UTILITIES COMMISSION,
CITY OF NEW SMYRNA BEACH, FLORIDA

(A COMPONENT UNIT OF THE CITY OF NEW SMYRNA BEACH, FLORIDA)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004

UTILITIES COMMISSIONERS

Kevin J. Para, Chairman

Jeanne K. Diesen, Vice-Chairman
William E. Hall, Secretary-Treasurer
Richard Spangler, Assistant Secretary-Treasurer
William Reynolds, Commissioner

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

Robert J. Rodi

DIRECTOR OF FINANCE

Roberto O. Montalvo, CPA

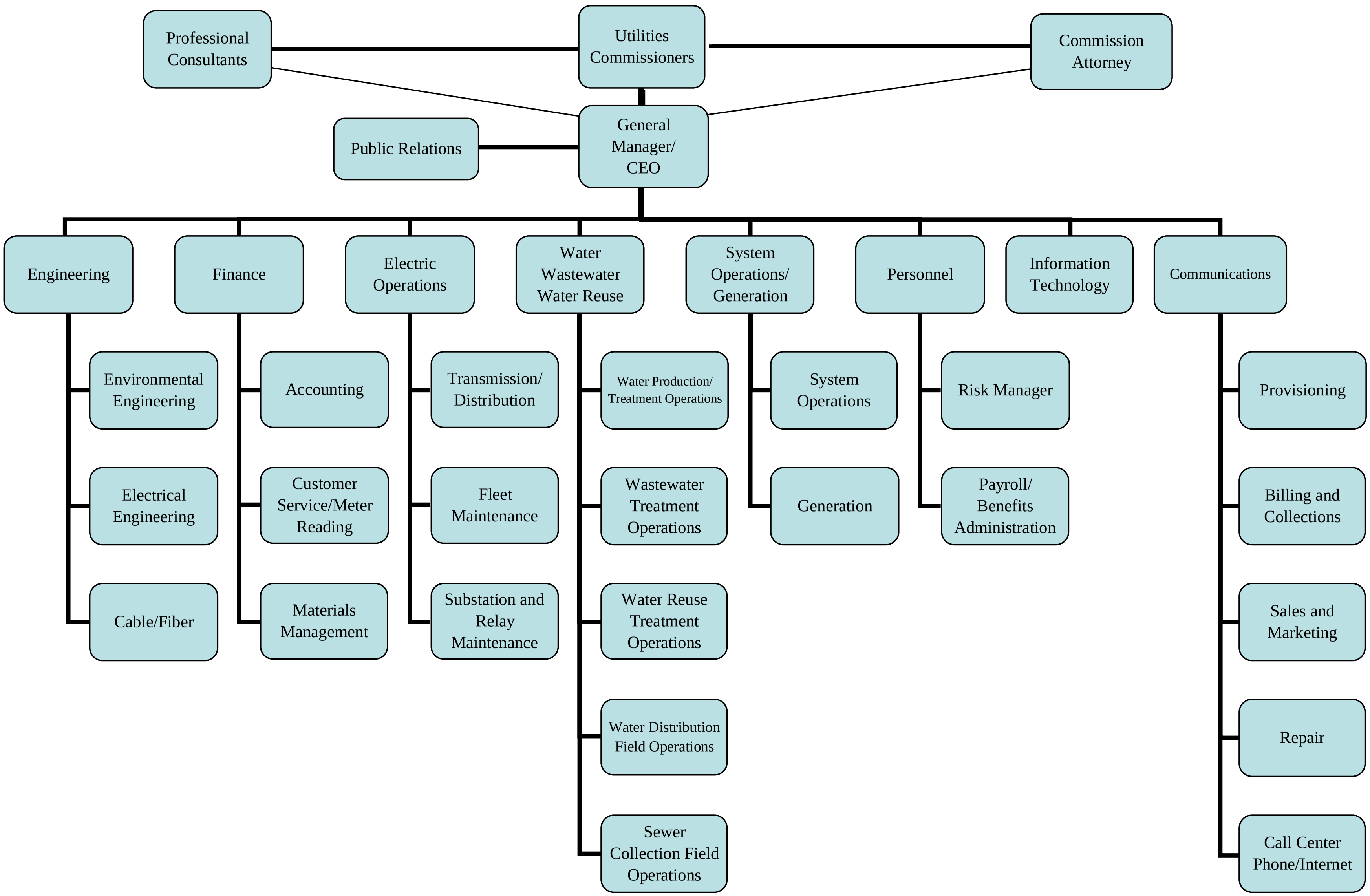
This Page Intentionally Left Blank.

TABLE OF CONTENTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
September 30, 2005 And 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

ORGANIZATION CHART

This Page Intentionally Left Blank.

ORGANIZATION CHART
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA



This Page Intentionally Left Blank.

Certificate Of Achievement

For the year ended September 30, 2004

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a ***Certificate of Achievement for Excellence in Financial Reporting*** *to the Utilities Commission, City of New Smyrna Beach, Florida, for its Component Unit Financial Report for the fiscal year ended September 30, 2004.*

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Management believes that this report continues to conform to Certificate of Achievement Program standards.

This Page Intentionally Left Blank.

CERTIFICATE OF ACHIEVEMENT
For The Year Ended September 30, 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Utilities Commission, City of New Smyrna Beach, Florida

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

This Page Intentionally Left Blank.

LETTER OF TRANSMITTAL

This Page Intentionally Left Blank.

UTILITIES COMMISSION
CITY OF NEW SMYRNA BEACH, FLORIDA
ELECTRIC, WATER, POLLUTION CONTROL
WATER REUSE, INTERNET AND TELEPHONE SERVICE
Post Office Box 100 - 200 Canal St.
New Smyrna Beach, Florida 32170-0100
(386) 427-1361

June 5, 2006

To the Chairman and Members
of the Utilities Commission,
City of New Smyrna Beach, Florida

The Comprehensive Annual Financial Report of the Utilities Commission, City of New Smyrna Beach, Florida, (the "Utilities Commission") for the fiscal years ended September 30, 2005 and 2004, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Utilities Commission. To the best of our knowledge and belief, the enclosed data are accurate in all material aspects and are reported in a manner designed to present fairly the financial position and results of operations of the Utilities Commission. All disclosures necessary to enable the reader to gain the maximum understanding of the Utilities Commission's financial affairs have been included.

This financial report is presented in four sections: introductory, financial, statistical, and compliance (Auditor General of the State of Florida). The introductory section includes this transmittal letter, the Utilities Commission's organization chart, a list of principal officials, the table of contents and a reproduction of the Certificate of Achievement for Excellence in Financial Reporting for 2004. The financial section includes the independent auditors' report on the financial statements, management's discussion and analysis, the basic financial statements, including notes to the financial statements, and the supplemental financial section. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis, and selected ten-year historical financial information.

The financial statements of the Utilities Commission are audited in accordance with Chapter 10.500, Rules of the Auditor General of the State of Florida. Information related to this audit, findings and recommendations, and auditors' reports on the internal control structure and compliance with applicable laws and regulations are included in the compliance section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY AND SERVICES PROVIDED

The Utilities Commission provides a full range of electric, water, wastewater and communications services to its customers both inside and outside the city limits. These activities are fully accounted for in this financial report. The funds and entities related to the operation of the Utilities Commission, which are included in these financial statements, are a component unit of the City of New Smyrna Beach, Florida, and an integral part of the City's reporting entity. The Comprehensive Annual Financial Report of the Utilities Commission is issued separately to provide a comprehensive financial reporting summary and presentation to the Utilities Commission and its revenue certificate holders. Audited financial statements of the primary government (City of New Smyrna Beach, Florida), are available upon request from the City of New Smyrna Beach, 210 Sams Avenue, New Smyrna Beach, Florida, 32168.

ECONOMIC CONDITION AND OUTLOOK

The economic condition and outlook of the Utilities Commission has continued to improve despite incurring substantial losses attributed to operations of the Communications System in the past two years. The Commission's service area is growing due to new residential and commercial developments west of town. We are facing tremendous growth that requires a material capital investment, not only to improve aging existing systems, but also new infrastructure that can accommodate the future needs of our expanding service area.

MAJOR INITIATIVES

The Utilities Commission has established a five-year Capital Improvements Plan (Plan) through 2011. It is the Commission's desire to fund the capital expenditures under this Plan through a combination of service capacity and connection fees, Renewal and Replacement Fund proceeds, and other funding. These proposed capital improvement expenditures are in addition to the annual capital requirements for routine extensions of existing utility facilities to serve new customers.

In the Plan the Commission has identified a priority project checklist with significant system improvements contemplated as follows:

- Install a 20-inch water line between our Glencoe Water Treatment Plant and Smith Street Pumping Station to ensure adequate pressure in most of our existing water system.

- Upgrade pumps and new electrical system to replace the aging Smith Street Pumping Station equipment supplying our water system.

- Install a one million gallon storage tank/pumping equipment on 3rd Avenue for adequate water supply for fighting fires in the north beach area.

- Mount emergency generators at Glencoe, Smith Street and 3rd Avenue to supply water under emergency conditions.

- Install new substation transformers to relieve existing transformers at Field Street, Smyrna, and Airport substations to supply current customer base.

- Increase electrical circuit capacity throughout the city and beachside to relieve electrical loading and improve voltage.

- Replace deteriorating underground cables and transformers in the Fairgreen and Sugar Mill subdivisions.

- Strengthen electrical system for weather events with upgraded equipment and a formal maintenance program.

Utilities Commission forecasts for the electric, water, wastewater, and water reuse systems indicate that the planned major projects will be adequate to accommodate expected growth and anticipated needs of our customers during the five year period of the Plan.

Rate Study
The Commission has undergone a comprehensive rate study that was accepted by the Commission in March 2006 resulting in rate changes that are necessary to provide funding for increased operating and maintenance costs in addition to recovering costs required to replace aging infrastructure and for new service requirements as a result of rapid growth in our city.

FINANCIAL INFORMATION

Management of the Utilities Commission is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Commission are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls and Highlights
The Utilities Commission maintains an integrated system of budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the approved annual budget. The operating activities of the electric, water, wastewater, water reuse, and telecommunications systems are included in the annual budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity within each individual operating system. The Commission also maintains a separate encumbrance accounting system as one technique of accomplishing budgetary control. This system is used exclusively to maintain budgetary control and is not utilized for purposes of presenting financial statements prepared in accordance with generally accepted accounting principles.

As is demonstrated by the financial statements and schedules in the financial section of this report, the Utilities Commission continues to meet its responsibility for sound financial management.

The annual revenue and expense budget is prepared for the combined electric, water, wastewater and communications utility systems and, after Commission approval, is submitted to the City of New Smyrna Beach prior to June 1 of each fiscal year for subsequent City Commission approval. The budget remains in effect the entire year and can only be amended with the approval of the Utilities Commission. No supplemental appropriations were made in 2005.

Schedule of Revenue, Receipts, Expenses and Disbursements -
Budget -vs- Actual
$(000's)

	Budget	Actual	Variance
Revenue and Receipts:			
Electric system	$ 33,287	37,525	4,238
Water system	5,962	5,950	(12)
Wastewater system	6,789	6,514	(275)
Communications system	23,611	10,648	(12,963)
Capital contributions	1,375	3,428	2,053
	71,024	64,065	(6,959)
Operating Expenses:			
Purchased power and fuel	15,828	18,616	(2,788)
Other production	21,315	13,947	7,368
Transmission, distribution, sewage collection and treatment	4,048	4,788	(740)
Customer accounting	865	2,536	(1,671)
Administrative and general	10,482	8,713	1,769
Required payments to City	4,138	3,329	809
Nuclear generation facility decommissioning	126	179	(53)
	56,802	52,108	4,694
Net revenue and receipts	14,222	11,957	(2,265)
Operating transfers (net)	(14,222)	(15,602)	(1,380)
Budgeted net cash receipts	$ 0	(3,645)	(3,645)
Reconciliation of budget to change in net assets:			
Principal portion of sinking fund transfers		5,156	
Internal funds transfers (net)		7,779	
Depreciation and amortization		(5,702)	
Other		1,107	
Change in net assets		$ 4,695	

The Commission's operating budget is prepared on a basis consistent with generally accepted accounting principles (GAAP). Other cash receipts and payments are treated as budgetary items to maintain effective fiscal and budgetary control over the collection and disposition of all Utilities Commission resources. However, all capital expenditures are included in a separate five-year Capital Plan. During 2005, the Commission's actual revenues were less than anticipated amounts by $6.9 million. This was due primarily to the lack of anticipated revenue from telephone service sales. The actual amount of customer accounting expenses was higher than originally budgeted with the primary cause being related to recognition of losses on uncollectible customer accounts receivables related to the telephone service sales in the communications division.

Utility Operations
In compliance with Resolution No. 16-75, and later amended by the City of New Smyrna Beach, Florida Ordinance No. 51-01, the electric, water, wastewater, and communications systems are accounted for as a single enterprise fund.

As of September 30, 2005, the Utilities Commission served 23,691 electric customers, 21,261 water customers, 17,933 wastewater customers, 514 reclaimed water customers, 913 Internet dial-up, DSL, and broadband customers, and 11,813 telephone customers. Service totals for the last five years are summarized below:

Fiscal Year	Electric Accounts	Water Accounts	Wastewater Accounts	Reclaimed Water Accounts	Communications: Internet Accounts	Communications: Telephone Accounts
2001................................	21,330	18,569	15,423	346	0	0
2002................................	21,734	19,507	16,066	385	3,215	4,555
2003................................	22,126	20,111	16,485	417	4,068	10,870
2004................................	23,090	21,275	17,239	479	7,065	16,671
2005................................	23,691	22,261	17,933	514	913	11,813

The current year's operating revenue and expenses from the combined utilities systems is presented in Management's Discussion and Analysis under the headings Financial Highlights and Entity-Wide Analysis on pages 3 to 8.

Cash Management
Cash temporarily idle during the year was invested through the use of a competitive bid procedure in short-term time deposits and medium short-term investments. Shorter investment periods were utilized by the Utilities Commission due to the rapid changes and uncertainties of interest rates experienced during the fiscal year. The amount of interest earned during the years ended September 30, 2005, 2004 and 2003 totaled $690,497, $281,003 and $358,454, respectively.

The Utilities Commission's cash and investments, including accrued interest and dividends receivable, on hand at September 30, 2005, 2004 and 2003, totaled $24.8 million, $22.2 million and $22.0 million, respectively. The individual components are as follows:

	2005	2004	2003
Current assets:			
Operating cash and cash equivalents......................................	$ 0	1,892,948	3,640,567
Restricted assets:			
Revenue certificate covenant funds	12,669,367	10,029,357	9,655,180
Renewal and replacement service capacity fee funds	7,462,106	5,891,423	4,674,357
Customer deposits...	1,776,948	1,682,978	1,516,427
CR-3 decommissioning fund...	2,885,737	2,707,137	2,565,617
	24,794,158	20,310,895	18,411,581
Total cash and investments..	$ 24,794,158	22,203,843	22,052,148

Included in the total operating cash and cash equivalents are internally designated funds consisting of a Rate Stabilization Fund. The purpose of the fund is to shield the electric, water, wastewater and internet systems and utility customers from the financial effects of rising costs to provide services, emergency repairs and extraordinary costs that would otherwise require large fluctuations in rates charged to customers. All utility systems contribute to or borrow from the funds for operational needs. This fund earns the same interest rate as its operating investment portfolio.

The balance in this fund amounted to $3,711,263, $2,326,098 and $1,765,307 for the years ended September 30, 2005, 2004 and 2003, respectively.

The Utilities Commission's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized in accordance with the Florida Security for Public Deposits Act (the "Act"). All collateral on deposits was held either by the Commission, or by the State of Florida in accordance with the applicable provisions of the Act. All of the Commission's investments held at year-end are classified in the category of lowest credit risk (backed exclusively by the full faith and credit of the U. S. government) as defined by the Governmental Accounting Standards Board.

The average yield from interest earnings on cash and investments that was earned each month during the fiscal year ended September 30, 2005, is as follows:

	Average Yield
October	1.72%
November	1.90%
December	2.04%
January	2.13%
February	2.31%
March	2.46%
April	2.71%
May	2.88%
June	2.94%
July	3.15%
August	3.37%
September	3.49%

Risk Management

The Utilities Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

OTHER INFORMATION

Independent Audit

Resolution Number 28-78 and other local and state statutes require an annual audit of the books of account, financial records and transactions of all administrative departments of the Utilities Commission by an independent certified public accountant selected by the Utilities Commission. The certified public accounting firm of Brent Millikan & Company, P.A. was selected by the Commission to satisfy this requirement.

Their independent auditors' report on the financial statements and schedules of the Commission has been included in the financial section of this report.

Awards - Certificate of Achievement
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Utilities Commission, City of New Smyrna Beach, Florida, for its component unit financial report for the fiscal year ended September 30, 2004. We are also quite proud of the fact that we have been awarded with this Certificate for the twenty-fifth consecutive year.

In order to be awarded a Certificate of Achievement, the Commission must publish an easily readable and efficiently organized component unit annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments
The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

We would also like to thank the individual members of the Utilities Commission for their interest, support, and leadership in planning and conducting the financial operations of the Utilities Commission in a most responsible and progressive manner.

Respectfully submitted,

Robert J. Rodi
General Manager/CEO

Roberto O. Montalvo, CPA
Director of Finance

This Page Intentionally Left Blank.

FINANCIAL SECTION

THIS SECTION IS COMPOSED OF THE FOLLOWING:

INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS

SUPPLEMENTAL FINANCIAL INFORMATION

This Page Intentionally Left Blank.

INDEPENDENT AUDITORS' REPORT

This Page Intentionally Left Blank.

BM&C
BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida

We have audited the accompanying basic financial statements of the Utilities Commission, City of New Smyrna Beach, Florida (the "Utilities Commission"), a component unit of City of New Smyrna Beach, Florida, as of and for the fiscal years ended September 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Utilities Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities Commission as of September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2006, on our consideration of the Utilities Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-12 is not a required part of the basic financial statements but is supplemental 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 this supplementary information. However, we did not audit the information and express no opinion on it.

205 MAGNOLIA ST. • NEW SMYRNA BEACH, FL 32168-7125 • (386) 427-1333 • DAYTONA (386) 248-0240 • FAX (386) 427-5823 • www.bmcpa.com
MEMBER: American Institute of Certified Public Accountants and AICPA Private Companies Practice Section

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information identified in the table of contents as supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of Utilities Commission, City of New Smyrna Beach, Florida. Such information, except for the statistical data, 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. The statistical data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Brent Millikan & Co., P.A.

June 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Page Intentionally Left Blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Utilities Commission, City of New Smyrna Beach, Florida's (the "Utilities Commission") annual financial report presents our discussion and analysis of the Commission's financial performance during the fiscal year that ended September 30, 2005. Please read it in conjunction with the transmittal letter at the front of this report and the financial statements, which follow this section.

Financial Highlights

- The Utilities Commission's demand for electrical energy increased in 2005 at 371.2 million kWh sales compared to 361.4 million kWh sales in 2004, a 2.7% increase, due to growth in the number of customers served. Sales revenue generated by the Electric System increased from $33.2 million in 2004 to $36.1 million in 2005.

- The volume of treated potable water sold in 2005 decreased by 3.3%. The volume of wastewater treated in 2005 increased by 0.1%. The volume of reclaimed water treated in 2005 increased by 7.6%. Sales revenue generated by the Water System increased from $5.2 million in 2004 to $5.7 million in 2005. Sales revenue generated by the Wastewater System for wastewater and reclaimed water services increased from $6.0 million in 2004 to $6.4 million in 2005.

- In 2005, the Commission's Communications System experienced an operating loss of approximately $3.8 million. Some of the factors contributing to the loss incurred in fiscal year 2005 include: (1) increased costs to provide telephone services, (2) continued increase in the amount of uncollectible customer accounts receivable, (3) failure to implement and collect additional revenue sources related to network access charges, (4) loss of revenue attributed to sales agent commissions earned from another local exchange carrier that filed for bankruptcy, and (5) other operational matters causing the Commission to incur material amounts of questioned costs. Faced with continued losses and other business challenges, the Commission has decided to discontinue providing telephone services as of August 1, 2006.

- The Utilities Commission's assets exceeded its liabilities (*net assets*) at the end of September 30, 2005 by more than $72.9 million. Of this amount, approximately $9.2 million was unrestricted and available to be used to meet the Commission's ongoing obligations to its customers and creditors. Of the remaining $63.7 million, approximately $55.7 million was invested in utility plant assets and assets held for future use, while the remainder was restricted for utility plant expansion ($7.5 million) and debt service ($539,839).

- During the year, the Utilities Commission's net assets increased by $4.7 million. Net assets totaled $72.9 million in 2005 compared to approximately $68.2 million at the end of 2004.

- During 2005, the Commission's operating revenue increased by approximately $4.4 million to $59.0 million, which was 8.0% more than last years operating revenue of $54.6 million. The Commission's operating expenses increased by $4.1million to $57.4 million, which was 7.6% more than last year's $53.3 million. The net increase in operating expenses was from a combination of factors; most notably: (1) an increase of $2.5 million in the Electric System's fuel and purchased power costs, (2) an increase of $2.8 million in the Communications System's cost paid to telephone service providers, (3) a decrease in the Communications System's customer accounting expenses related to telemarketing expenses, sales agent commissions and provision for uncollectible telephone sales accounts receivable of approximately $3.3 million, and (4) an increase in the Communications System's administration and general expenses for increased telephone service provisioning and billing expenses of approximately $2.0 million.

