13.7 million and \$13.9 million, respectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and a portion of the unfunded actuarial liabilities over a period of twenty years, a period consistent with the estimated employment tenure of those employees receiving fully subsidized benefits. The net OPEB receivable at September 30, 2009 and 2008 was \$1.3 million and \$0.5 million, respectively.

The following table shows the components of OUC's OPEB cost, current year contributions and changes in the net OPEB obligation.

(Dollars in thousands)	September 30	
	2009	2008
Actuarial required contribution (ARC) & annual OPEB cost	\$ 13,683	\$ 13,876
Contributions made	(7,259)	(5,986)
Change in OPEB obligation	6,424	7,890
Amount paid to OPEB Trust	7,250	8,400
Change in net OPEB asset	826	510
Beginning net OPEB asset	510	-
Ending net OPEB asset	<u>\$ 1,336</u>	<u>\$ 510</u>

The following table summarizes three-year trend information for the OPEB plan including the annual OPEB cost and the annual contribution amounts.

Years ended (Dollars in thousands)	Annual OPEB cost (AOPEBC)	Current year Contributions	Contribution receivables	Percentage of AOPEBC contributed
2009	\$ 13,683	\$ 14,509	\$ -	106%
2008	\$ 13,876	\$ 14,386	\$ -	104%
2007	\$ 14,069	\$ 5,035	\$ 9,034	100%

Funded status and funding progress: At September 30, 2009, the most recent actuarial valuation date, the plan was 10.0% funded. The actuarial accrued liability for benefits was \$160.7 million, and the actuarial value of the plan assets was \$16.0 million for an unfunded actuarial accrued liability (UAAL) of \$144.7 million. Covered payroll (including 443 employees receiving fully subsidized benefits and 673 employees receiving implicit subsidy benefits) was \$66.7 million, and the ratio of the UAAL to the covered payroll was 217.1%.

At September 30, 2008, the plan was 5.7% funded. The actuarial liability for benefits was \$157.5 million and the actuarial value of the plan assets was \$9.0 million for an unfunded actuarial liability (UAAL) of \$148.4 million. The covered payroll was \$62.5 million and the ratio of the UAAL to the covered payroll was 237.4%.

In addition, following the notes to the financial statements, under the heading of Required Supplemental Information, is the schedule of funding progress presenting multi-year trend information.

Note M – Subsequent Event

On October 14, 2009, OUC and Goldman Sachs Bank USA (GS Bank USA) modified its interest rate swap agreement offsetting the Series 2008 Bonds at the notional amount of \$200.0 million. The modification includes OUC granting to GS Bank USA the right to cancel, in its entirety, the interest rate swap agreement with no cash settlement. In exchange for OUC granting GS Bank USA the right to terminate the interest rate swap, the fixed-rate paid by OUC was modified from 4.559% to 3.80% effective October 1, 2009 through the remaining life of the interest rate swap agreement (October 1, 2033). The termination option is available to GS Bank USA for the period of October 16, 2009 to April 1, 2011.

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplemental Information

Defined Benefit Plan

The following funding schedule presents multi-year trend information on the funded status of the Defined Benefit Pension plan as of October 1, 2008. This schedule has been prepared using the entry age actuarial method as the method used in OUC's actuarial valuation, the aggregate actuarial cost method, does not identify or separately amortize unfunded actuarial accrued liabilities. Covered payroll was obtained from the actuarial valuation report at October 1, 2008 and includes 443 active employees.

Schedule of Funding Progress

(Dollars in thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a / b)	Covered payroll (c)	UAAL as a % of covered payroll ((b - a) / c)
10/1/2008	\$ 254,353	\$ 297,140	\$ 42,787	85.6%	\$ 30,479	140.4%
10/1/2007	\$ 268,893	\$ 285,786	\$ 16,893	94.1%	\$ 30,981	54.5%
10/1/2006	\$ 254,462	\$ 275,759	\$ 21,297	92.3%	\$ 31,686	67.2%
10/1/2005	\$ 243,973	\$ 266,618	\$ 22,645	91.5%	\$ 32,393	69.9%
10/1/2004	\$ 219,853	\$ 244,485	\$ 24,632	89.9%	\$ 32,845	75.0%
10/1/2003	\$ 224,562	\$ 236,164	\$ 11,602	95.1%	\$ 33,333	34.8%

Other Post-Employment Benefit Plan

The following funding schedule presents multi-year trend information on the funded status of the Other post-employment benefit plan as of October 1, 2008. This schedule has been prepared using the entry age actuarial method used to prepare OUC's actuarial valuation in 2007 and 2006. Covered payroll was obtained from the actuarial valuation report at October 1, 2008 and includes 443 active employees receiving fully subsidized benefits and 673 active employees receiving implicit benefits.

Schedule of Funding Progress

(Dollars in thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a / b)	Covered payroll (c)	UAAL as a % of covered payroll ((b - a) / c)
10/01/08	\$ 5,994	\$ 160,727	\$ 144,733	10.0%	\$ 66,679	217.1%
10/01/07	\$ 9,034	\$ 157,456	\$ 148,422	5.7%	\$ 62,524	237.4%
10/01/06	\$ -	\$ 148,970	\$ 148,970	0.0%	\$ 57,327	259.9%



Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671
Tel: +1 407 872 6600
Fax: +1 407 872 6626
www.ey.com

Report of Independent Auditors

The Commissioners of Orlando Utilities Commission

We have audited the accompanying statement of net assets of Orlando Utilities Commission (OUC) as of September 30, 2009 and 2008, and the related statement of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OUC's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of OUC's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OUC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OUC as of September 30, 2009 and 2008, and the respective changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2009 on our consideration of OUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

Certified Public Accountants

November 30, 2009



Reliable Plaza
100 West Anderson St.
Orlando, FL 32801
Phone: 407.423.9100 • Fax: 407.236.9616
www.ouc.com