- Capital contributions received by the Commission had increased from $1.9 million in 2004 to $3.4 million in 2005. The increase experienced in the current year was attributed to residential home development expansion, primarily for amounts received from developers for water and wastewater service capacity fees.

- The Commission's long-term debt decreased to $69.8 million in 2005, which is down $5.3 million over last year's $75.1 million. In 2005 the Commission issued $3.4 million to advance refund the remaining balance of Series 1996 outstanding revenue certificates.

Overview of Financial Statements

The Utilities Commission's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, and 3) an optional section that presents detailed summaries and schedules of selected financial data.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Utilities Commission's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The basic financial statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the Utilities Commission's financial activities, all of which are operated like commercial enterprises. These statements report information about the Utilities Commission using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Commission's assets and liabilities, both financial and capital, and short-term and long-term are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The basic financial statements of the Utilities Commission include a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements, which are described as follows:

- The balance sheet presents the financial position of the Utilities Commission on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations at year-end.

- The statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Utilities Commission's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting standards. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

- The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

- The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utilities Commission's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information presented by the Utilities Commission includes comparisons of budget to actual revenue and expenses, schedules that focus on the individual divisions of the Utilities Commission where more detailed financial data is desirable, and schedules presenting the Commission's future debt service requirements and other data required to be presented in accordance with certain of the Commission's debt covenants.

Entity-Wide Financial Analysis

The Utilities Commission's entity-wide financial statements report its net assets and how they have changed over the reporting period. Net assets - the difference between assets and liabilities- may serve as a useful indicator of the Commission's financial position. Over time, increases or decreases in the Commission's net assets are a useful indicator of whether its financial health is improving or deteriorating, respectively. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed governmental legislation must be considered to adequately assess its overall health.

The material portion of the Utilities Commission's net assets (76%) reflects its investment in utility plant assets (e.g., land, buildings, utility plant, and equipment), less that portion of related debt used to acquire those assets that is still outstanding. These utility plant assets are used to provide utility services to our customers; consequently, these assets are not available for future spending. Although the Commission's investment in capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources since the capital assets cannot be used to liquidate these liabilities.

Condensed Balance Sheets
($000's)

	FY 2005	FY 2004	FY 2003
Current and other assets	$ 39,649	$ 33,686	$ 33,811
Capital assets:			
Productive assets in service (net)	109,055	107,023	109,636
Held for future use	7,467	8,704	9,174
Construction in progress	3,167	5,801	3,584
Total assets	159,338	155,214	156,205
Long-term debt outstanding	69,837	75,101	79,575
Other liabilities	16,581	11,889	9,762
Total liabilities	86,418	86,990	89,337
Net assets:			
Invested in plant, net of related debt	55,729	48,625	43,970
Restricted	7,996	11,230	11,493
Unrestricted	9,195	8,369	11,405
Total net assets	$ 72,920	$ 68,224	$ 66,868

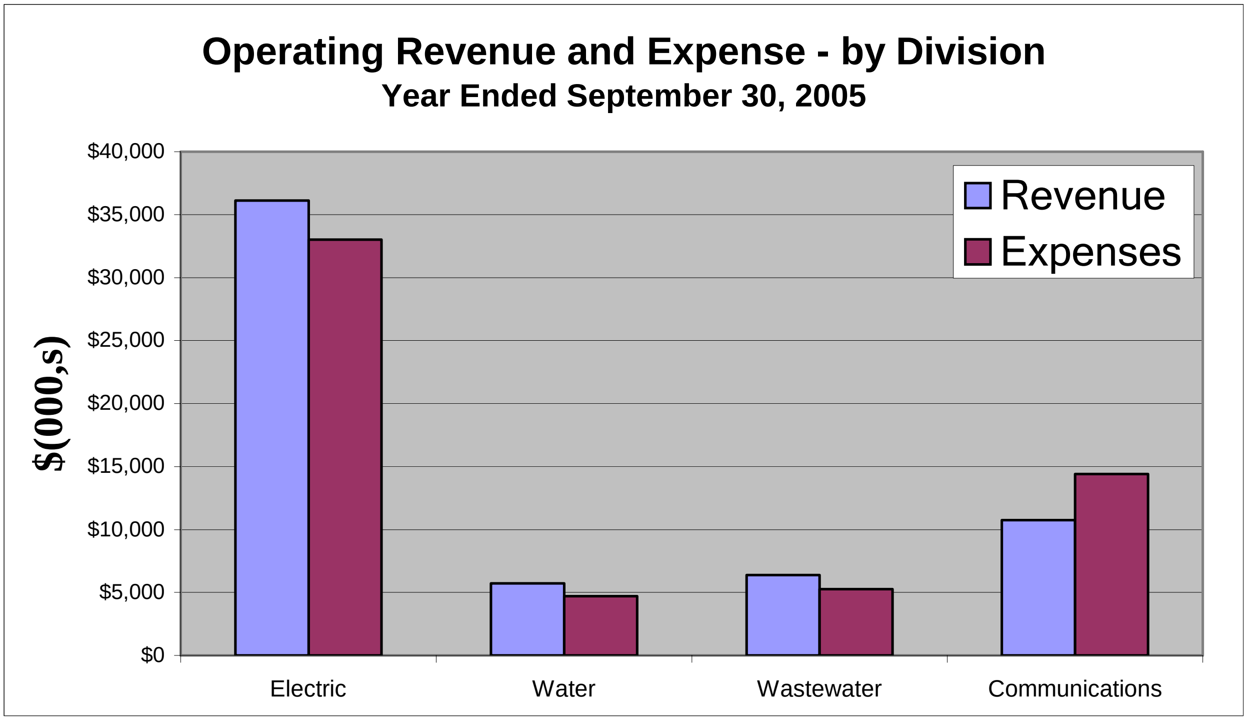
The Utilities Commission's net assets increased $4.7 million to $72.9 million in 2005, which is up from $68.2 million in 2004 and $66.9 million in 2003. The most significant changes in net asset position in 2005 were from amounts invested in utility plant, net of related debt, which increased $7.1 million, and from use of restricted renewal and replacement funds, which decreased $3.2 million. In 2004, the most significant change in net assets came from an increase of $4.7 million in amounts invested in utility plant, net of related debt. These increases reflect the Commission's current policy of investing surplus internal resources, capital contributions and earnings and profits in productive capital assets in lieu of issuing additional debt during the year.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets ($000's)

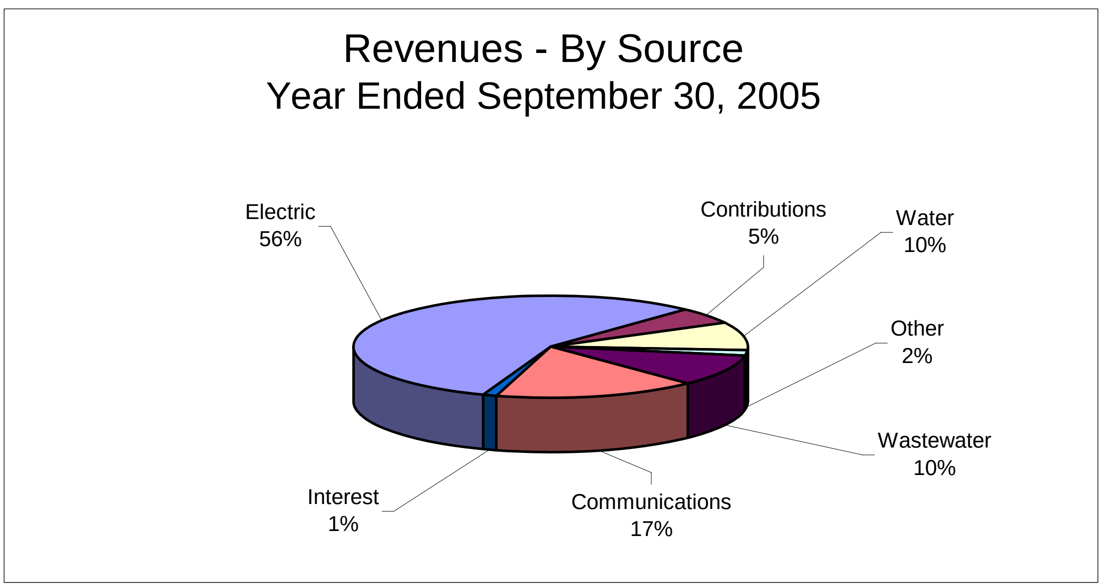
	FY 2005	FY 2004	FY 2003
Revenues:			
Charges for services:			
Electric system	$ 36,102	$ 33,168	$ 32,988
Water system	5,728	5,235	5,123
Wastewater system	6,380	6,025	5,654
Communications system	10,757	10,185	2,582
Total charges for services	58,967	54,613	46,347
Interest earnings	691	281	358
Gain on asset disposals	1,107	311	0
Other	1,082	1,125	337
Total revenues	61,847	56,330	47,042
Expenses:			
Division operating expenses:			
Electric system	33,020	30,185	29,313
Water system	4,690	4,399	3,999
Wastewater system	5,252	4,992	4,603
Communications system	14,419	13,760	1,892
Total division operating expenses	57,381	53,336	39,807
Interest and debt expense	3,097	3,101	3,355
Asset disposal losses	0	0	10
Other	102	228	690
Total expenses	60,580	56,665	43,862
Income (loss) before contributions	1,267	(335)	3,180
Capital contributions	3,428	1,854	4,474
Transfers	0	(163)	0
Increase (decrease) in net assets	$ 4,695	$ 1,356	$ 7,654

While the balance sheets show a snapshot of the Commission's financial position at the beginning and ending of the fiscal years, the above statements of revenues, expenses, and changes in net assets provide answers as to the nature and source of these changes. A comparison of the operating revenues to operating expenses shows steady growth in the Commission's traditional services reported by the electric, water, and wastewater divisions, which continue to produce positive net income. Conversely, the Commission has struggled in providing telephone services since operating under its own Competitive Local Exchange Carrier license beginning in August 2003 and for two years in a row the results of operations for the communications division has produced sizable losses. In 2005, the Communications System reported a loss of $3.8 million and factors contributing to this loss are mentioned in the Financial Highlights section above. In 2004, the loss of $3.5 million in the Communications System was due to a combination of factors, with rapid growth in the competitive telephone service industry being the primary cause. The Commission dedicated substantial financial resources in 2003 and 2004 to market customers outside its immediate service area to provide local and long distance telephone services. This was reflected in 2004 in the amount of increase in communications division operating expenses of $11.9 million or 86.2% more than the expenses incurred in 2003.

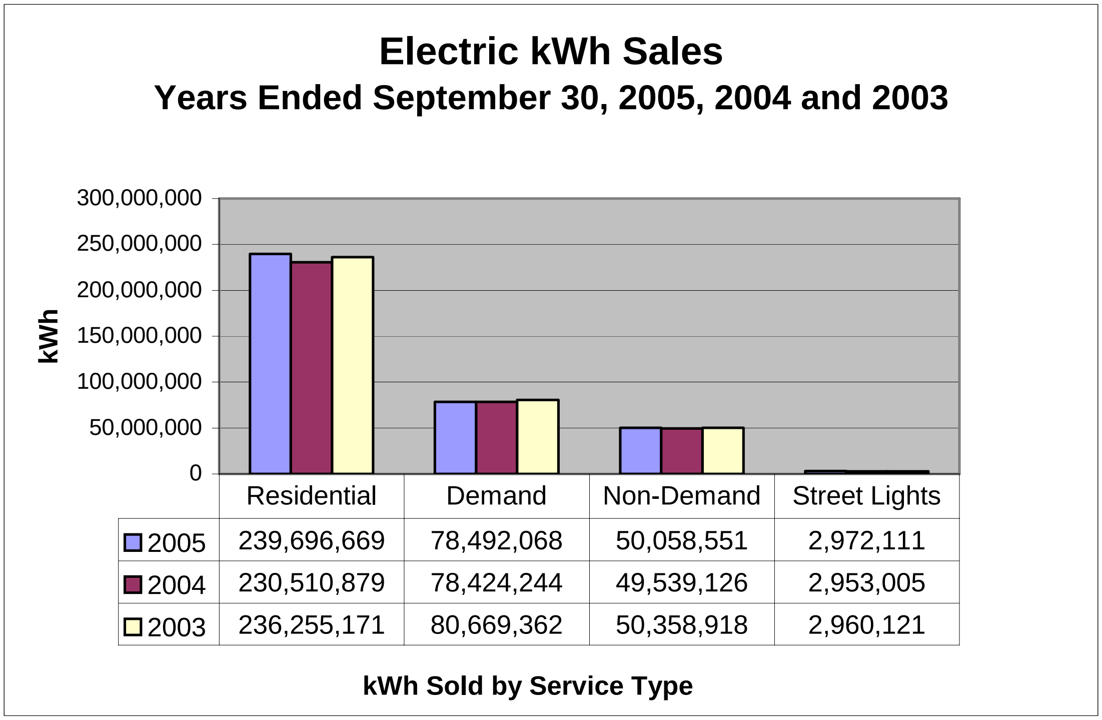
The following is a summary of the operating revenue and expense for each of the Commission's operating divisions:



The following is a summary of the composition of 2005 utility system revenues by source:



During 2005, the overall demand for electricity increased. Total electric kWh sales increased from 361.4 million kWh sales in 2004 to 371.2 million kWh sales in 2005. In 2004 the demand for electricity had decreased from 370.2 million kWh sales in 2003 to 361.4 million kWh sales in 2004. The decrease in 2004 was attributed to an interruption in service caused by hurricanes in the last month and a half of the fiscal year. The number of electric customers increased by 2.6% in 2005 to 23,691, compared to an increase of 1.8% in 2004 of 23,090, as compared to 22,126 in 2003. The following is a summary of the individual components of the Commission's electrical energy sales for the past two years from residential, commercial demand, commercial non-demand, and street lighting service customers.



The actual number of customers increased in all divisions with the exception of a sharp decline in the communications system. The water system experienced a slight increase in the number of customers served. The volume of potable water sold during 2005 decreased 3.3% to 1,490 MG compared to an increase in 2004 of 4.4% to 1,539 MG, as compared to 1,471 MG in 2003. The wastewater system experienced a 0.1% increase in 2005 to 874 MG compared to a 0.2% increase of 873 MG in the volume of wastewater treated in 2004, as compared to 872 MG treated in 2003. The volume of water reuse sold during 2005 increased 7.6% to 283 MG compared to a 2004 decrease of 32.8% to 263 MG, down from 349 MG in 2003.

Rising costs to produce electric system revenues resulted in a fuel adjustment being made in 2004 that was factored into billings effective January 1, 2004 and remained in effect through September 30, 2005. In 2005 the Communications System telephone service sales had remained relatively constant as compared to 2004; whereas, in 2004 this division experienced significant growth in revenue. The actual number of residential and commercial utility customers increased during 2004 in all operating divisions as follows:

Utility Operating Division	2005 Customers	2004 Customers	2003 Customers
Electric system	23,691	23,090	22,126
Water system	22,261	21,275	20,111
Wastewater system	17,933	17,239	16,485
Water reuse system	514	479	417
Communications – Internet	913	7,065	4,068
Communications – Telephone	11,813	16,671	10,870

With the exception of the operating loss reported in the communications division, the net results of operations for all other divisions show that the Commission was successful in recovering its costs for these utility divisions.

Capital Assets

At the end of 2005, the Utilities Commission's investment in capital assets amounted to $119.7 million, which is stated net of $77.0 million of accumulated depreciation and provision for decommissioning. This investment in capital assets includes:

- Land and land improvements,
- Electric (fossil fuel and nuclear) generation, transmission and distribution facilities,
- Water supply, production, treatment and distribution facilities,
- Wastewater collection, treatment and reuse distribution facilities, and
- Machinery and equipment.

In 2005 the total increase in the Commission's investment in capital assets was $5.0 million, compared to $4.9 million invested in 2004 and $5.1 million invested in 2003. Major capital asset events during 2005 included the following:

- Sale of 157 acres of land held for future use for $2.4 million
- Placed in service communications system head end building, tower, antenna, specialized communications equipment, underground fiber optic cable in conduit, including customer premise equipment and installations totaling $2.8 million
- Line transformers, poles and fixtures, new street lighting, overhead conversions and underground extensions of electric transmission and distribution services amounting to $1.8 million
- New water and wastewater services transmission and distribution mains totaling $1.2 million

Utility Plant, Net of Accumulated Depreciation

	September 30,		
	2005	2004	2003
Land and land rights	$ 3,271,680	3,264,429	3,281,904
Structures and improvements	20,694,690	20,268,345	19,964,958
Production and treatment plant	45,085,005	44,921,271	44,561,389
Transmission, distribution, and collection and treatment plant	104,349,361	100,970,944	95,533,982
Other general plant and equipment	12,447,330	9,138,992	8,707,613
	185,848,066	178,563,981	172,049,846
Accumulated depreciation	(74,130,346)	(68,991,723)	(64,057,960)
Allowance for decommissioning	(2,885,737)	(2,707,137)	(2,567,289)
	108,831,983	106,865,121	105,424,597
Construction in progress	3,166,791	5,801,038	3,584,237
Plant held for future use	7,467,493	8,703,892	9,173,992
Nuclear fuel, net of amortization	222,868	157,860	211,416
Utility plant, net	$ 119,689,135	121,527,911	118,394,242

Long-Term Debt and Debt Administration

The revenue certificate debt coverage ratio is a useful indicator of the Utilities Commission's debt position. The Commission's debt coverage ratio has continued to remain strong over the past three years even in years of debt issuance, as is summarized in the following three-year tabulation:

	September 30, 2005	September 30, 2004	September 30, 2003
Operating revenues	$ 58,967,403	54,613,482	46,347,066
Interest and other income	1,772,305	1,406,072	694,980
Capacity and other fees	3,428,529	1,854,598	4,474,157
Revenues per certificate resolution	64,168,237	57,874,152	51,516,203
Cost of Operation and Maintenance, net of depreciation and required payments to City of New Smyrna Beach	48,779,014	45,063,570	32,196,648
Net revenues per certificate resolution	15,389,223	12,810,582	19,319,555
Annual debt service requirement	$ 4,944,725	5,080,173	6,039,170
Debt service coverage ratio (times)	3.11	2.52	3.20

As of September 30, 2005 the Utilities Commission had outstanding $41,800,000 of revenue certificates payable. All of these obligations are secured by a first lien on and a pledge of the net revenues of the system.

The Utilities Commission's outstanding revenue certificates ratings from Moody's, Standard & Poor's, and Fitch's as follows:

	Moody's	Standard & Poor's	Fitch's
Utilities System Refunding Revenue Certificates, Series 1993	Aaa	AAA (FGIC Insured)	n/r
Utilities System Refunding Revenue Certificates, Series 2002	n/r	AAA (AMBAC Insured)	AAA
Utilities System Refunding Revenue Certificates, Series 2004A	n/r	AAA (AMBAC Insured)	AAA

The debt service requirements on these obligations are detailed in the notes to the financial statements and in Schedule 11 of the supplementary section of the financial statements.

In addition to the revenue certificates payable the Utilities Commission had outstanding notes payable to the Florida Department of Environmental Protection, State Revolving Fund Loan in the aggregate amount of $14,366,249 which are secured by a lien and pledge on the net revenues of the system, but subordinate to the first lien and pledge securing the revenue certificates payable. The Commission also had outstanding notes payable to the Florida Municipal Power Agency (FMPA) Pooled Loans amounting to $19,572,000, which are secured by a lien and pledge on the net revenues of the system, but subordinate to the first lien and pledge securing the revenue certificates payable and on a parity with the State Revolving Fund Loan.

The debt service requirements on these obligations are detailed in the notes to the financial statements. The future debt service requirements for the Florida Department of Environmental Protection, State Revolving Fund Loan are in Schedule 12 of the supplementary section of the financial statements. The future debt service requirements for the FMPA Pooled Loans are in Schedule 13 of the supplementary section of the financial statements and are based on the prevailing interest rate charged as of September 30, 2005. The interest rate on the FMPA Pooled Loans varies and is determined on a monthly basis. Accordingly, the representation of the future debt service requirements in Schedule 13 may not agree with the actual amounts to be paid and the difference may be material.

At the end of the fiscal year, the Utilities Commission had $69.8 million in long-term debt outstanding, which was down $5.3 million over the prior year's $75.1 million.

In December 2004, the Commission issued $3,370,000 in Utilities System Refunding Revenue Certificates, Series 2004A to advance refund the entire remaining balance of the Series 1996 Certificates that will be called for redemption on February 1, 2005. At the present time, the Commission is considering the issuance of additional long-term debt to finance necessary improvements to its aging utility plant and to provide new service requirements to accommodate rapid growth in the Commission's service area. Management also continues to review and monitor current bond market conditions for evaluating the feasibility of restructuring any and all outstanding debt obligations if, and when, the opportunity presents itself and only after it is conclusively determined that it makes significant financial "sense" to pursue.

Under its current debt agreements, the Commission has covenanted to maintain several coverage ratios, all of which approximate 1.25 times in the aggregate. In order to issue additional debt obligations, the Commission must demonstrate that it has successfully maintained a coverage ratio of 1.40 times its maximum annual debt service requirements in its immediately preceding fiscal year. Based on this data, the Commission has the ability and the capacity to obtain additional financing, at current market conditions, of approximately $37 million.

Economic Factors and Next Year's Budget and Rates

Many factors are considered each year by the Utilities Commission in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform electric, water, wastewater and other utility fees that are reasonable and, more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Database (FRED). This agency estimates a countywide unemployment rate of 3.4% at the end of September 2005, which is lower than the 4.4% rate experienced one year earlier. These estimates compare favorably to the state's 3.7% and 4.1% unemployment rates at September 2005 and 2004, respectively. Statewide, Florida's unemployment rate has continued to be below the national average.

- Inflationary trends for Volusia County compare favorably with those trends experienced at the state and national levels.

Other factors influencing the Commission's 2006 operating budget includes continued growth in all divisions, with the exception of the communications division. A summary of the enacted 2006 budget follows:

FY 2006 Operating Budget
With Comparison to FY 2005 Actual
$(000's)

	FY 2006 Budget	FY 2005 Actual	Dollar Change
Revenue and Receipts:			
Electric system	$ 36,679	37,525	(846)
Water system	6,622	5,950	672
Wastewater system	6,776	6,514	262
Communications system	10,960	10,648	312
Capital contributions	2,286	3,428	(1,142)
	63,323	64,065	(742)
Operating Expenses:			
Purchased power and fuel	18,230	18,616	386
Operation and maintenance	27,179	30,163	2,984
Required payments to City	3,620	3,329	(291)
	49,029	52,108	3,079
Net revenue and receipts	14,294	11,957	2,337
Debt service	(8,383)	(8,037)	(346)
Operating transfers (net)	(5,911)	(7,565)	1,654
Budgeted net cash receipts	$ 0	(3,645)	3,645

The Utilities Commission's electric rates for fiscal year 2006 are established at the same rates for the 2005 fiscal year. Effective on November 1, 2005 the fuel and purchased power cost adjustment was increased from $17.18 per 1,000 kWh to $31.20 per 1,000 kWh to cover the increased amount of under-recovered fuel and purchased power costs that have accumulated since January 1, 2004. On May 15, 2006 the Commission approved rate increases effective June 1, 2006 for electric, water, wastewater, reclaimed water, and street lights services. The Commission adopted these rate increases based on a comprehensive rate study that was conducted over the past year. The rate increases were deemed necessary for us to recover all of the costs associated with providing these services.

Requests for Information

This financial report is designed to provide a general overview of the Utilities Commission, City of New Smyrna Beach, Florida's finances for all those who have expressed an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the office of the Director of Finance, Post Office Box 100, New Smyrna Beach, Florida 32170-0100.

BASIC FINANCIAL STATEMENTS

BALANCE SHEETS
September 30, 2005 and 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2005	2004
Assets:		
Utility Plant:		
Electric utility plant in service	$ 81,540,759	79,059,348
Water utility plant in service	39,626,370	38,009,169
Wastewater and water reuse utility plant in service	54,204,163	53,896,971
Communications services plant in service	2,762,871	-
General utility plant in service	7,713,901	7,598,493
	185,848,064	178,563,981
Less: accumulated depreciation and amortization	(77,016,083)	(71,698,860)
	108,831,981	106,865,121
Construction work in progress	3,166,792	5,801,038
Plant held for future use	7,467,493	8,703,892
Nuclear fuel, net of amortization	222,869	157,860
Total utility plant, net	119,689,135	121,527,911
Current Assets:		
Cash and cash equivalents	-	1,892,948
Investments	1,000,000	-
Accrued interest and dividends	112,850	4,692
Restricted assets:		
Cash and cash equivalents	21,787,820	18,268,424
Investments	3,000,000	2,021,300
Accrued interest and dividends	6,338	21,171
Accounts receivable, net of allowance for doubtful accounts ($3,569,296 - 2005 and $2,186,358 - 2004)	3,556,062	4,694,996
Unbilled accounts receivable	5,238,215	3,891,996
Notes receivable	2,267,577	442,684
Inventories	1,949,346	1,790,473
Prepaid expenses and other assets	243,424	46,853
Total current assets	39,161,632	33,075,537
Deferred Charges and Other Assets:		
Unamortized debt expense	487,291	610,968
Total assets	$ 159,338,058	155,214,416

The accompanying notes are an integral part of the financial statements.

	2005	2004
Net Assets:		
Invested in utility plant, net of related debt	$ 55,729,433	48,625,159
Restricted for debt service	539,839	539,839
Restricted for renewal and replacement	7,455,768	10,690,203
Unrestricted	9,194,743	8,369,197
Total net assets	72,919,783	68,224,398
Liabilities:		
Long-Term Debt:		
Revenue certificates payable (net)	37,629,837	40,715,547
Notes payable (net)	32,207,552	34,385,249
Total long-term debt	69,837,389	75,100,796
Current Liabilities:		
Bank overdraft-unrestricted cash and cash equivalents	2,648,474	-
Accounts payable	3,663,125	2,785,202
Accrued liabilities	509,463	828,963
Accrued interest payable	781,723	993,891
Revenue certificates payable - current	3,120,000	2,550,000
Notes payable - current	1,730,697	1,654,002
Customers' deposits	1,776,948	1,682,978
Due to other governments	1,895,100	914,845
Total current liabilities	16,125,530	11,409,881
Other Noncurrent Liabilities:		
Deferred compensated absences	455,356	479,341
Total liabilities	86,418,275	86,990,018
Total liabilities and net assets	$ 159,338,058	155,214,416

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS **Statement 2**

For the Fiscal Years Ended September 30, 2005 and 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2005	2004
Operating Revenue:		
Sales	$ 58,243,276	53,918,028
Other revenue	724,127	695,454
Total operating revenue	58,967,403	54,613,482
Operating Expenses:		
Purchased power and fuel expenses	18,615,982	16,082,797
Other production expenses	13,946,939	10,745,373
Transmission, distribution, and sewage collection and treatment	4,788,033	4,686,910
Customer accounting	2,536,210	6,764,647
Administrative and general	8,713,250	6,643,995
Required payments to the City of New Smyrna Beach	3,328,647	3,262,587
Depreciation and decommissioning	5,451,571	5,149,600
Total operating expenses	57,380,632	53,335,909
Operating income	1,586,771	1,277,573
Nonoperating Revenue (Expense):		
Interest earnings	690,497	281,003
Other income	1,081,808	1,125,069
Interest and debt expense	(3,097,313)	(3,101,348)
Other expenses	(102,333)	(227,937)
Gain (loss) on disposal of assets	1,107,426	310,665
Total nonoperating (expense)	(319,915)	(1,612,548)
Income (loss) before contributions and transfers	1,266,856	(334,975)
Capital contributions	3,428,529	1,854,598
Transfers	-	(163,250)
Total contributions and transfers	3,428,529	1,691,348
Change in net assets	4,695,385	1,356,373
Net assets, beginning of year	68,224,398	66,868,025
Net assets, end of year	$ 72,919,783	68,224,398

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS **Statement 3**

For the Fiscal Years Ended September 30, 2005 and 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2005	2004
Cash Flows From Operating Activities:		
Cash received from customers	$ 58,921,137	52,628,765
Cash paid to suppliers	(37,995,126)	(34,502,434)
Cash paid to employees	(9,202,478)	(6,485,243)
Other receipts (payments)	(2,450,725)	(3,405,914)
Net cash provided by operating activities	9,272,808	8,235,174
Cash Flows From Capital and Related Financing Activities:		
Debt reduction outlays	(4,866,002)	(4,013,103)
Advanced refunding of debt	(98,724)	-
Capital contributions	3,428,529	1,854,598
Proceeds from sale of property and equipment	474,584	678,915
Acquisition and construction of capital assets	(5,013,904)	(4,942,796)
Interest paid	(2,837,789)	(1,957,917)
Net cash (used in) capital and related financing activities	(8,913,306)	(8,380,303)
Cash Flows From Investing Activities:		
Proceeds from sale and maturities of investment securities	21,300	1,033,600
Acquistion of investment securities	(2,000,000)	(2,000,000)
Interest received	597,172	275,653
Net cash (used in) investing activities	(1,381,528)	(690,747)
Net (decrease) in cash and cash equivalents	(1,022,026)	(835,876)
Cash and cash equivalents, beginning of year	20,161,372	20,997,248
Cash and cash equivalents, end of year	$ 19,139,346	20,161,372

	2005	2004
Reconciliation to Balance Sheet:		
Cash and cash equivalents	$ -	1,892,948
Bank overdraft - unrestricted cash and cash equivalents	(2,648,474)	-
Restricted cash and cash equivalents	21,787,820	18,268,424
Total cash and cash equivalents	$ 19,139,346	20,161,372

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS - (Continued) **Statement 3**

For the Fiscal Years Ended September 30, 2005 and 2004

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,586,771	1,277,573
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, decommissioning, and nuclear fuel amortization	5,596,553	5,277,627
Provision for losses on receivables	1,078,834	2,455,197
Impairment loss on customer acquisition costs	-	1,023,670
Decrease (increase) in operating assets:		
Accounts and notes receivable	124,175	(3,628,443)
Unbilled accounts receivable	(1,346,219)	352,883
Inventories	(158,873)	(89,071)
Prepaid expenses	(196,571)	22,944
Increase (decrease) in operating liabilities:		
Accounts payable	877,923	103,746
Due to other governments	980,255	84,610
Customer deposits	93,970	165,774
Accrued liabilities	(319,500)	320,618
Deferred liabilities	(23,985)	(29,086)
Other income	1,081,808	1,125,069
Other expense	(102,333)	(227,937)
Net cash provided by operating activities	$ 9,272,808	8,235,174

	2005	2004
Supplemental data:		
Non-cash capital and related financing activities:		
Transfer of real property to City of New Smyrna Beach, Florida	$ -	163,250

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

This Page Intentionally Left Blank.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Utilities Commission, City of New Smyrna Beach, Florida (the "Utilities Commission") are presented in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The existing hierarchy provides that accounting guidance should first be sought in statements of the Governmental Accounting Standards Board (GASB). If the GASB has not issued a standard applicable to a situation, then pronouncements of the Financial Accounting Standards Board (FASB) are presumed to apply except as described below under Measurement Focus and Basis of Accounting. Additionally, the financial statements are presented substantially in conformity with accounting principles and methods prescribed by the Federal Energy Regulatory Commission (FERC), except for the method of accounting for contributed capital described in the notes to the financial statements.

The following is a summary of the more significant accounting policies:

Reporting Entity: The Utilities Commission was created in 1967 through the passage of Chapter 67-1754, Laws of Florida, Special Acts of 1967 (House Bill 1669), which amended the Charter of the City of New Smyrna Beach, Florida (the "City") to create the Utilities Commission. The Utilities Commission is governed by a five-member board of Commissioners who are appointed by the City Commission. Utilities Commissioners receive compensation of $100 per month and may serve no more than three consecutive three-year terms. In a referendum held in October, 1984, voters approved amendments to the City Charter which (1) require City Commission approval for extensions of utility services outside the City limits; (2) give the City Commission the right to review and approve the Utilities Commission's operating budget; and (3) require City Commission approval before issuing or refunding revenue certificates and entering into contracts which exceed four years.

The funds and entities related to the operation of the Utilities Commission are appropriately included as a component unit of the City of New Smyrna Beach, Florida, and an integral part of the City's reporting entity in accordance with the requirements of GASB Statement No. 14, *The Financial Reporting Entity*. The basic financial statements of the Utilities Commission are incorporated in the City's Comprehensive Annual Financial Report as an enterprise fund activity. Complete financial statements of the City of New Smyrna Beach, Florida, the primary government of the Utilities Commission, can be obtained directly from the City's administrative offices, which is as follows:

Administrative Office:

City of New Smyrna Beach, Florida
210 Sams Avenue
New Smyrna Beach, Florida 32168

The Utilities Commission maintains a 0.5608% undivided participant interest with Progress Energy Florida, Inc. at its Crystal River Unit 3 nuclear generation facility. Pursuant to this agreement, all fiscal, budgetary and operational control is maintained exclusively by Progress Energy Florida, Inc. The agreement and the related ownership interest have remained consistent for the years ended September 30, 2005 and 2004. This agreement does not meet the criteria of a joint venture as specified in GASB Statement No. 14.

In 1983, the Utilities Commission entered into a participation agreement with Florida Municipal Power Agency (FMPA) for an entitlement share of electric capacity and electric energy from FMPA's undivided ownership interest in Florida Power and Light Company's St. Lucie Unit No. 2, a nuclear generating unit.

The Utilities Commission's role in the agreement is limited to that of a participant contractually obligated to purchase electric capacity and electric energy. The agreement between the Utilities Commission and FMPA does not meet the criteria for inclusion within the reporting entity of the Utilities Commission. The agreement specifically provides that the arrangement is not a joint venture and neither FMPA nor the other utilities which entered into participation agreements with FMPA for entitlement shares from FMPA's undivided ownership interest in St. Lucie Unit No. 2 are accounting for the agreement as a joint venture. Accordingly, the Utilities Commission is not accounting for the agreement as a joint venture.

Basis of Presentation: The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include all the activities of the Utilities Commission. By virtue of its municipal ownership, the financial affairs of the Utilities Commission are not subject to the oversight of, or regulation by, the Florida Public Service Commission. While not required, the accounting records of the Utilities Commission are maintained in accordance with the uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the Florida Public Service Commission (FPSC), as well as the uniform system of accounts prescribed by the Federal Communications Commission (FCC). As a result, the accounting provisions permitted under Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71), have not been adopted by the Utilities Commission.

The Utilities Commission has elected not to apply FASB statements and interpretations issued after November 30, 1989, as permitted by GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.*"

Basis of Accounting: Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The Utilities Commission's financial statements are prepared on the accrual basis of accounting. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred. Unbilled utility service receivables are recognized to provide a better matching of service revenues and the costs of providing the service.

Budget and Budgetary Accounting: An annual revenue and expense budget is prepared for the combined electric, water, wastewater and communications services systems. In accordance with the Utilities Commission's budget policy, the approved budget is submitted to the City of New Smyrna Beach prior to May 1 of each fiscal year for subsequent City Commission approval. The budget was adopted on a basis consistent with generally accepted accounting principles (GAAP) except that certain other cash receipts and payments are treated as budgetary items to maintain effective fiscal and budgetary control over the collection and disposition of all Utilities Commission resources. Specific budgetary control is exercised over internal operating transfers to restricted funds, payments of principal on long-term debt obligations, and collections of contributed capital which are recognized in the budget as additions and/or deductions to reconcile budgeted net cash receipts to reported net income (loss) for each system. Budget appropriations are prepared by the administrative staff and approved as provided by law by the Utilities Commission. Budgetary control is exercised at the departmental level. Budget amendments, if any, can be requested by the General Manager/CEO. However, all budget amendments must be approved by the Utilities Commission.

Unexpended appropriations for operations lapse at year-end. No supplemental appropriations were required for the current year.

Use of Estimates and Assumptions: In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Utilities Commission invests all cash balances in interest bearing accounts. Earnings from these investments are appropriately allocated to the investing fund accounts based upon the investment equity and are used, where applicable, to finance general Utilities Commission operations. For purposes of the statement of cash flows, all highly liquid debt instruments (including restricted and internally designated funds) purchased with original maturity dates of three months or less are considered cash equivalents.

Investments: Investments are recorded at fair value.

Receivables: Accounts receivable have been reported net of an allowance for uncollectible accounts, which has been provided based upon management's analysis of historical trends. Utility operating revenues are recognized on the basis of cycle billings rendered monthly. Unbilled accounts receivable are accrued at September 30th, to recognize the sales revenues earned between the last utility meter reading date made through the end of the year.

Inventories: Inventories are priced at cost by the use of the "first-in, first-out" method of accounting. The effect of this method is to flow the costs of the materials and supplies in the order in which they are purchased and to assign a balance sheet inventory valuation close to current replacement value. Electric line transformers, electric meters, and replacement units for the generating plants are classified as utility plant in accordance with accepted industry practices set forth by the National Association of Regulatory Utilities Commissioners (NARUC).

Unamortized Debt Discount, Issuance Expenses, and Deferred Amount from Refunding: Original issue discounts, debt issuance expenses, and deferred amounts from the advance refunding of outstanding revenue certificates are appropriately deferred and amortized over the remaining terms of the applicable debt issues (or life of the old debt, whichever is shorter, for deferred amounts from the advance refunding) using the bonds outstanding method, which approximates the interest method. Unamortized debt discounts and deferred amounts from the advance refunding of long-term debt are presented in aggregate in the financial statements as a reduction of the carrying cost of the related long-term debt. The unamortized debt issuance costs are presented as other assets.

Utility Plant: Utility plant is stated at historical or estimated historical cost. Generally, property, plant, improvements and equipment with initial individual costs that equal or exceed $750 and with estimated useful lives of more than one year are recorded as capital assets. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense. The cost of units of property replaced, renewed or retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation. Donated utility plant is stated at its estimated fair market value on the date donated. Construction period interest is capitalized, net of interest earned on unexpended construction funds in accordance with the applicable provisions of Financial Accounting Standards No. 62. All capitalized interest is depreciated over the remaining useful lives of the related assets.

Depreciation and Amortization: For financial reporting purposes, substantially all depreciation of utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated net salvage, which are as follows:

	Years
Electric System:	
Production plant:	
Nuclear production	27
Diesel production	20-40
Transmission plant	30-55
Distribution plant	28-45
General plant:	
Structures and improvements	40
Other general plant	5-20
Water System:	
Source of supply plant	25-50
Pumping plant	35
Water treatment plant	40-50
Transmission and distribution plant	25-50
General plant:	
Structures and improvements	35
Other general plant	10-35
Pollution Control System:	
Collection plant	35-50
Pumping plant:	
Structures and improvements	50
Pumping equipment	25
Treatment and disposal plant	25-40
General plant	10-50
Common Plant:	
Structures and improvements	35
Other general plant	5-15
Water Reuse System:	
Structures and improvements	50
Transmission and distribution plant	50
Communications System:	
Structures and improvements	30
Other general plant	5-20

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE), is computed primarily on the unit-of-production method and charged to fuel expense. Costs related to obligations to the DOE for the decommissioning and decontamination of enrichment facilities are also charged to fuel expense.

Nuclear Plant Decommissioning and Dismantlement Provisions: Provisions for nuclear plant decommissioning costs are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the nuclear plant site. The Utilities Commission's pro-rata share of estimated decommissioning costs are amortized on a straight-line basis over the remaining period of the nuclear plant's operating license and are included in depreciation and amortization expense.

Compensated Absences: A current liability is recorded and recognized under the classification of accrued liabilities for that portion of employee payroll costs paid subsequent to year-end and attributable to services performed prior to year-end. The balance of compensated absences that will be payable beyond one year are reported as deferred compensated absences under the classification of other liabilities. Employees earn annual personal leave time (includes vacation, sick and personal leave time) at the rate of 160 hours to 240 hours per fiscal year, depending of the number of years of service, measured on the anniversary date, which is October 1 for all employees. Employees are required to use 50% of the time accrued each year and may retain the balance for use in succeeding years. The maximum amount of hours that can be accumulated at the end of each year fiscal year is 480 hours. Employees with accrued personal leave time over this amount at year-end are paid for all hours in excess of 240 hours or 480 hours, depending on employee election. Payments for any excess hours are made in December of each year based on the employee's regular straight time pay-rate as of the preceding September 30.

Operating Reserve (for Nuclear Re-Fueling costs): The reserve for nuclear re-fueling and maintenance outage is an operating reserve established to account for estimated charges to be incurred for removal and installation of nuclear fuel assemblies. Charges are made to the reserve when actual re-fueling takes place.

Rates, Revenues and Fuel Expense: Revenues are recognized based on monthly cycle billings to customers. The rate schedules are approved by the Utilities Commission. The electric rate schedule contains an energy cost adjustment clause which reflects the cost of fuel as well as the energy and fuel components of purchased power. Generally, the effect of the increase/decrease in the cost of energy is recovered over a twelve month period and is determined as the difference between actual applicable fuel costs and the costs actually billed during the same period. The cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced for generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core.

Operating revenues and expenses result from providing utility services, which is the principal ongoing operation of the Utilities Commission. The principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on utility plant assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Utilities Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

As of September 30, 2005, the Commission had the following deposits and investments:

Deposits	Carrying Amount	Bank Balance
Insured (FDIC)	$ 2,734,689	$ 2,667,427
Uninsured and uncollateralized	642	642
Cash funds	12,202	12,202
Total deposits	$ 2,747,533	$ 2,680,271

Investments	Carrying Value	Fair Value	Maturities	Credit Rating
Federal Home Loan Bank:				
Unsecured Bond	$ 1,000,000	998,440	10/27/2005	AAA
Unsecured Bond	1,000,000	998,130	11/4/2005	AAA/Aaa
Unsecured Bond	1,000,000	989,060	2/23/2007	AAA/Aaa
FNMA Bonds	1,000,000	982,190	3/14/2007	AAA
Repurchase agreements	16,391,813	16,391,813	3 months or less	N/A
Total investments	$ 20,391,813	20,359,633		

Investment Policy
The Utilities Commission's investment policies are governed by state statutes and local resolution. Allowable investments include: bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, interest bearing savings accounts, interest bearing certificates of deposit and interest bearing time deposits.

Interest Rate Risk
In accordance with its investment policy, the Commission manages its exposure to declines in fair values by limiting the maturity of specific investments based on the following restrictions: (1) funds earmarked for operation and maintenance expenses, debt service sinking funds, and annually budgeted plant expansion cost and equipment purchases will be invested with a maturity of one year from date of purchase, and (2) construction funds are limited to being invested in securities maturing not more than five years from the date of purchase.

Credit Risk
The provisions under Section 218.415, Florida Statutes, require that investment activity by a unit of local government must be consistent with a written investment plan adopted by the governing body. On September 20, 1995 the Commission adopted Resolution No. 52-95, *Investment Policy in Accordance with Florida Statute 218.415* that applies to all cash and investments under the control of the Commission. Under these provisions the Commission had identified the following permissible investments:

- The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act,
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency,
- Interest-bearing time deposits and savings accounts in qualified public depositories,
- Direct obligations of the U.S. Treasury
- Obligations of U.S. Government instrumentalities, such as; Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Banks,
- Mutual funds, provided that the portfolio of such investment companies or trusts is limited to U.S. Government obligations and to repurchase agreements fully collateralized by such U.S. Government obligations,
- Commercial paper of U.S. corporations, rated as "Prime -1" by Moody's and or "A-1" by Standard & Poor's.
- State and local government taxable and tax exempt debt rated at least "Aa" by Moody's, "AA" by Standard & Poor's for long-term debt or rated at least "MIG-2" by Moody's and "SP-2" by Standard & Poor's for short-term debt.
- Bankers' Acceptances which are inventory-based and issued by a domestic bank which has as unsecured, uninsured and unguaranteed obligation rating of at least "Prime-1" and "A" by Moody's Investor Service and "A-1" and "A" by Standard & Poor's Corporation and ranked in the top fifty United States banks in terms of total assets by the American Banker's yearly report.

The Commission specifically refrains from investing in derivative investment products.

As of September 30, 2005 the Commission's investments in the Federal Home Loan Bank Unsecured Bonds were rated AAA by Standard & Poor's and not rated by Moody's Investors Service. Credit ratings do not apply to the securities underlying the repurchase agreements, which are invested U.S. government securities guaranteed by the U.S. government.

Concentration of Credit Risk

Provisions in the Commission's policy limit the investment in specific investments to control the risk of loss resulting from the over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank. With the exception of Repurchase Agreement, Overnights, and Non-negotiable Certificate of Deposits, no more than 25% of the entire portfolio may be placed with any one bank, savings and loan or broker/dealer unless specifically authorized by the Commission.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to the security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State Chief Financial Officer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125%

may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer.

At September 30, 2005, the carrying amount of the Utilities Commission's deposits, including money market funds held with financial institutions, was $2,747,533 and the September 30, 2005, bank balances totaled $2,680,271 of which $108,394 was covered by federal depository insurance, $2,626,293 was secured in accordance with the statutory provisions of the Act, and $642 was held in unsecured, uncollateralized money market mutual funds. Included in the carrying amount of Utilities Commission deposits is $12,204 in petty cash and change funds.

Custodial Credit Risk – Investments
For an investment, this is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2005 the Commission has custodial credit risk exposure of $16,391,813 for investments in repurchase agreements and $4,000,000 for three investments in Federal Home Loan Bank Unsecured Bonds and one investment in FNMA bonds, since these investments are uninsured, unregistered and held by the Commission's bank's securities department and brokerage firms who are also the counterparty for these particular securities.

NOTE 3 – RESTRICTED ASSETS

Certain cash and investments are externally restricted by revenue certificate resolutions, nuclear generation facility decommissioning trusts and customer agreements. The Utilities Commission's restricted assets consist of debt service funds, a nuclear plant decommissioning fund, restricted renewal and replacement funds consisting of service capacity fees charged to developers, and customer deposits. The balances for the years ending September 30, 2005 and 2004 are as follows:

	September 30, 2005	2004
Revenue certificate covenant funds:		
Debt service and related funds:		
Principal and interest funds	$ 5,276,531	4,688,800
Debt service reserve funds	539,839	539,839
	5,816,370	5,228,639
Renewal and replacement funds	6,852,997	4,800,718
Total revenue certificate covenant funds	12,669,367	10,029,357
Nuclear generation facility decommissioning funds	2,885,737	2,707,137
Renewal and replacement service capacity fee funds	7,462,106	5,891,423
Customer deposits	1,776,948	1,682,978
Total restricted assets	$ 24,794,158	20,310,895

	September 30, 2005	2004
Total restricted assets consist of:		
Cash and cash equivalents	$ 21,787,820	18,268,424
Investments, at cost	3,000,000	2,021,300
Accrued interest receivable	6,338	21,171
Total restricted funds	$ 24,794,158	20,310,895

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consist of trade accounts receivable from customers for utility system revenue and other revenue sources. As of year-end the accounts receivable, reported net of provisions for uncollectible accounts, consisted of the following:

	September 30, 2005	2004
Accounts receivable	$ 7,125,358	6,881,354
Reserve for uncollectible accounts	(3,569,296)	(2,186,358)
Total accounts receivable, net	$ 3,556,062	4,694,996

The increase in accounts receivables and the reserve for uncollectible accounts during the year is due to continued increase in telephone service sales reported by the Communications System.

NOTE 5 – UTILITY PLANT

A summary of utility plant at September 30, 2005 and 2004 is as follows:

2005	Electric	Water	Wastewater and Water Reuse	Common	Communications	Total September 30, 2005
Land and land rights	$ 1,679,978	483,946	364,167	743,588	--	3,271,679
Structures and improvements	2,641,365	5,254,572	9,930,159	2,533,678	334,916	20,694,690
Production and treatment plant	24,476,746	6,683,877	13,924,382	--	--	45,085,005
Transmission, distribution, and collection and treatment plant	50,401,277	25,905,413	28,042,671	--	--	104,349,361
Other general plant and equipment	2,341,393	1,298,562	1,942,784	4,436,635	2,427,955	12,447,329
	81,540,759	39,626,370	54,204,163	7,713,901	2,762,871	185,848,064
Accumulated depreciation	(40,904,737)	(14,052,016)	(14,693,268)	(4,369,912)	(110,413)	(74,130,346)
Allowance for decommissioning	(2,885,737)	--	--	--	--	(2,885,737)
	37,750,285	25,574,354	39,510,895	3,343,989	2,652,458	108,831,981
Construction in progress	930,841	561,577	970,976	64,973	638,425	3,166,792
Plant held for future use	7,467,493	--	--	--	--	7,467,493
Nuclear fuel, net of amortization	222,869	--	--	--	--	222,869
Utility plant, net	$ 46,371,488	26,135,931	40,481,871	3,408,962	3,290,883	119,689,135

2004	Electric	Water	Wastewater and Water Reuse	Common	Communications	Total September 30, 2004
Land and land rights	$ 1,672,728	483,946	364,167	743,588	--	3,264,429
Structures and improvements	2,590,500	5,235,758	9,930,159	2,511,928	--	20,268,345
Production and treatment plant	24,411,283	6,599,341	13,910,647	--	--	44,921,271
Transmission, distribution, and collection and treatment plant	48,528,388	24,540,857	27,901,699	--	--	100,970,944
Other general plant and equipment	1,856,449	1,149,267	1,790,299	4,342,977	--	9,138,992
	79,059,348	38,009,169	53,896,971	7,598,493		178,563,981
Accumulated depreciation	(38,346,025)	(13,148,852)	(13,288,537)	(4,208,309)	--	(68,991,723)
Allowance for decommissioning	(2,707,137)	--	--	--	--	(2,707,137)
	38,006,186	24,860,317	40,608,434	3,390,184	--	106,865,121
Construction in progress	3,896,866	1,191,796	134,856	577,520	--	5,801,038
Plant held for future use	8,703,892	--	--	--	--	8,703,892
Nuclear fuel, net of amortization	157,860	--	--	--	--	157,860
Utility plant, net	$ 50,764,804	26,052,113	40,743,290	3,967,704	--	121,527,911

Depreciation expense totaled $5,272,971 and $5,009,752 for 2005 and 2004, respectively. There were no capitalized interest costs associated with expansion and improvements made to utility plant for the fiscal years ended September 30, 2005 and 2004.

A summary of capital assets activity for the year ended September 30, 2005 is as follows:

	Beginning of Year	Acquisitions	Disposals	End of Year
Capital assets, not being depreciated:				
Land and land rights	$ 3,264,429	1,243,648	(1,236,398)	3,271,679
Construction in progress	5,801,038	4,803,915	(7,438,161)	3,166,792
Plant held for future use	8,703,892	--	(1,236,399)	7,467,493
Nuclear fuel, net of amortization	157,860	209,991	(144,982)	222,869
Total capital assets, not being depreciated	17,927,219	6,257,554	(10,055,940)	14,128,833
Capital assets, being depreciated:				
Structures and improvements	20,268,345	426,345	--	20,694,690
Production and treatment plant	44,921,271	163,734	--	45,085,005
Transmission, distribution, and collection and treatment plant	100,970,944	3,426,104	(47,687)	104,349,361
Other general plant and equipment	9,138,992	3,414,727	(106,390)	12,447,329
	175,299,552	7,430,910	(154,077)	182,576,385
Less accumulated depreciation for:				
Structures and improvements	(6,378,618)	(465,642)	--	(6,844,260)
Production and treatment plant	(15,085,938)	(1,399,627)	--	(16,485,565)
Transmission, distribution, and collection and treatment plant	(40,864,465)	(2,730,434)	27,958	(43,566,941)
Other general plant and equipment	(6,662,702)	(677,268)	106,390	(7,233,580)
Total accumulated depreciation	(68,991,723)	(5,272,971)	134,348	(74,130,346)
Allowance for decommissioning	(2,707,137)	(178,600)	--	(2,885,737)
Total capital assets, being depreciated, net	103,600,692	1,979,339	(19,729)	105,560,302
Total capital assets, net	$ 121,527,911	8,236,893	(10,075,669)	119,689,135

NOTE 6 – DECOMMISSIONING AND DISMANTLEMENT PROVISIONS

Provisions for nuclear decommissioning costs associated with the Utilities Commission's 0.5608% undivided participant interest with Progress Energy Florida, Inc. at its Crystal River Unit 3 (CR3) nuclear generation facility are approved by the Florida Public Service Commission. Progress Energy Florida, Inc.'s most recent site-specific estimates of decommissioning costs for the CR3 nuclear plant were developed in 2005, using 2005 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures at the site, with such removal occurring shortly after operating license expiration. The Utilities Commission's share of these estimated costs, in 2005 dollars was $3.8 million and is subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. It is anticipated that Progress Energy Florida, Inc. will be requesting a 20 year extension from the Nuclear Regulatory Commission to increase the useful life of the plant which will have the effect of postponing the decommissioning of the plant to 2036.

Decommissioning cost provisions, which are included in depreciation and amortization expense, were $178,600 and $139,848 for the years ended September 30, 2005 and 2004, respectively. Accumulated decommissioning costs, which are included in accumulated depreciation, were $2,885,737 and $2,707,137 at September 30, 2005 and 2004, respectively. These costs include amounts retained internally in decommissioning trusts. Trust earnings increase the trust balance with a corresponding increase in the accumulated decommissioning balance. These balances are adjusted for net unrealized gains and losses related to changes in the fair value of trust assets.

Management believes that the plant decommissioning costs being recovered through the Utilities Commission's present electric utility rate structure are currently sufficient to provide for the costs of decommissioning.

NOTE 7 – NET ASSETS

Net assets represent the difference between assets and liabilities. The following is a summary of the individual components of the Utilities Commission's net assets at September 30, 2005 and 2004:

	September 30, 2005	2004
Invested in utility plant, net of related debt:		
Net utility plant	$ 119,689,135	121,527,911
Add: Funds restricted for debt service	8,624,370	4,688,800
Funds restricted for future decommissioning costs	2,885,737	2,707,137
Funds restricted for repayment of customer deposits	1,776,948	1,682,978
Less: Revenue certificates payable (net)	(40,749,837)	(43,265,547)
Notes payable (net)	(33,938,249)	(36,039,251)
Accrued interest payable on long-term debt	(781,723)	(993,891)
Customer deposits	(1,776,948)	(1,682,978)
	55,729,433	48,625,159

	September 30, 2005	2004
Restricted for debt service:		
Funds restricted for debt service reserve purposes	539,839	539,839
Restricted for renewal and replacement:		
Funds legally restricted for renewal and replacement	7,474,371	10,692,141
Less: Accounts payable from restricted funds	(18,603)	(1,938)
	7,455,768	10,690,203
Total net assets invested and restricted	63,752,040	59,855,201
Unrestricted net assets	9,194,743	8,369,197
Total net assets	$ 72,919,783	68,224,398

Included in unrestricted net assets are internally designated funds consisting of a rate stabilization fund. The Rate Stabilization Fund is set up so that as costs to provide utility services fluctuate, the customers' rates stay the same. All utility systems contribute to or borrow from the funds for operational needs. The rate stabilization fund is in place to protect both the Utilities Commission and its customers. This fund earns the same interest rate as its operating investment portfolio. The balance in this fund amounted to $3,711,263 and $2,326,098 for the years ended September 30, 2005 and 2004, respectively.

NOTE 8 – LONG-TERM DEBT

A summary of long-term debt outstanding at September 30, 2005 and 2004 is as follows:

	September 30, 2005	2004
Utilities System Refunding Revenue Certificates, Series 1993 4.75% due serially to 2011; called for redemption on October 1, 2002, with $1,245,000 (5.00%) and $1,285,000 (5.00%) term bonds due in 2018 and 2019, respectively	$ 2,530,000	2,530,000
Utilities System Refunding Revenue Certificates, Series 1996 4.10% to 5.30% due serially to 2011, to be called for redemption on February 1, 2005	--	4,330,000
Utilities System Refunding Revenue Certificates, Series 2002 2.75% to 5.00% due serially to 2017	36,360,000	37,695,000
Utilities System Refunding Revenue Certificates, Series 2004A 2.895% due serially to 2011	2,910,000	--
Total utilities revenue certificates outstanding	41,800,000	44,555,000

	September 30, 2005	2004
Less current maturities:		
Series 1993 Certificates	--	--
Series 1996 Certificates	--	(1,215,000)
Series 2002 Certificates	(2,840,000)	(1,335,000)
Series 2004A Certificates	(280,000)	--
	(3,120,000)	(2,550,000)
Long-term certificate debt	38,680,000	42,005,000
Plus: unamortized debt premium	546,201	704,002
Less: deferred amount on advance refunding	(1,537,603)	(1,919,331)
unamortized debt discount	(58,761)	(74,124)
Net long-term certificate debt	37,629,837	40,715,547
Notes Payable:		
State Revolving Fund Loan		
Construction loans consisting of $8,521,618, bearing interest at 3.22% per annum, $1,778,378, bearing interest at 3.18% per annum, and $7,135,931 bearing interest at 3.11% per annum; payable in equal semi-annual payments of $639,359, and maturing in August, 2019	$ 14,366,249	15,170,251
$12,200,000 payable to Florida Municipal Power Agency, as agent for Initial Pooled Loan Project, at a variable interest rate; interest payable monthly with annual principal payments over 20 year term; repayment commencing on April 1, 2001 and maturing in April 2020	10,165,000	10,605,000
$3,000,000 payable to Florida Municipal Power Agency, as agent for Initial Pooled Loan Project, at a variable interest rate; interest payable monthly with annual principal payments over 20 year term; repayment commencing on October 1, 2001 and maturing in October 2020	2,529,000	2,634,000
$9,050,000 payable to Florida Municipal Power Agency, as agent for Initial Pooled Loan Project, at a variable interest rate; interest payable monthly with annual principal payments over 20 year term; repayment commencing on December 1, 2001 and maturing in December 2020	6,878,000	7,630,000
Total notes payable	33,938,249	36,039,251

	September 30, 2005	2004
Less current maturities:		
State Revolving Fund Loan	(829,697)	(804,002)
FMPA Pooled loans	(901,000)	(850,000)
	(1,730,697)	(1,654,002)
Long-term portion of note payable	32,207,552	34,385,249
Total long-term debt, net	$ 69,837,389	75,100,796

A summary of borrowings and debt service activity for the year ended September 30, 2005 is as follows:

	Beginning of Year	Borrowings	Maturities / Redemptions	End of Year
Utilities revenue certificates	$ 44,555,000	3,370,000	(6,125,000)	41,800,000
Notes payable	36,039,251	--	(2,101,002)	33,938,249
Total outstanding debt	$ 80,594,251	3,370,000	(8,226,002)	75,738,249

The authorization for the above described revenue certificates outstanding (collectively referred to as the "Certificates") provides that the Utilities Commission will not issue additional obligations except for the construction and acquisition of additions, extensions and improvements to the system or for refunding purposes and except upon the parity conditions provided in the authorizing resolution. The Certificates are payable from and secured by a first lien upon and pledge of the net revenues derived from the operation of the system. The Certificates do not constitute general indebtedness of the Utilities Commission or the City of New Smyrna Beach, Florida (the “City”), and the City is not obligated to levy any taxes for the payment thereof.

Under the terms of its long-term debt agreements, the Utilities Commission has agreed to maintain certain restricted funds and to comply with the covenants contained in such agreements, which require specific actions to be taken by the Utilities Commission. Certain of these agreements contain the following provision relating to the right of the obligation holder:

> "Any holder of certificates or any coupons appertaining thereto issued under the provision hereof or any trustee acting for the holders of such certificates may by suit, action, mandamus or other proceedings in any court of competent jurisdiction, protect and enforce any and all rights, including the right to the appointment of a receiver, existing under the laws of the State of Florida, or granted and contained herein, and may enforce and compel the performance of all duties herein required or by any applicable statutes to be performed by the Commission or by any officer thereof. Nothing herein, however, shall be construed to grant to any holder of the certificates any lien on any real property of the Commission or the City."

The notes payable to the State of Florida, Department of Environmental Protection and State Revolving Fund Loan are secured by pledged revenues of the Utilities Commission; however, the lien on the pledged revenues is subordinate to the right of payment and security to the Revenue Certificates Payable - Series 1993, 2002, and 2004A. The notes payable to the Florida Municipal Power Agency are secured by a pledge and lien upon the Utilities Commission's utility system revenues and are subordinate to the right of payment and security to the Revenue Certificates and are on parity with the State Revolving Fund Loan.

On December 22, 2004, the Commission issued $3,370,000 in Utilities System Refunding Revenue Certificates, Series 2004A, with an average interest rate of 2.895% to advance refund a portion of the outstanding 1996 Series Certificates maturing on April 1, 2005 through April 1, 2011, and which were called for redemption on February 1, 2005 in the principal amount of $3,360,000 with an interest rate of 4.10% to 5.30%. The net proceeds of $3,370,000 (after payment of $36,243 in underwriting fees, insurance, and other issuance costs) plus $110,002 in excess 1996 sinking fund monies were used to purchase $3,443,759 in U.S. government securities at the date of closing. The U.S. government securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1996 certificates through February 1, 2005, when the 1996 Series certificates were called for complete redemption. As a result, the 1996 certificates are considered to be defeased and the liability for those certificates has been removed.

Although the advance refunding resulted in the recognition of a deferred loss in the amount of $196,499 (which will be amortized over the life of the refunding certificates) for the year ended September 30, 2005, the Commission in effect reduced its aggregate debt service payments by almost $155,814 over the next 6 years and obtained an economic gain (difference between the present values of the old and new debt service payments, adjusted for old and new sinking funds on hand) of $141,578.

Aggregate annual long-term debt service requirements for each of the next five years and five year increments thereafter are as follows:

Fiscal Year Ending	Revenue Certificates		Note Payable SRF Loan		Notes Payable FMPA		Totals	
September 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 3,120,000	1,574,644	829,697	449,021	790,000	503,269	4,739,697	2,526,934
2007	$ 3,495,000	1,518,136	856,214	422,504	936,000	553,312	5,287,214	2,493,952
2008	$ 3,600,000	1,412,466	883,578	395,140	987,000	520,928	5,470,578	2,328,534
2009	$ 3,700,000	1,300,573	911,816	366,903	1,034,000	486,693	5,645,816	2,154,169
2010	$ 3,820,000	1,179,077	940,956	337,762	1,096,000	450,688	5,856,956	1,967,527
2011-2015	$ 17,835,000	3,359,653	5,175,580	1,218,012	6,391,000	1,690,710	29,401,580	6,268,375
2016-2020	$ 6,230,000	739,581	4,768,408	346,463	8,095,000	684,961	19,093,408	1,771,005
2021-2025	$ --	--	--	--	243,000	7,776	243,000	7,776

NOTE 9 – PRIOR YEARS' DEFEASANCE OF DEBT

In prior years, the Utilities Commission defeased certain of its outstanding utilities revenue certificates (and certain general obligation bonds of the City of New Smyrna Beach, Florida), originally issued for the System and payable from revenues derived from the operation of the utilities systems by placing the proceeds of new certificates in irrevocable trusts to provide for all future debt service payments on the defeased certificates/bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the accompanying financial statements. As of September 30, 2005 all prior year defeased bonds have been called and redeemed.

NOTE 10 – COMPENSATED ABSENCES

Compensated absences due and payable within one-year are reported in the caption accrued liabilities amounted to $455,359 and $479,341 as of September 30, 2005 and 2004, respectively. The balances of compensated absences due beyond one year are estimated to be equal to the current amounts due and are reported separately on the balance sheet.

The changes in compensated absences for the year ended September 30, 2005 are as follows:

	Beginning of Year	Additions	Deletions	End of Year
Due and payable within one year	$ 479,341	61,620	(85,602)	455,359
Deferred portion	479,341	61,620	(85,602)	455,359
Total compensated absences............................	$ 958,682	123,240	(171,204)	910,718

NOTE 11 – REQUIRED PAYMENT TO CITY

The legislation that created the Utilities Commission requires it to pay to the general fund of the City of New Smyrna Beach a sum equal to six percent (6%) of the gross revenues from utilities under Utilities Commission control. This payment is subordinate to the debt service requirement of all utilities revenue certificates and is recorded as a quasi-external transaction for financial reporting purposes. Amounts paid to the City for the years ended September 30, 2005 and 2004 totaled $3,328,647 and $3,262,587, respectively. The balances due to the City at September 30, 2005 and 2004, totaled $685,372 and $330,866, respectively.

NOTE 12 – EMPLOYEE PENSION PLANS

A. Defined Benefit Pension Plan

Plan Description. The Utilities Commission contributes to the Florida (public employee) Retirement System of the State of Florida (the "FRS"), a cost-sharing, multiple-employer defined benefit pension plan created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. The pension plan, which is administered by the State of Florida, Department of Administration, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 112, Florida Statutes. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. The FRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Florida Retirement System, Department of Administration, Division of Retirement, Cedars Executive Center, Building C, 2639 North Monroe Street, Tallahassee, FL 32399-1560.

Funding Policy. The funding methods and determination of benefits payable are provided in the various acts of the Florida Legislature, which created the fund, including subsequent amendments thereto. In previous years, these acts provided, in general, that funds were to be accumulated from employee contributions, employer contributions, State appropriations and income from investments of accumulated funds. The act also provides that, should the accumulated funds in the fund at any time be insufficient to meet and pay the benefits due, the employer shall supplement the funds by an appropriation from current funds, or from any revenues which may lawfully be used for said purposes, in an amount sufficient to make up the deficiency.

The Utilities Commission made the required contributions to the plan for the fiscal years ended September 30, 2005, 2004, and 2003, as follows: $315,848, $300,766, and $283,041, respectively.
The employer contribution rates for FRS members (which are examined and amended each year on July 1st) were as follows:

Plan year beginning June 30, 2005	7.83%
Plan year beginning June 30, 2004	7.39%
Plan year beginning June 30, 2003	7.39%
Plan year beginning June 30, 2002	5.76%
Plan year beginning June 30, 2001	7.30%
Plan year beginning June 30, 2000	9.15%

There were no employee contributions made during these years.

B. Defined Contribution Plan

The Utilities Commission contributes to the Utilities Commission of New Smyrna Beach Retirement Plan, a defined contribution plan administered by the Principal Mutual Life Insurance Company, P. O. Box 9396, Des Moines, IA 50306-9396. Under Resolution No. 54-95, the Utilities Commission established this plan for all regular full time and regular part time employees hired on or after January 1, 1996, by revoking its participation in the Florida Retirement System pursuant to Chapter 95-338, Laws of Florida with respect to such employees. All qualifying employees at least 18 years of age participate in the plan on the date of employment. Normal retirement and disability benefits are available after 5 years of service and attaining age 62. Early retirement and disability benefits are available after 5 years of service and attaining age 55. Employer contributions to the plan are 8% of the gross employee wages. Employees may make supplemental contributions to the extent permitted by law. Employer contributions to the plan were $306,742, $186,250, and $90,069, for the years ended September 30, 2005, 2004, and 2003, respectively. There were no employee contributions made during these years.

NOTE 13 – DEFERRED EMPLOYEE BENEFITS

A. IRC Section 401(k) Plan

The Utilities Commission offers its Chief Executive Officer participation in a Prototype 401(k) Plan, created in accordance with Sections 401(a) and 401(k) of the Internal Revenue Code. The assets of the prototype deferred compensation plan are administered by the International City Managers Association Retirement Corporation. Upon separation from service for reasons of death, disability or attainment of age 55 (normal retirement age) the participant may elect to commence receiving benefits which equal accumulated employer's and employee’s contributions plus earnings thereon. All benefits vest with the employee at the date of contribution. For the years ended September 30, 2005, 2004 and 2003 the Utilities Commission’s covered payroll was $85,122, $148,148 and $130,194 respectively. For the years ended September 30, 2005, 2004 and 2003, employer contributions were $29,419, $21,437 and $16,169, respectively. For the years ended September 30, 2005, 2004 and 2003, employee contributions to the plan were $8,947, $17,149 and $25,689, respectively.

B. IRC Section 457 Plan

The Utilities Commission also provides its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The assets of this plan are administered by the International City Managers Association Retirement Corporation. The plan has been amended to include provisions changed by the Economic Growth and Tax Relief Reconciliation Act of 2001. Annual contributions, determined by the participant, may not exceed the lesser of $14,000 or 100% of gross annual compensation for plan years beginning in 2005. Deferred compensation withheld from a participating employee's pay is not taxable as current income until withdrawn from the plan. Such compensation is not available to the employees until employment termination, retirement, or death. All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

NOTE 14 – DEPARTMENTAL INFORMATION

The information below discloses certain financial activity for the Utilities Commission's individual utility systems as follows:

	Electric System	Water System	Wastewater System	Communications System	Total
Operating revenue	$ 36,102,591	5,727,839	6,379,642	10,757,331	58,967,403
Depreciation/decommissioning	2,896,653	978,583	1,465,922	110,413	5,451,571
Operating income (loss)	3,082,575	1,038,144	1,127,936	(3,661,884)	1,586,771
Required payments to City	2,087,723	350,742	358,096	532,086	3,328,647
Income (loss) before contributions and transfers	4,103,052	642,031	292,899	(3,771,126)	1,266,856
Capital contributions	119,883	1,748,947	1,559,699	0	3,428,529
Change in net assets	4,222,935	2,390,978	1,852,598	(3,771,126)	4,695,385
Utility plant acquisitions	2,523,975	1,624,271	307,192	2,762,871	7,218,309
Utility plant retirements	1,278,962	7,070	0	0	1,286,032
Revenue certificates payable	20,750,938	11,854,547	9,194,515	0	41,800,000
Notes payable	17,043,000	1,112,760	15,782,489	0	33,938,249
Net assets	32,904,059	24,695,504	22,136,700	(6,816,480)	72,919,783
Total assets	74,625,112	34,199,265	46,411,469	4,102,212	159,338,058

NOTE 15 – LEGAL MATTERS

The Utilities Commission is engaged in routine litigation incidental to the conduct of its utilities affairs. In the opinion of its legal counsel, no legal proceedings are pending or threatened against the Utilities Commission which are not covered by applicable insurance which would inhibit its ability to perform its operations or materially affect its financial condition.

NOTE 16 – COMMITMENTS

The Utilities Commission, acting through the Florida Municipal Power Agency (FMPA), is a participant in a portion of Florida Power and Light Company's (FPL) St. Lucie Unit No. 2, a nuclear generating unit. FMPA originally acquired an 8.806% undivided ownership interest of St. Lucie No. 2 together with rights to receive electric capacity and electric energy under a reliability exchange agreement. The Utilities Commission's participation provides for a 9.884% entitlement share of FMPA's ownership interest.

A reliability exchange agreement provides for FMPA exchanging 50% of its share of the output from St. Lucie No. 2 for a like amount from FPL's exclusively owned St. Lucie No. 1 to mitigate the potential for economic loss resulting from the extended or permanent outage or early retirement of St. Lucie No. 2. The Utilities Commission, as a participant, has also entered into a power sales contract which requires payment on a "take-and-pay" basis for its entitlement share of the project capability for the St. Lucie Project for each month during any portion of which electric capacity and electric energy are available to the Utilities Commission from the St. Lucie Project, including electric capacity and electric energy under the reliability exchange agreement with FPL. In the event payment is not required for any month under the power sales contract, the Utilities Commission is required to make payment for such month under its project support contract on a "take-or-pay" basis. The payment under the project support contract would be the amount the Utilities Commission would have been required to pay under its power sales contract for such month if any electric capacity and electric energy from the St. Lucie Project had been made available to them. As a result of these agreements, the Utilities Commission is obligated to provide payments of approximately $3.6 million annually.

The Utilities Commission d/b/a New Smyrna Communications (formerly Sparks Communications) is involved in various agreements with third party vendors to provide telephone and Internet services to its customers. Amounts paid to BellSouth and Sprint pursuant to interconnection and commercial agreements represent the largest commitment, with the total costs amounting to $6,340,612 in fiscal year 2005. As of September 30, 2005 the charges incurred and payable to these providers totaled $187,727.

As of September 30, 2005, the Utilities Commission had additional unrecognized construction contract commitments of approximately $14.7 million for utility plant expansion and upgrading.

The Utilities Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

SUPPLEMENTAL INFORMATION

THIS SECTION IS COMPOSED OF THE FOLLOWING:

SUPPLEMENTAL DETAIL FINANCIAL INFORMATION OF THE:

ELECTRIC SYSTEM,
WATER SYSTEM,
WASTEWATER SYSTEM, AND
COMMUNICATIONS SYSTEM

STATISTICAL SECTION

THESE SCHEDULES PROVIDE A MORE DETAILED VIEW OF THE "BASIC FINANCIAL STATEMENTS" PRESENTED IN THE PRECEDING SUBSECTION.

RESOLUTION NUMBERS 16-75 AND 28-78*, AS AMENDED, ESTABLISHED THE ELECTRIC, WATER, POLLUTION CONTROL, AND WATER REUSE SYSTEMS AS A SINGLE ENTERPRISE FUND. THESE SCHEDULES ARE PRESENTED TO PROVIDE DETAILED INFORMATION ON THE INDIVIDUAL UTILITY SYSTEMS AND TO PRESENT THE BUDGETARY COMPARISONS THAT ARE NOT NECESSARY FOR A FAIR PRESENTATION IN CONFORMITY WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.*

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BY UTILITY SYSTEM

For the Fiscal Year Ended September 30, 2005
With Comparative Actual Amounts for the Fiscal Year Ended September 30, 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	Electric	Water
Operating Revenue:		
Sales	$ 35,811,162	5,493,378
Other revenues	291,429	234,461
Total operating revenue	36,102,591	5,727,839
Operating Expenses:		
Purchased power and fuel expenses	18,615,982	-
Other production expenses	4,489,665	1,359,754
Transmission, distribution, and sewage collection and treatment	2,026,026	635,541
Customer accounting	382,405	142,171
Administrative and general	2,521,562	1,222,904
Required payments to City of New Smyrna Beach	2,087,723	350,742
Depreciation and decommissioning	2,896,653	978,583
Total operating expenses	33,020,016	4,689,695
Operating income	3,082,575	1,038,144
Nonoperating Revenue (Expenses):		
Interest earnings	628,157	136,761
Other income	849,607	111,332
Interest and debt expense	(1,495,337)	(627,830)
Other expenses	(55,176)	(26,065)
Gain (loss) on disposal of assets	1,093,226	9,689
Total nonoperating revenue (expenses)	1,020,477	(396,113)
Income (loss) before contributions and transfers	4,103,052	642,031
Capital contributions	119,883	1,748,947
Transfers	-	-
	119,883	1,748,947
Change in net assets	4,222,935	2,390,978
Net assets, beginning of year	28,681,124	22,304,526
Net assets, end of year	$ 32,904,059	24,695,504

Schedule 1

Wastewater	Communications	Totals 2005	Totals 2004
6,294,451	10,644,285	58,243,276	53,918,028
85,191	113,046	724,127	695,454
6,379,642	10,757,331	58,967,403	54,613,482
-	-	18,615,982	16,082,797
-	8,097,520	13,946,939	10,745,373
2,126,466	-	4,788,033	4,686,910
147,662	1,863,972	2,536,210	6,764,647
1,153,560	3,815,224	8,713,250	6,643,995
358,096	532,086	3,328,647	3,262,587
1,465,922	110,413	5,451,571	5,149,600
5,251,706	14,419,215	57,380,632	53,335,909
1,127,936	(3,661,884)	1,586,771	1,277,573
37,558	(111,979)	690,497	281,003
113,247	7,622	1,081,808	1,125,069
(974,146)	-	(3,097,313)	(3,101,348)
(16,207)	(4,885)	(102,333)	(227,937)
4,511	-	1,107,426	310,665
(835,037)	(109,242)	(319,915)	(1,612,548)
292,899	(3,771,126)	1,266,856	(334,975)
1,559,699	-	3,428,529	1,854,598
-	-	-	(163,250)
1,559,699	-	3,428,529	1,691,348
1,852,598	(3,771,126)	4,695,385	1,356,373
20,284,102	(3,045,354)	68,224,398	66,868,025
22,136,700	(6,816,480)	72,919,783	68,224,398

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - BUDGET AND ACTUAL - ELECTRIC SYSTEM (NON-GAAP BUDGETARY BASIS) **Schedule 2**

For the Fiscal Year Ended September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	Final Budget	Actual	Variance
Revenue and Receipts:			
Direct Sales:			
Electric sales……	$ 32,623,592	35,811,162	3,187,570
Other revenues……	363,570	291,429	(72,141)
Nonoperating revenue (expenses):			
Interest earnings……	115,000	628,157	513,157
Other revenues (expenses)……	185,000	794,431	609,431
Capital contributions……	-	119,883	119,883
	33,287,162	37,645,062	4,357,900
Operating Expenses:			
Purchased power and fuel expenses……	15,828,014	18,615,982	(2,787,968)
Power production……	4,692,859	4,489,665	203,194
Transmission and distribution……	1,633,292	2,026,026	(392,734)
Customer accounting……	408,816	382,405	26,411
Administrative and general……	2,345,723	2,521,562	(175,839)
Required payments to the City of New Smyrna Beach……	1,972,912	2,087,723	(114,811)
Decommissioning expense……	126,148	178,600	(52,452)
	27,007,764	30,301,963	(3,294,199)
Net revenue and receipts……	6,279,398	7,343,099	1,063,701
Operating Transfers In (Out):			
Sinking Fund - 1993 Certificates……	(67,412)	(67,412)	-
Sinking Fund - 1996 Certificates……	(314,732)	(59,634)	255,098
Sinking Fund - 2002 Certificates……	(2,125,871)	(2,125,870)	1
Sinking Fund - 2004A Certificates……	-	(303,206)	(303,206)
Debt Reduction Fund - required contribution……	(105,760)	(105,760)	-
Sinking Fund - FMPA Pooled Loans……	(1,370,732)	(1,229,610)	141,122
Renewal and Replacement Funds……	(2,294,891)	(2,294,891)	-
	(6,279,398)	(6,186,383)	93,015
Budgeted net cash receipts……	$ -	1,156,716	1,156,716
Reconciliation of Net Cash Receipts to Net Income (GAAP):			
Principal portion of required Sinking Fund transfers……		2,489,604	
Net transfers to Renewal and Replacement Fund……		2,294,891	
Net transfers to Debt Reduction Fund……		105,760	
Gain (loss) on disposal of property and equipment……		1,093,226	
Depreciation……		(2,718,053)	
Amortization of debt expense and loss on refunding……		(199,209)	
Change in net assets……		$ 4,222,935	

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - BUDGET AND ACTUAL - WATER SYSTEM (NON-GAAP BUDGETARY BASIS) **Schedule 3**

For the Fiscal Year Ended September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	Final Budget	Actual	Variance
Revenue and Receipts:			
Direct Sales:			
Water sales	$ 5,661,438	5,493,378	(168,060)
Other revenues	202,000	234,461	32,461
Nonoperating revenue (expenses):			
Interest earnings	43,000	136,761	93,761
Other revenues (expenses)	56,000	85,267	29,267
Capital contributions	724,580	1,748,947	1,024,367
	6,687,018	7,698,814	1,011,796
Operating Expenses:			
Water production	1,108,145	1,359,754	(251,609)
Transmission and distribution	529,656	635,541	(105,885)
Customer accounting	186,088	142,171	43,917
Administrative and general	1,153,332	1,222,904	(69,572)
Required payments to the City of New Smyrna Beach	348,806	350,742	(1,936)
	3,326,027	3,711,112	(385,085)
Net revenue and receipts	3,360,991	3,987,702	626,711
Operating Transfers In (Out):			
Sinking Fund - 1993 Certificates	(43,592)	(43,592)	-
Sinking Fund - 1996 Certificates	(215,377)	(40,809)	174,568
Sinking Fund - 2002 Certificates	(1,184,090)	(1,184,089)	1
Sinking Fund - 2004A Certificates	-	(193,311)	(193,311)
Debt Reduction Fund - required contribution	(58,907)	(58,907)	-
Sinking Fund - FMPA Pooled Loans	(83,866)	(76,623)	7,243
Renewal and Replacement Funds - required contribution	(1,050,579)	(1,050,576)	3
Renewal and Replacement Funds - restricted contribution	(724,580)	(1,748,947)	(1,024,367)
	(3,360,991)	(4,396,854)	(1,035,863)
Budgeted net cash receipts	$ -	(409,152)	(409,152)
Reconciliation of Net Cash Receipts to Net Income (GAAP):			
Principal portion of required Sinking Fund transfers		1,026,677	
Net transfers to Renewal and Replacement Fund		2,799,523	
Net transfers to Debt Reduction Fund		58,907	
Gain (loss) on disposal of property and equipment		9,689	
Depreciation		(978,583)	
Amortization of debt expense and loss on refunding		(116,083)	
Change in net assets		$ 2,390,978	

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - BUDGET AND ACTUAL - WASTEWATER SYSTEM (NON-GAAP BUDGETARY BASIS) **Schedule 4**

For the Fiscal Year Ended September 30, 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	Final Budget	Actual	Variance
Revenue and Receipts:			
Direct Sales:			
Wastewater sales	$ 6,662,733	6,294,451	(368,282)
Other revenues	74,200	85,191	10,991
Nonoperating revenue (expenses):			
Interest earnings	30,500	37,558	7,058
Other revenues (expenses)	21,500	97,040	75,540
Capital contributions	650,307	1,559,699	909,392
	7,439,240	8,073,939	634,699
Operating Expenses:			
Collection and treatment system	1,884,658	2,126,466	(241,808)
Customer accounting	166,607	147,662	18,945
Administrative and general	1,089,228	1,153,560	(64,332)
Required payments to the City of New Smyrna Beach	400,124	358,096	42,028
	3,540,617	3,785,784	(245,167)
Net revenue and receipts	3,898,623	4,288,155	389,532
Operating Transfers In (Out):			
Sinking Fund - 1993 Certificates	(15,496)	(15,496)	-
Sinking Fund - 1996 Certificates	(134,021)	(25,394)	108,627
Sinking Fund - 2002 Certificates	(978,664)	(978,664)	-
Sinking Fund - 2004A Certificates	-	(120,290)	(120,290)
Debt Reduction Fund - required contribution	(48,688)	(48,687)	1
Sinking Fund - FMPA Pooled Loans	(106,739)	(97,520)	9,219
Sinking Fund - State Revolving Fund Loan	(1,278,718)	(1,262,229)	16,489
Renewal and Replacement Funds - required contribution	(685,990)	(685,992)	(2)
Renewal and Replacement Funds - restricted contribution	(650,307)	(1,559,699)	(909,392)
	(3,898,623)	(4,793,971)	(895,348)
Budgeted net cash receipts	$ -	(505,816)	(505,816)
Reconciliation of Net Cash Receipts to Net Income (GAAP):			
Principal portion of required Sinking Fund transfers		1,639,346	
Net transfers to Renewal and Replacement Fund		2,245,691	
Net transfers to Debt Reduction Fund		48,687	
Gain (loss) on disposal of property and equipment		4,511	
Depreciation		(1,465,922)	
Amortization of debt expense and loss on refunding		(113,899)	
Change in net assets		$ 1,852,598	

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - BUDGET AND ACTUAL - COMMUNICATIONS SYSTEM (NON-GAAP BUDGETARY BASIS) **Schedule 5**

For the Fiscal Year Ended September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	Final Budget	Actual	Variance
Revenue and Receipts:			
Direct Sales:			
Internet sales	$ 1,006,573	475,455	(531,118)
Telephone sales	22,467,028	10,168,830	(12,298,198)
Other revenues	-	113,046	113,046
Nonoperating revenue (expenses):			
Other revenues (expenses)	137,200	(109,242)	(246,442)
	23,610,801	10,648,089	(12,962,712)
Operating Expenses:			
Production expenses	15,514,109	8,097,520	7,416,589
Customer accounting	103,523	1,863,972	(1,760,449)
Administrative and general	5,894,193	3,815,224	2,078,969
Required payments to the City of New Smyrna Beach	1,416,336	532,086	884,250
	22,928,161	14,308,802	8,619,359
Net revenue and receipts	682,640	(3,660,713)	(4,343,353)
Operating Transfers In (Out):			
Renewal and Replacement Funds - required contribution	(682,640)	(225,140)	457,500
	(682,640)	(225,140)	457,500
Budgeted net cash receipts	$ -	(3,885,853)	(3,885,853)
Reconciliation of Net Cash Receipts to Net Income (GAAP):			
Net transfers to Renewal and Replacement Fund		225,140	
Depreciation		(110,413)	
Change in net assets		$ (3,771,126)	

SCHEDULE OF OPERATING EXPENSES- **Schedule 6**
ELECTRIC SYSTEM
For the Fiscal Years Ended September 30, 2005 and 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2005	2004
Operating Expenses:		
Purchased power and fuel:		
Nuclear fuel	$ 602,484	907,841
Diesel fuel	75,023	103,188
Purchased power	17,938,475	15,071,768
	18,615,982	16,082,797
Power production:		
Nuclear power generation	3,743,979	3,382,913
Diesel power generation	256,814	287,930
System control and load dispatching	488,872	493,469
	4,489,665	4,164,312
Transmission and distribution	2,026,026	2,160,952
Customer accounting	382,405	403,381
Administrative and general	2,521,562	2,587,728
Required payments to the City of New Smyrna Beach	2,087,723	2,006,630
Depreciation and decommissioning	2,896,653	2,779,602
Total operating expenses	$ 33,020,016	30,185,402

SCHEDULE OF OPERATING EXPENSES- WATER SYSTEM **Schedule 7**

For the Fiscal Years Ended September 30, 2005 and 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2005	2004
Operating Expenses:		
Water production:		
Source of supply	$ 482,067	459,019
Water treatment	877,687	822,780
	1,359,754	1,281,799
Transmission and distribution	635,541	522,887
Customer accounting	142,171	165,246
Administrative and general	1,222,904	1,173,213
Required payments to the City of New Smyrna Beach	350,742	324,781
Depreciation and decommissioning	978,583	930,241
Total operating expenses	$ 4,689,695	4,398,167

SCHEDULE OF OPERATING EXPENSES- **Schedule 8**
WASTEWATER SYSTEM
For the Fiscal Years Ended September 30, 2005 and 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2005	2004
Operating Expenses:		
Collection and treatment system:		
Collection expenses	$ 279,985	261,476
Pumping expenses	408,873	385,275
Treatment and disposal	1,437,608	1,356,320
	2,126,466	2,003,071
Customer accounting	147,662	151,001
Administrative and general	1,153,560	1,056,851
Required payments to the City of New Smyrna Beach	358,096	341,550
Depreciation and decommissioning	1,465,922	1,439,757
Total operating expenses	$ 5,251,706	4,992,230

SCHEDULE OF OPERATING EXPENSES- COMMUNICATIONS SYSTEM **Schedule 9**

For the Fiscal Years Ended September 30, 2005 and 2004

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

	2005	2004
Operating Expenses:		
Other production expenses:		
Payments to internet service provider	$ 283,616	267,312
Payments to telephone service providers	7,813,904	5,031,950
	8,097,520	5,299,262
Customer accounting	1,863,972	6,045,019
Administrative and general	3,815,224	1,826,203
Required payments to the City of New Smyrna Beach	532,086	589,626
Depreciation and decommissioning	110,413	-
Total operating expenses	$ 14,419,215	13,760,110

SCHEDULE OF INTEREST EARNINGS **Schedule 10**

For the Fiscal Years Ended September 30, 2005 and 2004
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2005	2004
Interest Earnings By Source:		
From Investments:		
Sinking funds	$ 61,239	19,586
Renewal and replacement funds	275,174	138,304
Customers' deposits	44,012	16,051
CR3 nuclear decommissioning funds	63,107	24,355
Other	246,965	82,707
Total interest earnings	$ 690,497	281,003
Interest Earnings By System:		
Electric system	$ 628,156	192,479
Water system	136,761	57,860
Wastewater system	37,558	28,623
Communications system	(111,978)	2,041
Total interest earnings	$ 690,497	281,003

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY - REVENUE CERTIFICATES PAYABLE **Schedule 11**

For the Fiscal Year Ended September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	Utilities System Refunding Revenue Certificates Series 1993			Utilities System Refunding Revenue Certificates Series 2002			Utilities System Refunding Revenue Certificates Series 2004A			Total Debt Service Requirements to Maturity -- All Certificates --		
Payment Date	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements
10/01/2005	$ -	$ 63,250	$ 63,250	$ 2,840,000	$ 724,311	$ 3,564,311	$ -	$ -	$ -	$ 2,840,000	$ 787,561	$ 3,627,561
04/01/2006	-	63,250	63,250	-	681,711	681,711	280,000	42,122	322,122	280,000	787,083	1,067,083
10/01/2006	-	63,250	63,250	2,920,000	681,712	3,601,712	285,000	38,069	323,069	3,205,000	783,031	3,988,031
04/01/2007	-	63,250	63,250	-	637,911	637,911	290,000	33,944	323,944	290,000	735,105	1,025,105
10/01/2007	-	63,250	63,250	3,010,000	637,911	3,647,911	290,000	29,746	319,746	3,300,000	730,907	4,030,907
04/01/2008	-	63,250	63,250	-	592,761	592,761	300,000	25,548	325,548	300,000	681,559	981,559
10/01/2008	-	63,250	63,250	3,095,000	592,762	3,687,762	300,000	21,206	321,206	3,395,000	677,218	4,072,218
04/01/2009	-	63,250	63,250	-	543,241	543,241	305,000	16,864	321,864	305,000	623,355	928,355
10/01/2009	-	63,250	63,250	3,195,000	543,241	3,738,241	310,000	12,449	322,449	3,505,000	618,940	4,123,940
04/01/2010	-	63,250	63,250	-	488,926	488,926	315,000	7,961	322,961	315,000	560,137	875,137
10/01/2010	-	63,250	63,250	3,510,000	488,927	3,998,927	115,000	3,402	118,402	3,625,000	555,579	4,180,579
04/01/2011	-	63,250	63,250	-	425,746	425,746	120,000	1,737	121,737	120,000	490,733	610,733
10/01/2011	-	63,250	63,250	3,970,000	425,746	4,395,746	-	-	-	3,970,000	488,996	4,458,996
04/01/2012	-	63,250	63,250	-	326,496	326,496	-	-	-	-	389,746	389,746
10/01/2012	-	63,250	63,250	4,300,000	325,496	4,625,496	-	-	-	4,300,000	388,746	4,688,746
04/01/2013	-	63,250	63,250	-	218,996	218,996	-	-	-	-	282,246	282,246
10/01/2013	-	63,250	63,250	4,515,000	218,996	4,733,996	-	-	-	4,515,000	282,246	4,797,246
04/01/2014	-	63,250	63,250	-	106,121	106,121	-	-	-	-	169,371	169,371
10/01/2014	-	63,250	63,250	1,305,000	106,121	1,411,121	-	-	-	1,305,000	169,371	1,474,371
04/01/2015	-	63,250	63,250	-	79,369	79,369	-	-	-	-	142,619	142,619
10/01/2015	-	63,250	63,250	1,355,000	79,369	1,434,369	-	-	-	1,355,000	142,619	1,497,619
04/01/2016	-	63,250	63,250	-	50,575	50,575	-	-	-	-	113,825	113,825
10/01/2016	-	63,250	63,250	1,155,000	50,575	1,205,575	-	-	-	1,155,000	113,825	1,268,825
04/01/2017	-	63,250	63,250	-	26,031	26,031	-	-	-	-	89,281	89,281
10/01/2017	-	63,250	63,250	1,190,000	26,031	1,216,031	-	-	-	1,190,000	89,281	1,279,281
04/01/2018	-	63,250	63,250	-	-	-	-	-	-	-	63,250	63,250
10/01/2018	1,245,000	63,250	1,308,250	-	-	-	-	-	-	1,245,000	63,250	1,308,250
04/01/2019	-	32,125	32,125	-	-	-	-	-	-	-	32,125	32,125
10/01/2019	1,285,000	32,125	1,317,125	-	-	-	-	-	-	1,285,000	32,125	1,317,125
	$ 2,530,000	$ 1,772,000	$ 4,302,000	$ 36,360,000	$ 9,079,082	$ 45,439,082	$ 2,910,000	$ 233,048	$ 3,143,048	$ 41,800,000	$ 11,084,130	$ 52,884,130

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY - **Schedule 12**
FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION STATE REVOLVING FUND LOAN
For the Fiscal Year Ended September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	Wastewater Treatment Plan Project CS 120 4260060									Total Debt Service Requirements to Maturity -- Combined --		
	State Revolving Fund Loan (3.220%) Original Loan			State Revolving Fund Loan (3.180%) Amendment 1			State Revolving Fund Loan (3.110%) Amendment 2					
Payment Date	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements
02/15/2006	$ 200,614	$ 113,135	$ 313,749	$ 41,959	$ 23,301	$ 65,260	$ 169,013	$ 91,337	$ 260,350	$ 411,586	$ 227,773	$ 639,359
08/15/2006	203,844	109,905	313,749	42,626	22,634	65,260	171,641	88,709	260,350	418,111	221,248	639,359
02/15/2007	207,126	106,623	313,749	43,304	21,956	65,260	174,310	86,040	260,350	424,740	214,619	639,359
08/15/2007	210,461	103,288	313,749	43,992	21,268	65,260	177,021	83,329	260,350	431,474	207,885	639,359
02/15/2008	213,849	99,900	313,749	44,692	20,568	65,260	179,774	80,576	260,350	438,315	201,044	639,359
08/15/2008	217,292	96,457	313,749	45,402	19,858	65,260	182,569	77,781	260,350	445,263	194,096	639,359
02/15/2009	220,791	92,959	313,750	46,124	19,136	65,260	185,408	74,942	260,350	452,323	187,037	639,360
08/15/2009	224,345	89,404	313,749	46,857	18,403	65,260	188,291	72,059	260,350	459,493	179,866	639,359
02/15/2010	227,957	85,792	313,749	47,602	17,658	65,260	191,219	69,131	260,350	466,778	172,581	639,359
08/15/2010	231,627	82,122	313,749	48,359	16,901	65,260	194,192	66,158	260,350	474,178	165,181	639,359
02/15/2011	235,357	78,392	313,749	49,128	16,132	65,260	197,212	63,138	260,350	481,697	157,662	639,359
08/15/2011	239,146	74,603	313,749	49,909	15,351	65,260	200,279	60,071	260,350	489,334	150,025	639,359
02/15/2012	242,996	70,753	313,749	50,703	14,557	65,260	203,393	56,957	260,350	497,092	142,267	639,359
08/15/2012	246,908	66,841	313,749	51,509	13,751	65,260	206,556	53,794	260,350	504,973	134,386	639,359
02/15/2013	250,884	62,866	313,750	52,328	12,932	65,260	209,768	50,582	260,350	512,980	126,380	639,360
08/15/2013	254,923	58,826	313,749	53,160	12,100	65,260	213,030	47,320	260,350	521,113	118,246	639,359
02/15/2014	259,027	54,722	313,749	54,005	11,255	65,260	216,342	44,008	260,350	529,374	109,985	639,359
08/15/2014	263,197	50,552	313,749	54,864	10,396	65,260	219,706	40,644	260,350	537,767	101,592	639,359
02/15/2015	267,435	46,314	313,749	55,736	9,524	65,260	223,123	37,227	260,350	546,294	93,065	639,359
08/15/2015	271,741	42,009	313,750	56,623	8,637	65,260	226,592	33,758	260,350	554,956	84,404	639,360
02/15/2016	276,116	37,634	313,750	57,523	7,737	65,260	230,116	30,234	260,350	563,755	75,605	639,360
08/15/2016	280,561	33,188	313,749	58,438	6,822	65,260	233,694	26,656	260,350	572,693	66,666	639,359
02/15/2017	285,078	28,671	313,749	59,367	5,893	65,260	237,328	23,022	260,350	581,773	57,586	639,359
08/15/2017	289,668	24,081	313,749	60,311	4,949	65,260	241,019	19,331	260,350	590,998	48,361	639,359
02/15/2018	294,331	19,418	313,749	61,270	3,990	65,260	244,767	15,583	260,350	600,368	38,991	639,359
08/15/2018	299,070	14,679	313,749	62,244	3,016	65,260	248,573	11,777	260,350	609,887	29,472	639,359
02/15/2019	303,885	9,864	313,749	63,233	2,027	65,260	252,438	7,912	260,350	619,556	19,803	639,359
08/15/2019	308,778	4,971	313,749	64,239	1,021	65,260	256,361	3,987	260,348	629,378	9,979	639,357
	$ 7,027,007	$ 1,757,969	$ 8,784,976	$ 1,465,507	$ 361,773	$ 1,827,280	$ 5,873,735	$ 1,416,063	$ 7,289,798	$ 14,366,249	$ 3,535,805	$ 17,902,054

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATUR **Schedule 13**
Note Payable - Florida Muncipal Power Agency
For the Fiscal Year Ended September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

	Initial Pooled Loan Project Acquisition of Electric Generation Plant Loan - $12,200,000, Principal due 04/01			Initial Pooled Loan Project Acquisition of Sugar Mill Plant Loan - $3,000,000, Principal due 10/01			Initial Pooled Loan Project Acquisition of Land for Plant Expansion Loan - $9,050,000, Principal due 12/01			Total Debt Service Requirements to Maturity -- Combined --		
Payment Period	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements	Principal Amount	Interest	Total Requirements
09/30/2006	$ 465,000	$ 302,640	$ 767,640	$ -	$ -	$ -	$ 325,000	$ 200,629	$ 525,629	$ 790,000	$ 503,269	$ 1,293,269
09/30/2007	485,000	286,720	771,720	111,000	77,376	188,376	340,000	189,216	529,216	936,000	553,312	1,489,312
09/30/2008	510,000	270,000	780,000	117,000	73,632	190,632	360,000	177,296	537,296	987,000	520,928	1,507,928
09/30/2009	535,000	252,400	787,400	124,000	69,664	193,664	375,000	164,629	539,629	1,034,000	486,693	1,520,693
09/30/2010	565,000	233,920	798,920	131,000	65,472	196,472	400,000	151,296	551,296	1,096,000	450,688	1,546,688
09/30/2011	590,000	214,560	804,560	138,000	61,056	199,056	420,000	137,323	557,323	1,148,000	412,939	1,560,939
09/30/2012	620,000	194,160	814,160	146,000	56,384	202,384	440,000	122,576	562,576	1,206,000	373,120	1,579,120
09/30/2013	655,000	172,640	827,640	155,000	51,424	206,424	465,000	107,029	572,029	1,275,000	331,093	1,606,093
09/30/2014	690,000	149,920	839,920	164,000	46,176	210,176	490,000	90,683	580,683	1,344,000	286,779	1,630,779
09/30/2015	730,000	149,920	879,920	173,000	46,176	219,176	515,000	90,683	605,683	1,418,000	286,779	1,704,779
09/30/2016	770,000	125,920	895,920	183,000	40,640	223,640	545,000	73,403	618,403	1,498,000	239,963	1,737,963
09/30/2017	815,000	100,560	915,560	194,000	34,784	228,784	575,000	55,163	630,163	1,584,000	190,507	1,774,507
09/30/2018	860,000	73,760	933,760	205,000	28,576	233,576	600,000	36,096	636,096	1,665,000	138,432	1,803,432
09/30/2019	910,000	45,440	955,440	216,000	22,016	238,016	635,000	15,963	650,963	1,761,000	83,419	1,844,419
09/30/2020	965,000	15,440	980,440	229,000	15,104	244,104	393,000	2,096	395,096	1,587,000	32,640	1,619,640
09/30/2021	-	-	-	243,000	7,776	250,776	-	-	-	243,000	7,776	250,776
	$ 10,165,000	$ 2,588,000	$ 12,753,000	$ 2,529,000	$ 696,256	$ 3,225,256	$ 6,878,000	$ 1,614,081	$ 8,492,081	$ 19,572,000	$ 4,898,337	$ 24,470,337

This Page Intentionally Left Blank.

Statistical Section

Statistical tables differ from financial statements because they usually cover more than one fiscal year and may present non-accounting data. These tables reflect social and economic data and financial trends of the Utilities Commission, City of New Smyrna Beach, Florida.

SCHEDULE OF EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

		Operating Expenses				
Fiscal Year	Total Expenses	Production Expenses	Transmission, Distribution and Collection	Customer Accounting	Administrative and General	Required Payments to City of New Smyrna Beach
1996	$ 33,106,991	$ 16,004,020	$ 3,053,810	$ 819,986	$ 3,778,385	$ 2,076,104
1997	$ 32,319,028	$ 16,469,270	$ 2,624,394	$ 726,214	$ 3,312,462	$ 1,949,594
1998	$ 32,709,554	$ 16,652,829	$ 2,657,672	$ 660,678	$ 3,406,001	$ 2,018,552
1999	$ 31,791,948	$ 16,005,319	$ 2,731,438	$ 721,860	$ 3,169,521	$ 2,016,471
2000	$ 43,684,948	$ 22,970,923	$ 3,140,325	$ 818,320	$ 3,227,988	$ 2,214,486
2001	$ 41,181,296	$ 22,270,711	$ 3,348,147	$ 745,380	$ 3,519,275	$ 2,625,008
2002	$ 39,157,248	$ 19,691,447	$ 3,782,641	$ 821,128	$ 3,385,868	$ 2,509,729
2003	$ 43,861,954	$ 23,000,352	$ 3,751,847	$ 996,421	$ 4,302,892	$ 2,706,427
2004	$ 56,665,194	$ 26,828,170	$ 4,686,910	$ 6,764,647	$ 6,643,995	$ 3,262,587
2005	$ 60,580,278	$ 32,562,921	$ 4,788,033	$ 2,536,210	$ 8,713,250	$ 3,328,647

		Nonoperating Expenses			
Depreciation and	Total Operating Expense	Interest and Debt Expense	Other Nonoperating Expense	Loss on Disposal of assets	Total Nonoperating Expenses
$ 3,583,478	$ 29,315,783	$ 3,731,690	$ 20,647	$ 38,871	$ 3,791,208
$ 3,632,710	$ 28,714,644	$ 3,462,756	$ 39,840	$ 101,788	$ 3,604,384
$ 3,692,111	$ 29,087,843	$ 3,422,072	$ 40,092	$ 159,547	$ 3,621,711
$ 3,694,652	$ 28,339,261	$ 3,353,913	$ 11,328	$ 87,446	$ 3,452,687
$ 3,875,830	$ 36,247,872	$ 3,877,542	$ 61,620	$ 3,497,914	$ 7,437,076
$ 4,581,217	$ 37,089,738	$ 3,976,825	$ 15,466	$ 99,267	$ 4,091,558
$ 4,899,416	$ 35,090,229	$ 3,952,841	$ 56,064	$ 58,114	$ 4,067,019
$ 5,049,264	$ 39,807,203	$ 3,355,193	$ 690,017	$ 9,541	$ 4,054,751
$ 5,149,600	$ 53,335,909	$ 3,101,348	$ 227,937	$ -	$ 3,329,285
$ 5,451,571	$ 57,380,632	$ 3,097,313	$ 102,333	$ -	$ 3,199,646

SCHEDULE OF REVENUES BY SOURCE
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

		Operating Revenues				
Fiscal Year	Total Revenues	Electric System	Water System	Wastewater System	Communications System	Total Operating Revenue
1996	$ 36,439,421	$ 25,872,665	$ 4,145,975	$ 3,744,450	$ -	$ 33,763,090
1997	$ 35,820,675	$ 24,901,225	$ 4,187,748	$ 3,758,499	$ -	$ 32,847,472
1998	$ 36,105,091	$ 24,699,025	$ 4,365,734	$ 3,849,022	$ -	$ 32,913,781
1999	$ 36,717,793	$ 24,066,446	$ 4,552,710	$ 3,933,025	$ -	$ 32,552,181
2000	$ 43,664,295	$ 31,967,742	$ 4,576,099	$ 4,876,066	$ -	$ 41,419,907
2001	$ 45,246,272	$ 33,114,680	$ 4,736,997	$ 4,863,710	$ -	$ 42,715,387
2002	$ 42,467,328	$ 29,997,004	$ 4,983,226	$ 5,631,995	$ -	$ 40,612,225
2003	$ 51,516,203	$ 32,987,652	$ 5,123,020	$ 5,654,537	$ 2,581,857	$ 46,347,066
2004	$ 58,184,817	$ 33,168,346	$ 5,234,552	$ 6,025,280	$ 10,185,304	$ 54,613,482
2005	$ 65,275,663	$ 36,102,591	$ 5,727,839	$ 6,379,642	$ 10,757,331	$ 58,967,403

Nonoperating Revenues

Interest Earnings	Other Income	Gain on Sale of Assets	Capital Contributions	Total Nonoperating Revenue
$ 824,645	$ 252,121	$ -	$ 1,599,565	$ 2,676,331
$ 898,260	$ 199,327	$ -	$ 1,875,616	$ 2,973,203
$ 1,082,325	$ 353,946	$ -	$ 1,755,039	$ 3,191,310
$ 1,006,728	$ 286,029	$ -	$ 2,872,855	$ 4,165,612
$ 1,114,573	$ 356,616	$ -	$ 773,199	$ 2,244,388
$ 905,244	$ 440,007	$ -	$ 1,185,634	$ 2,530,885
$ 461,153	$ 433,355	$ -	$ 960,595	$ 1,855,103
$ 358,454	$ 336,526	$ -	$ 4,474,157	$ 5,169,137
$ 281,003	$ 1,125,069	$ 310,665	$ 1,854,598	$ 3,571,335
$ 690,497	$ 1,081,808	$ 1,107,426	$ 3,428,529	$ 6,308,260

DEMOGRAPHIC STATISTICS **Table III**
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

Fiscal Year	New Smyrna Beach's Estimated Population (1)		County Per Capita Income (2)	County Unemployment Rate (3)	School Enrollment (4)	School Percent Attendance (4)
1996	18,239		$19,600	4.5%	4,978	96.0%
1997	18,327		$20,387	3.9%	5,008	95.9%
1998	18,503		$21,293	3.3%	6,767	95.4%
1999	18,603		$21,988	2.9%	6,810	95.2%
2000	18,977	(5)	$23,329	4.0%	6,478	95.0%
2001	20,048	(5)	$24,059	3.3%	5,059	95.0%
2002	20,169	(5)	$24,747	4.3%	4,900	95.0%
2003	20,595	(5)	N/A	4.9%	4,829	95%
2004	21,334	(5)	N/A	4.4%	4,838	92%
2005	22,025	(5)	N/A	3.4%	4,833	N/A

(1) Obtained from University of Florida, Bureau of Economics and Business Research.

(2) Obtained from Florida Agency for Workforce Innovation, Florida Research and Economic Database.

(3) Obtained from State of Florida, Department of Labor and Employment Security.

(4) Obtained from Volusia County School Board - includes grades K-12.

(5) Obtained from City of New Smyrna Beach Development Services Division.

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS (4) **Table IV**
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

Fiscal Year	Number of Permits (1)	Dollar Value of Construction ($000's)	FDIC Insured Institutional Deposits (2) ($000's)	Property Assessed Value (3) ($000's)
1996	2,561	$ 23,785	$ 548,762 (5)	$ 1,231,515
1997	2,301	$ 28,975	$ 543,313 (5)	$ 1,275,232
1998	3,779	$ 39,327	$ 562,509 (5)	$ 1,336,740
1999	5,777	$ 41,166	$ 576,008 (5)	$ 1,380,855
2000	2,257	$ 41,296	$ 590,205 (5)	$ 1,541,902
2001	3,742	$ 72,439	$ 653,201 (5)	$ 1,685,072
2002	2,810	$ 59,610	$ 590,955 (5)	$ 1,852,528
2003	4,777	$ 87,616	$ 752,958 (5)	$ 2,090,052
2004	4,686	$ 162,515	$ 817,333 (5)	$ 2,209,188
2005	7,449	$ 74,154	$ 848,649 (5)	$ 2,845,408

(1) Obtained from City of New Smyrna Beach Building Department.

(2) Obtained from inquiry of officials of banks and savings and loan associations.

(3) Obtained from Volusia County Finance Department.

(4) The data is related exclusively to area within the municipal limits of the City of New Smyrna Beach.

(5) Deposit information obtained from Florida Bankers Association and FDIC June Market Share Report.

SCHEDULE OF INSURANCE IN FORCE **Table V**

September 30, 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

NEW SMYRNA BEACH, FLORIDA

Coverage and Insuring Company	Policy Number	Policy Period	Details of Coverage	Liability Limits
Comprehensive General Liabiity:				
PGIT	PK FL 106449520504	10/01/05	Combined bodily injury	$1,000,000 per occurrence
		10/01/06	and property damage	$2,000,000 annual aggregate
				$ -0- deductible
Business Auto:				
PGIT	PK FL 106449520504	10/01/05	Liability	$1,000,000 bodily injury and
		10/01/06		property combined
				$ -0- deductible
			Comprehensive	Actual cash value less
				$1,000 deductible
			Collision	Actual cash value less
				$1,000 deductible
			No fault	Statutory
			Hired and Non-owned	$35,000
Business Property:				
PGIT	PK FL 106449520504	10/01/05	Buildings and contents	$39,610,002 with $50,000
		10/01/06		deductible (agreed value)
			Valuable papers/records	$100,000 with $2,500 deductible
			Contractors equipment	$356,138 with $2,500 deductible
			Computer equipment	$155,000 with $2,500 deductible
Crime:				
PGIT	PK FL 106449520504	10/01/05	Theft, Destruction (inside)	$100,000 with $1,000 deductible
		10/01/06	Theft, Destruction (outside	$100,000 with $1,000 deductible
			Employee Dishonesty	$100,000 with $1,000 deductible
Boiler and Machinery:				
Travelers Property Casualty	I5J-BM21-993x9275-TIL-(	10/01/05	Breakdown due to	$30,000,000 with $10,000
		10/01/06	accident	deductible, $500,000 gas turbines
Flood Insurance:				
Omaha Property Casualty	30097212202003	09/02/04	Building	$500,000
		09/02/05	Contents	$500,000
			Deductible	$5,000
Nuclear Energy Damage:				
American Nuclear Insurance and	P00-081	04/01/04	Primary property	$500 million
Nuclear Electric Insurance, Ltd.		04/01/05		
	X00-015	04/01/04	Excess property	$1.100 billion
Insurance Ltd.		04/01/05	(Excess of $500 million)	
(These amounts represent the	NF195	04/01/04	Primary liability	$200 million
total insurance coverage for Progress Energy		04/01/05		
Florida, Inc.'s Crystal River Nuclear Plant No. 3	NS347	04/01/04	Suppliers and transporters	$200 million
of which the Commission owns a 0.05608%		04/01/05	liability	
undivided ownership interest)	N35	04/01/04	Secondary financial	$9.514 billion with $200 million
		04/01/05	protection	deductible
	NW579	04/01/04	Master Workers Torts	$200 million aggregate
		04/01/05		
Public Official/Employee Liabiity:				
PGIT	PK FL 106449520504	10/01/05	Liability	$1,000,000 Retentions-$5,000
		10/01/06		per loss
Workers' Compensation:				
PGIT	24,105	10/01/05	Statutory coverage	Statutory
		10/01/06	Employer's liability	$1,000,000
Pollution Liability:				
Mid-Continent Group	04TO00010729	07/10/04	Liability - fuel spillage	$1,000,000 / $2,000,000 aggregate
		07/10/05		$10,000 deductible

TEN LARGEST ELECTRIC CUSTOMERS **Table VI**

September 30, 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

		Kilowatt Hour Sales		Revenues Billed	
		(kWh) (000's)	Percent of Total	Amount	Percent of Total
1.	Bert Fish Medical Center……………………	7,570	2.04%	$ 623,188	1.80%
2.	Utilities Commission (wastewater plant)……..	4,557	1.23%	378,107	1.09%
3.	Publix Food Store (#2019100)…………………	3,510	0.95%	292,011	0.85%
4.	Reddy Ice………………………………………	3,182	0.86%	268,257	0.78%
5.	Winn Dixie (#2304)……………………………	2,958	0.80%	244,785	0.71%
6.	Caraustar Industrial & Co……………………	2,830	0.76%	205,993	0.60%
7.	Publix Food Store (#2033500)…………………	2,707	0.73%	224,588	0.65%
8.	Wal-Mart Stores………………………………	2,293	0.62%	187,730	0.54%
9.	New Smyrna Beach Middle School………….	2,196	0.59%	205,211	0.59%
10.	KMart #7447……………………………………	1,932	0.52%	162,379	0.47%
	Totals..	33,735	9.10%	$ 2,792,249	8.08%

TEN LARGEST WATER CUSTOMERS **Table VII**

September 30, 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

		Consumption		Revenues Billed	
		Gallons (000's)	Percent of Total	Amount	Percent of Total
1.	Reddy Ice	18,527	1.24%	$ 53,367	0.96%
2.	Rinker Materials	8,823	0.59%	22,469	0.40%
3.	Quail Hollow Association Limited	8,217	0.55%	9,472	0.17%
4.	Oceanview Nursing Home	7,520	0.50%	14,151	0.25%
5.	Bert Fish Medical Center (522230)	7,439	0.50%	14,307	0.26%
6.	Bert Fish Medical Center (522231)	7,038	0.47%	13,259	0.24%
7.	Board of Public Instruction	6,697	0.45%	17,711	0.32%
8.	Islander Beach Lodge	6,267	0.42%	10,704	0.19%
9.	Surfside Management	5,795	0.39%	9,731	0.17%
10.	Ocean Beach Club	5,678	0.38%	6,553	0.12%
	Totals	82,001	5.49%	$ 171,724	3.08%

SCHEDULE OF REVENUE CERTIFICATE COVERAGE **Table VIII**
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

	2005	2004	2003	2002	2001
Gross Revenue Per Certificate Resolution:					
Operating revenues	58,967,403	54,613,482	46,347,066	40,612,225	42,715,387
Interest and other income (excluding construction fund interest earnings)	1,772,305	1,406,072	694,980	894,508	1,345,251
Capital contributions	3,428,529	1,854,598	4,474,157	960,595	1,185,634
Assessment collections	-	-	-	-	-
	64,168,237	57,874,152	51,516,203	42,467,328	45,246,272
Expenses Per Certificate Resolution:					
Operating expenses	57,380,632	53,335,909	39,807,203	35,090,229	37,049,738
Less: Depreciation expense	(5,272,971)	(5,009,752)	(4,904,128)	(4,737,946)	(4,360,451)
Required payments to the City	(3,328,647)	(3,262,587)	(2,706,427)	(2,509,729)	(2,625,008)
	48,779,014	45,063,570	32,196,648	27,842,554	30,064,279
Income available for debt service	15,389,223	12,810,582	19,319,555	14,624,774	15,181,993
Annual Debt Service Requirements:					
Principal	3,300,000	3,230,000	4,070,000	2,705,000	2,560,000
Interest (less accrued interest) (1)	1,644,725	1,850,173	1,969,170	2,515,209	2,747,236
	4,944,725	5,080,173	6,039,170	5,220,209	5,307,236
Coverage ratio (Times)	3.11	2.52	3.20	2.80	2.86

	2000	1999	1998	1997	1996
Gross Revenue Per Certificate Resolution:					
Operating revenues	41,419,907	32,552,181	32,913,781	32,847,472	33,763,090
Interest and other income (excluding construction fund interest earnings)	1,471,189	1,292,757	1,436,271	1,097,587	1,076,766
Capital contributions	773,198	1,774,292	1,755,040	1,785,424	1,383,945
Assessment collections	-	3,408	40,878	559	1,331
	43,664,294	35,622,638	36,145,970	35,731,042	36,225,132
Expenses Per Certificate Resolution:					
Operating expenses	36,247,872	28,339,261	29,087,843	28,714,644	29,315,783
Less: Depreciation expense	(3,656,949)	(3,502,707)	(3,490,562)	(3,450,710)	(3,386,306)
Required payments to the City	(2,214,486)	(2,016,471)	(2,018,552)	(1,949,594)	(2,076,104)
	30,376,437	22,820,083	23,578,729	23,314,340	23,853,373
Income available for debt service	13,287,857	12,802,555	12,567,241	12,416,702	12,371,759
Annual Debt Service Requirements:					
Principal	2,460,000	2,350,000	2,255,000	1,945,000	1,855,000
Interest (less accrued interest) (1)	2,857,214	2,948,209	3,054,404	3,138,448	3,687,574
	5,317,214	5,298,209	5,309,404	5,083,448	5,542,574
Coverage ratio (Times)	2.50	2.42	2.37	2.44	2.23

(1) Interest expense for the fiscal year ended September 30, 2002 is stated net of $152,218 in interest expense which was funded from the proceeds of the issuance of revenue certificates.

HISTORICAL PEAK DEMAND AND ELECTRIC SYSTEM NET ENERGY REQUIREMENTS, WATER DEMAND, AND SEWAGE FLOWS **Table IX**
LAST TEN FISCAL YEARS
September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

	ELECTRIC SYSTEM				WATER SYSTEM				WASTEWATER SYSTEM			
Fiscal Year	Net Energy Requirements (kWh)	Annual Increase (Decrease) %	Annual Peak Demand (kW)	Annual Increase (Decrease) %	Maximum Daily Flow (MGD)	Average Daily Treated Flow (MGD)	Minimum Daily Treated Flow (MGD)	Total Annual Raw Production (MGY)	Maximum Daily Flow (MGD)	Average Daily Flow (MGD)	Minimum Daily Flow (MGD)	Total Annual Production (MGY)
1996	331,282,000	3.9	89,200	1.0	6.18	4.30	2.85	1,572	4.43	2.77	2.07	1,016
1997	325,239,000	-1.8	82,500	-7.5	5.85	4.28	2.73	1,562	4.50	2.46	1.88	898
1998	352,623,000	8.4	80,200	-2.8	6.62	4.54	2.88	1,659	4.23	2.49	1.94	909
1999	335,599,000	0.8	85,700	6.9	6.13	4.57	2.56	1,667	7.55	2.97	1.25	1,096
2000	360,760,000	0.8	87,300	1.9	7.06	4.82	2.77	1,763	5.72	3.30	2.25	1,203
2001	361,159,000	0.1	91,100	4.4	5.96	4.54	2.11	1,658	9.29	3.81	1.97	1,304
2002	367,175,437	1.7	87,900	-3.5	6.62	4.73	2.16	1,726	9.77	3.92	2.40	1,429
2003	386,385,433	5.2	100,200	14.0	7.20	4.78	3.40	1,763	6.45	3.83	2.30	1,357
2004	385,510,397	-0.2	89,000	-11.2	7.12	4.53	2.17	1,696	9.65	3.93	2.44	1,369
2005	396,805,566	2.9	91,000	2.2	6.07	4.42	3.08	1,614	4.80	3.73	2.06	1,274

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate issued on December 22, 2004

UTILITY RATE SCHEDULE - ELECTRIC SERVICE **Table X**

September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Electric System Rate Schedule:

Residential Service - Monthly Rate		
Customer Charge:	Single Phase Service	$5.65
	Three Phase Service	$7.85
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.07173 per kWh
General Service - Non-Demand - Monthly Rate		
Customer Charge:	Single Phase Service	$6.05
	Three Phase Service	$8.85
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.07333 per kWh
General Service - Demand - Monthly Rate		
Customer Charge:		$33.50
Demand Charge:	All kW of billing demand	$5.50 per kW
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.05546 per kWh
General Service - Demand Time of Use - Monthly Rate		
Customer Charge:		$33.50
Demand Charge:	per kW of excess demand	$22.00 per kW
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.05546 per kWh
Customer Charge:		$235.00
Demand Charge:	All kW of billing demand	$5.50 per kW
Energy Charge:	All kWh per month at: (plus fuel and purchased power cost adjustment)	$0.05546 per kWh
Green Pricing Rate		
Green Pricing Level 1		$2.00
Green Pricing Level 2		$5.00

Fuel and Purchased Power Cost Adjustment Clause:

The Fuel and Purchased Power Cost Adjustment Clause (FPPCAC) is an integral component of the monthly charges, and is designed to allow for accurate billing of fluctuating applicable fuel and purchased power costs. In order to minimize changes in customer billings, the FPPCAC is developed on a twelve month projected basis, with provision to "true-up" any over or under recovery of any applicable fuel and purchased power cost in each subsequent twelve month period. A provision is provided in the clause for the FPPCAC to be modified if significant circumstances arise during the twelve month billing cycle. The adjustment for the twelve month period ending September 30, 2005 was $17.18 per 1,000 kWh.

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate which was issued on December 22, 2004 in conjunction with the sale of $3,370,000 Utilities Refunding Revenue Certificates, Series 2004A.

UTILITY RATE SCHEDULE - **Table XI**
WATER SERVICE
September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

	Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
Residential Service:	5/8"	$ 8.85	$ 0.90	$ 1.90	$ 11.65 + Gallonage Charge
Single Family	1"	22.15	2.25	1.90	26.30 + Gallonage Charge
	1 1/2"	44.25	4.50	1.90	50.65 + Gallonage Charge
	2"	70.80	7.20	1.90	79.90 + Gallonage Charge
	3"	141.60	14.40	1.90	157.90 + Gallonage Charge
	4"	221.25	22.50	1.90	245.65 + Gallonage Charge
	6"	442.50	45.00	1.90	489.40 + Gallonage Charge
	8"	708.00	72.00	1.90	781.90 + Gallonage Charge

Gallonage Charge/1,000 Gallons

Block 1	Block 2	Block 3	Block 4
$1.10	$1.20	$2.40	$2.90

Monthly Rate Blocks (Gallons)

	Block 1	Block 2	Block 3	Block 4
All meter sizes	0 - 2000	2,001 - 6,000	6,001 - 14,000	14,001 and over

	Billing Account	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Gallonage Charge per KG All usage	Total Monthly Billing
Multi-Family	Each Unit	$ 8.85	$ 0.90	$ 0.00	$ 0.00	$ 9.75
	Master Meter	0.00	0.00	1.90	1.15	$ 1.90 + Gallonage Charge @ $1.15 per KG - all usage

	Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
Irrigation Service:	5/8"	$ 8.85	$ 0.90	$ 1.90	$ 11.65 + Gallonage Charge

Gallonage Charge/1,000 Gallons

Block 1	Block 2	Block 3	Block 4
$1.10	$1.20	$2.40	$2.90

Monthly Rate Blocks (Gallons)

Meter Size	Block 1	Block 2	Block 3	Block 4
5/8"	0 - 2,000	2,001 - 6,000	6,001 - 14,000	14,000 and above

Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
1"	$ 22.15	$ 2.25	$ 1.90	$ 26.30 + Gallonage Charge
1 1/2"	44.25	4.50	1.90	$ 50.65 + Gallonage Charge
2"	70.80	7.20	1.90	$ 79.90 + Gallonage Charge
3"	141.60	14.40	1.90	$ 157.90 + Gallonage Charge
4"	221.25	22.50	1.90	$ 245.65 + Gallonage Charge
6"	442.50	45.00	1.90	$ 489.40 + Gallonage Charge
8"	708.00	72.00	1.90	$ 781.90 + Gallonage Charge

Gallonage Charge/1,000 Gallons

Meter Size	Block 1	Block 2	Block 3
1" - 8"	$1.20	$2.40	$2.90

Monthly Rate Blocks (Gallons)

Meter Size	Block 1	Block 2	Block 3
1"	0 - 15,000	15,001 - 40,000	40,001 and above
1 1/2"	0 - 30,000	30,001 - 75,000	75,001 and above
2"	0 - 50,000	50,001 - 100,000	100,001 and above
3"	0 - 100,000	100,001 - 200,000	200,001 and above
4"	0 - 200,000	200,001 - 400,000	400,001 and above
6"	0 - 300,000	300,001 - 600,000	600,001 and above
8"	0 - 600,000	600,001 - 1,000,000	1,000,001 and above

Nonresidential service:	Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
	5/8"	$ 8.85	$ 0.90	$ 1.90	$ 11.65 + Gallonage Charge
	1"	22.15	2.25	1.90	26.30 + Gallonage Charge
	1 1/2"	44.25	4.50	1.90	50.65 + Gallonage Charge
	2"	70.80	7.20	1.90	79.90 + Gallonage Charge
	3"	141.60	14.40	1.90	157.90 + Gallonage Charge
	4"	221.25	22.50	1.90	245.65 + Gallonage Charge
	6"	442.50	45.00	1.90	489.40 + Gallonage Charge
	8"	708.00	72.00	1.90	781.90 + Gallonage Charge

Gallonage Charge/1,000 Gallons

Meter Size	Block 1	Block 2	Block 3
5/8" - 8"	$1.15	$1.35	$1.85

Monthly Rate Blocks (Gallons)

Meter Size	Block 1	Block 2	Block 3
5/8"	0 - 7,000	7,001 - 14,000	14,001 and above
1"	0 - 15,000	15,001 - 40,000	40,001 and above
1 1/2"	0 - 30,000	30,001 - 75,000	75,001 and above
2"	0 - 50,000	50,001 - 100,000	100,001 and above
3"	0 - 100,000	100,001 - 200,000	200,001 and above
4"	0 - 200,000	200,001 - 400,000	400,001 and above
6"	0 - 300,000	300,001 - 600,000	600,001 and above
8"	0 - 600,000	600,001 - 1,000,000	1,000,001 and above

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate which was issued on December 22, 2004 in conjunction with the sale of $3,370,000 Utilities Refunding Revenue Certificates, Series 2004A.

UTILITY RATE SCHEDULE - **Table XII**
WASTEWATER AND WATER REUSE SERVICE
September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Wastewater Rate Schedule:

Residential, (Single-Family)

Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Total Monthly Billing
5/8"	$ 14.07	$ 1.05	$ 1.50	$ 16.62 + Gallonage Charge
1"	35.20	2.65	1.50	39.35 + Gallonage Charge
1 1/2"	70.35	5.25	1.50	77.10 + Gallonage Charge
2"	112.56	8.40	1.50	122.46 + Gallonage Charge
3"	225.12	16.80	1.50	243.42 + Gallonage Charge
4"	351.75	26.25	1.50	379.50 + Gallonage Charge
6"	703.50	52.50	1.50	757.50 + Gallonage Charge
8"	1,125.60	84.00	1.50	1,211.10 + Gallonage Charge

	Gallonage Charge/1,000 Gallons	
	Block 1	Block 2
All meter sizes	$2.55	$3.10

	Monthly Rate Blocks (Gallons)	
	Block 1	Block 2
All meter sizes	0 - 2,000	2,001 and above

Non-Residential:

Meter Size (Inches)	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Gallonage Charge Per KG	Total Monthly Billing
5/8"	$ 14.07	$ 1.05	$ 1.50	$ 2.60	$ 16.62 + Gallonage Charge
1"	35.20	2.65	1.50	2.60	39.35 + Gallonage Charge
1 1/2"	70.35	5.25	1.50	2.60	77.10 + Gallonage Charge
2"	112.56	8.40	1.50	2.60	122.46 + Gallonage Charge
3"	225.12	16.80	1.50	2.60	243.42 + Gallonage Charge
4"	351.75	26.25	1.50	2.60	379.50 + Gallonage Charge
6"	703.50	52.50	1.50	2.60	757.50 + Gallonage Charge
8"	1,125.60	84.00	1.50	2.60	1,211.10 + Gallonage Charge

Multi-Family:	Base Facility Charge	Reuse Subsidy Charge	Billing Charge Monthly	Gallonage Charge per KG All Usage	Total Monthly Bill
Each Unit	$ 14.07	$ 1.05	$ 0.00	$ 0.00	$ 15.12
Master Meter	0.00	0.00	1.50	2.60	1.50 + Gallonage Charge

Reclaimed Water Rate Schedule:

	Meter Size (Inches)		Minimum Monthly Charge		Included Gallonage (Per KG) in Minimum Monthly Charge		Gallonage Charge Per KG Over Monthly Maximum
Primary Tier Rate:	3/4"	$	10.00	$	15	$	2.00
	1"		25.00		45		2.00
	1 1/2"		50.00		100		2.00

Meter Size (Inches)		Minimum Monthly Charge		Flow Charge Per KG
2"	$	75.00	$	0.15
3"		75.00		0.15
4"		75.00		0.15
6"		75.00		0.15

Secondary Tier Rate: $16.29/acre/month for metered users whose anticipated capacity exceeds 100,000 gallons per day and which must provide a minimum of three (3) days of wet weather storage for the minimum flow rate of 1,900 gallons/acre/day on an annual average.

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate which was issued on December 22, 2004 in conjunction with the sale of $3,370,000 Utilities Refunding Revenue Certificates, Series 2004A.

UTILITY RATE SCHEDULE - COMMUNCIATIONS SERVICE **Table XIII**

September 30, 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
NEW SMYRNA BEACH, FLORIDA

Local Exchange Telephone Service:

Residential Service Plans - Monthly Rate		
Home Plan		$24.95 to $34.95
City Plan		$32.95 to $34.95
America Plan		$49.95 to $58.95
World Plan		$58.95 to $69.95
Business Service Plans - Monthly Rate		
Silver Package		$27.95 to $34.95
Gold Package		$29.95 to $36.95
Platinum Package		$39.95 to $46.95
Measured Rate Charges:		
Residential Intrastate Long Distance		$.069 per minute
Business Intrastate Long Distance		$.069 per minute
Residential State-to-State Long Distance		$.059 per minute
Business State-to-State Long Distance		$.045 per minute
Extended Area Usage Charge (Gold Package only)		$.06 per minute
Internet Service:		
Economy Internet Dial-up	Monthly Rate	$6.95
Standard Unlimited Internet Dial-up	Monthly Rate	$9.95
Deluxe Unlimited Internet Dial-up	Monthly Rate	$12.95
Platinum High Speed Internet Dial-up	Monthly Rate	$14.95
DSL Internet Service:	Monthly Rate	
ADSL 128/384	Monthly Rate	$49.95
ADSL 384/768	Monthly Rate	$69.95
IDSL 128/128/	Monthly Rate	$149.00
SDSL 192/192	Monthly Rate	$149.00
SDSL 384/384	Monthly Rate	$184.00
SDSL 768/768	Monthly Rate	$279.00
SDSL 1.1/1.1	Monthly Rate	$359.00
Reach T-1 192/192	Monthly Rate	$409.00
Reach T-1 384/384	Monthly Rate	$539.00
Reach T-1 768/768	Monthly Rate	$669.00
Reach T-1 1.1/1.1	Monthly Rate	$789.00
Broadband Wireless Internet:		
128 kbps/128 kbps	Monthly Rate	$22.95
384 kbps/128 kbps	Monthly Rate	$29.95
512 kbps/128 kbps	Monthly Rate	$39.95
768 kbps/128 kbps	Monthly Rate	$49.95
1.1 Mbps/128 kbps	Monthly Rate	$69.95
Condominium Group Rate (per unit)		
384 kbps/128kbps	Monthly Rate	$19.95

(1) The above information is provided pursuant to the requirements of Section 2(B) of the Commission's Continuing Disclosure Certificate which was issued on December 22, 2004 in conjunction with the sale of $3,370,000 Utilities Refunding Revenue Certificates, Series 2004A.

SUPPLEMENTAL AUDIT REPORTS

This Page Intentionally Left Blank.

BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida

We have audited the financial statements of Utilities Commission, City of New Smyrna Beach, Florida, a component unit of City of New Smyrna Beach, Florida, as of and for the year ended September 30, 2005, and have issued our report thereon dated June 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Utilities Commission, City of New Smyrna Beach, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Utilities Commission, City of New Smyrna Beach, Florida's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Management Letter under headings *Prior Year Findings and Recommendations* and *Current Year Findings and Recommendations*. We consider all of the items under both headings to be reportable conditions.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all of the items to be material weaknesses.

205 MAGNOLIA ST. • NEW SMYRNA BEACH, FL 32168-7125 • (386) 427-1333 • DAYTONA (386) 248-0240 • FAX (386) 427-5823 • www.bmcpa.com
MEMBER: American Institute of Certified Public Accountants and AICPA Private Companies Practice Section

<u>Compliance</u>

As part of obtaining reasonable assurance about whether Utilities Commission, City of New Smyrna Beach, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Management Letter under *Prior Year Findings and Recommendations*, items 1 and 2.

We also noted other matters that we have reported to management of the Utilities Commission, City of New Smyrna Beach, Florida, in two separate letters dated June 5, 2006.

This report is intended solely for the information and use of the Utilities Commission, management, City of New Smyrna Beach, the Auditor General of the State of Florida, and applicable federal/state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brent Millikan & Co., P.A.

June 5, 2006

BM&C
BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida

We have audited the financial statements of Utilities Commission, City of New Smyrna Beach, Florida, (the "Commission") as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated June 5, 2006.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting. Disclosures in this report, which is dated June 5, 2006, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General. Those rules (Section 10.554(1)(h)1) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. Of the significant findings that were disclosed in the preceding annual report only those identified below under the heading *Prior Year Findings and Recommendations* have not been corrected.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit report that have not been corrected are identified below under the heading *Prior Year Findings and Recommendations,* in the accompanying Exhibit A.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that Utilities Commission, City of New Smyrna Beach, Florida, complied with Section 218.415, Florida Statutes.

The Rules of Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal control: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g.,

205 MAGNOLIA ST. • NEW SMYRNA BEACH, FL 32168-7125 • (386) 427-1333 • DAYTONA (386) 248-0240 • FAX (386) 427-5823 • www.bmcpa.com
MEMBER: American Institute of Certified Public Accountants and AICPA Private Companies Practice Section

the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed certain matters required to be disclosed under *Current Year Findings and Recommendations*; in the accompanying Exhibits A and B.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The Utilities Commission, City of New Smyrna Beach, Florida, was created in 1967 through the passage of Chapter 67-1754, Laws of Florida, Special Acts of 1967 (House Bill 1669), which amended the Charter of the City of New Smyrna Beach, Florida, to create the Utilities Commission as a component unit of the City of New Smyrna Beach, Florida.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that Utilities Commission, City of New Smyrna Beach, Florida, is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we are required to determine that the annual financial report for Utilities Commission, City of New Smyrna Beach, Florida, required to be filed with the Florida Department of Financial Services pursuant to Section 218.32 (1)(a), Florida Statutes is in agreement with the annual financial audit report for the fiscal year ended September 30, 2005. This report has not yet been completed by the Commission's oversight unit (City of New Smyrna Beach, Florida, Unit ID#251) at the time of submitting this report. Upon completion of the annual financial report, we will compare the reported data with that data contained in their audited financial statements to confirm that both are in agreement. Should it be determined by us that the data reported in the annual financial report is not in agreement with the Commission's audited financial statements, we will promptly report our findings to you in an amended or supplemental management letter.

As required by the Rules of the Auditor General (Sections 10.554(h)(6)c. and 10.556(7)), we applied financial condition assessment procedures at September 30, 2005. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

We also noted other matters that we have reported to management of the Utilities Commission, City of New Smyrna Beach, Florida, in a separate letter dated June 5, 2006, which follows this communication.

This management letter is intended solely for the information of Utilities Commission, City of New Smyrna Beach, Florida and its management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Brent Millikan & Co., PA

June 5, 2006
(except for Exhibit B attached, as to which date is August 1, 2006)

PRIOR YEAR MATTERS

Section 10.554(1)(h)1., Rules of the Auditor General, require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. The following is a summary of the status of the Prior Year Findings and Recommendations:

1. Management Conduct

Refer to our separate report titled *Report on Audit Matters, dated June 5, 2006,* which accompanies this letter for detailed information on these findings.

2. Marketing Expenses

Refer to our separate report titled *Report on Audit Matters, dated June 5, 2006,* which accompanies this letter for detailed information on these findings.

3. *CommWorx* System Limitations and Errors

In the prior year, we noted that the central operations support service software (Exceleron's *CommWorx* web based application program) used to process customer related financial transactions involving the Communications Division, failed to provide the sufficient ability to manage this data, and to provide the capability for management to reconcile detailed accounts for telephone service customers to the separate general ledger system. Furthermore, this software lacked the ability of producing standardized basic accounting reports, such as detailed accounts receivable reports, related accounts receivable aging reports, customer account billing reports, and customer payment and cash receipts reports, all of which are essential for reconciliation of customer account balances with service activities and for application of customer payments to banking activity.

As a result of these system limitations, we recommended that the IT Director implement procedures sufficient to resolve these problems so that the system could produce accurate and reliable reporting of sales, customer payments, accounts receivable and customer deposits that are tracked throughout the system. During our continued testing of the system in our current year audit, we found that various reporting differences continued, which is addressed in our *Current Year Findings and Recommendations* section below.

Recommendation: We understand that the Commission has approved exiting the telephone sales business and that any further enhancements to the *CommWorx* system and reporting related to this activity will no longer be an issue. During the process of winding up the business affairs related to this activity, we recommend that staff continue to use reports produced by the *CommWorx* system for consistency purposes and that reconciliations be prepared for items reported in the Commission's general ledger accounting and financial information systems. After sales activities cease, staff can concentrate their efforts in pursuing collection of outstanding uncollected customer accounts receivable. The final aging report produced by *CommWorx* should be supported by a detailed listing of all customer accounts receivable. Any differences between the aggregate amount recorded in the general ledger and the management reports produced by *CommWorx* can then be reconciled and adjusted as necessary.

4. Monitoring for Fraud

In the prior year, we made management aware of it's increased responsibility in overseeing activities carried out by employees and for implementing and monitoring antifraud processes and controls as required under new promulgated standards issued by the Comptroller General of the United States and the Institute of Certified Public Accountants, as outlined in Statements on Auditing Standards, No. 99 (SAS no. 99), *Consideration of Fraud in a Financial Statement Audit.*

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. Part of this work involves determining management's identification and measurement of the risks of fraud and whether preventive internal controls are implemented to mitigate those risks.

A review of the Commission's policies and procedures indicates that some antifraud processes and controls are already in place to prevent, deter, and detect fraud. However, two very important aspects of the antifraud system had not been established as of the most recent year-end. They are: assessment of fraud risks, and an oversight process to monitor these risks.

Recommendation: We recommend that management establish a formal antifraud policy that will specifically address fraud risk factors, identify antifraud processes and controls, monitor such processes and controls, and to provide a means for reporting any wrongdoing. Appropriate oversight process is crucial. Accordingly, we recommend that the Commission appoint the General Manager/CEO with the responsibility to establish an active oversight process to evaluate management's identification of fraud risks, implementation of antifraud measures and maintenance of the appropriate supervision of the activities of senior management, in addition to the activities involving all of the Commission's personnel.

5. Computer System General and Application Controls

In the prior year, we communicated several areas involving the Information Technology (IT) Department that required corrective action to strengthen the organization of the department, address security and access controls, and the development of application and other operational controls for purposes of enhancing the integrity of the internal controls over financial reporting that are dependent on the Commission's computer systems and IT technology. During our current year audit, we found that, for the most part, the Commission's former IT Director failed to implement our recommendations.

During the current year audit, we expanded the scope of our audit to include a more thorough review of the IT department. We are herein communicating these findings in the next section under the heading *Current Year Findings and Recommendations.*

Recommendation: It is our understanding that management has considered steps to control the security and integrity of the financial data processed by its systems. We continue to recommend that IT personnel develop a process for periodic review and reporting of all matters pertaining to the department to the General Manager/CEO and to the Commission.

6. Communications System Operations

The Commission continued to experience material operating losses in the fiscal year ended September 30, 2005 in its Communications Division, d/b/a New Smyrna Communications (formerly Sparks Communications), that amounted to approximately $3.8 million. In addition to those findings that we communicated to the Commission a year ago, we found the following factors contributing to the continued loss experienced this past year: (1) increased costs to provide telephone services, (2) continued increase in the amount of uncollectible customer accounts receivable, (3) failure to implement and collect additional revenue sources related to providing telephone services (i.e., CABs), (4) loss of commission revenue from EPICUS, and (5) lack of experienced staff to manage the complex nature of telephone service business operations. In a separate comment under the *Current Year Findings and Recommendations* section, we address how prior management contributed to the failure of this enterprise. In the paragraphs below, we expand on these matters.

The Commission, doing business as New Smyrna Communications, is a non-facilities based Competitive Local Exchange Carrier (CLEC) that contracted with BellSouth and Sprint (Incumbent Local Exchange Carriers, hereinafter referred to as "ILECs"), along with other companies to provide its telephone services. In essence, the Commission is a reseller of these companies' services, paying network access charges according to interconnection and commercial agreements with these vendors.

The contracts that were in force under U.S. Code, Title 47, Chapter 5, Subchapter II, Section 251, *Interconnection*, at the time the Commission began providing telephone services under its CLEC license, were replaced with commercial agreements that became effective March 17, 2005 pursuant to FCC *Order on Remand* adopted December 15, 2004 that placed new rules applicable to ILECs unbundling obligations. As a result of this change, the ILECs provided new commercial agreements that were signed by the Commission and became effective in March 2005.

Correspondence from each ILEC specifically stated that pricing under the old agreements would be changed and would be no longer available after the effective date of the change in March 2005. It appears at the time of signing the agreements that no one at the Commission had reviewed the pricing arrangements, which had increased significantly. As a result, the Commission incurred higher ILEC charges to provide its services for the remainder of the fiscal year ended September 30, 2005. While this change increased costs to the Commission, there were no corresponding pricing changes made to the plans offered to customers. Consequently, the Commission was providing its telephone services at a much smaller operating margin. Our final analytical review indicates that while the Communications Division increased telephone sales by approximately $2.4 million, the direct cost of providing these services had increased by approximately $3.8 million, thus incurring a net decrease in the gross margin of providing these services by approximately $1.4 million for this period.

In addition, the Commission lost revenues from agent sales commissions attributed to EPICUS customers that, in the previous year, yielded revenue of approximately $1.7 million, of which $418,201.83 was deemed uncollectible in the prior fiscal year. This loss of revenue was factored into the judgment awarded to the Commission by the United States Bankruptcy Court as filed against EPICUS that amounted to approximately $2.8 million. However, the Commission ultimately received a final payment of only $69,000 in fiscal year 2006, which is less than 2.5% of the original judgment awarded to the Commission.

Also contributing to the loss was a disregard of the managerial and fiscal responsibilities in monitoring the credit-worthiness and types of customers being solicited by an external telemarketing company and lack of due diligence on collections for amounts billed from the enormous increase in credit sales. In fiscal year 2005, the Commission provided for expected losses on uncollectible customer accounts receivables related to telephone sales of $1,030,142.

The Commission also incurred a loss on uncollectible Carrier Access Billing revenue receivables amounting to $345,336 and lost revenue for failure to bill Carrier Access Billings related to telephone traffic conducted by customers in five other states outside of Florida. These findings are separately addressed under appropriate headings in the *Current Year Findings and Recommendations* section below.

During our current year audit and expanded investigation related to the Communications Division of the Commission, we identified several other matters involving material weaknesses in internal controls and other serious accounting concerns resulting from the apparent mismanagement of the entire Division and lack of experienced staff. These factors contributed heavily to the Communications Division losses incurred by the Commission in the past two fiscal years. We have reserved commenting on these matters under separate headings in the *Current Year Findings and Recommendations* section of the management letter below.

> Recommendation: It is our understanding that management has turned over all financial and accounting matters related to the Communications Division to the Finance Department, which is charged with resolving these problems. While the Commission has directed management to exit the telephone service business, there will still be a significant amount of financial activity related to various aspects of the operations that will need to be accounted for; especially, a proper cutoff and matching of sales with a corresponding cutoff of costs for providing these services. In addition, due diligence and timely actions must be exercised to pursue collections of past due amounts owed to the Commission. We understand that management is dedicated to completing this monumental task and will continue to report to the Commission any further findings that may have contributed to the losses experienced over the last two years.

CURRENT YEAR MATTERS

Section 10.554(1)(h)4., Rules of the Auditor General, requires disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal control: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. The following is a summary of our Current Year Findings and Recommendations (sorted by departmental responsibility):

1. Report on Audit Matters dated June 5, 2006

On June 5, 2006, a formal Report on Audit Matters was presented to the Utilities Commission, City of New Smyrna Beach, Florida, concerning allegations of the possible misappropriation of assets. Refer to this report, which accompanies this letter, for detailed information of our findings.

2. Accounting/Finance-Uniform Accounting Policies and Procedures Manual

We noted that the Commission has never fully developed a formal, written, accounting policies and procedures manual. We observed that Finance Department personnel have direct and easy access to the Director of Finance and selected financial management software manuals and documentation when questions arise. We also noted that new accounting personnel were developing their own handwritten notebooks outlining specific procedures relating to their jobs as a result of the resignation of an employee at year-end at a time when it is crucial to prepare for the audit of the financial statements. We also noted that other non-finance personnel involved in processing invoices and other accounting records do not have ready access to the Finance Department due to external locations of other departments in the Commission.

Recommendation: We recommend that management establish a standard accounting and operating procedures manual outlining all fiscal policies to be followed. The preparation and maintenance of written standard procedures is very useful and serves to:

- Establish consistent company practices.
- Establish and designate accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to company policies.
- Aid in exchange of management ideas.
- Provide the company with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.
- A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management.

- Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

This manual should include (1) a summary of the company's detailed general ledger chart of accounts, (2) a detailed explanation of functional and object account content, (3) an appropriately detailed description of all accounting procedures and routines, (4) a linear organization chart for all accounting functions, and (5) complete definitions of individual job authority and associated responsibilities. Management should periodically review each division's compliance with standard procedures.

We recognize that the preparation of the manual will be a very time consuming task so that implementation may take several years. However, we believe that action should be taken by the Company to establish priorities and a timetable for the completion of the manual.

3. Accounting/Finance-Crystal River Nuclear Plant No. 3 Decommissioning Costs

We obtained a copy of the most recent CR3 Decommissioning Cost Study Report that was prepared by a third party engineering firm on behalf of Progress Energy Florida, Inc. (PEF), filed with Florida Public Service Commission on 4/29/2005 and approved on 9/28/2005. We also obtained a copy of the *Biennial Decommission Funding Status Report* that was filed by PEF with the Nuclear Regulatory Commission (NRC) in March 2005, which showed that as of 12/31/2004 all participants, and in particular, the Commission has more than sufficient funds on hand to meet the minimum amount of decommissioning costs, as computed using the NRC's formula.

From these documents, we prepared a computation of the estimated funding level (annual accrual) for the Commission that would be necessary to meet the Commission's share of the future costs of decommissioning the plant, which was extended from 2016 to 2036. The computation factored in the current yield on funds invested by the Commission as of 9/30/2005 (4.0%), the balance of restricted cash invested at 9/30/2005 ($2,885,737), and the Commission's share of future costs ($14,512,157). The computed estimated annual accrual (amount to be funded) is approximately $82,000. Based on the previous cost study the Commission had been funding $115,493 each year.

Recommendation: Based on our comparison of the current funding level and the present value of the Commission's share of future costs to dismantle the plant, we recommend that management give consideration to reducing the funding level from $115,493 to $82,000, which would result in an estimated annual savings of approximately $33,500. As a result the total estimated savings to the Commission over the next thirty years would be more than $ 1 million.

4. Accounting/Finance-Capital Assets Module-Depreciation Record

The Finance Department has developed and utilized a separate database, maintained in Microsoft Access, to account for capital assets accounted for as utility plant in service. The reports produced from this system are compiled as a Continuous Property Record, which also serves as a depreciation schedule for the capital assets of each utility system. While reviewing the reconciliations of the system reports produced from the databases to the general ledger system, we noted that depreciation expense was erroneously computed on capital assets that were already fully depreciated as the end of the prior fiscal year. We also noted that the computed arithmetic totals at the end of the schedules did not cross-foot (beginning accumulated depreciation, plus current year depreciation, does not always equal ending accumulated depreciation). Although several queries can be run in each database to ensure assets are not over-depreciated, we still found that the system continued to erroneously compute depreciation on fully depreciated assets. However, we also noted that the system limits the amount of accumulated depreciation on such assets, so that the net basis of the assets does not go below zero. As a result, the integrity of the amounts reported in the database reports was questionable. Significant unanticipated additional time was required to review this matter, which resulted in an audit adjusting entry to correct.

> Recommendation: It is our understanding that management has directed the IT Department to work with the Finance Department to implement the fixed asset module that integrates with the Microsoft Great Plains Dynamics general ledger and financial management system, which should correct these problems.

5. Accounting/Finance-Capital Assets-Venetian Bay Costs Reimbursed by Developer

While examining the Commission's property, plant and equipment (PPE) records, we obtained a summary schedule prepared by your personnel that lists Miscellaneous Invoices billed by the Commission to Venetian Bay of New Smyrna Beach, LLC (the developer) for various work done by the Commission in connection with the first phase of Venetian Bay. The stated capital costs incurred were accumulated on project work orders that were closed out during the fiscal year ended September 30, 2005.

We modified the client prepared schedule by including a billing to the Venetian Bay Homeowner's Association and by including columns to provide a reasonable means to compare these costs and to document the accounting associated with the reporting of the capital contributions received from the developer. We also made note of various pertinent dates related to the Venetian Bay projects; such as: (1) the date the earliest developer agreement was signed, (2) the date that the developer acquired property from the Commission, and (3) the date that the Venetian Bay Water Project Work Order was established. We reviewed the various documents and dates to determine if there was any mention of an understanding, either in writing or documented in the minutes of the Commission's meetings, where a valid arrangement had been approved by the Commission to incur these costs prior to receiving reimbursement by the developer. Based on our review of the prior year Commission Meeting minutes, and work orders closed out during the current year, we were unable to find satisfactory evidence of this arrangement, or where this arrangement was fully explained by the former General Manager/CEO to the Commission. We also were unable to find any evidence of this arrangement having been documented in writing.

We also made a comparison of readily identifiable costs representing a portion of the total costs accumulated in the Venetian Bay Electric Project Work Order with the Water Project Work Order for the purpose of matching costs incurred by the Commission to amounts reimbursed by the developer. From this comparison, we found the following exceptions which potentially indicate that the Commission has failed to bill all costs incurred directly related to the Venetian Bay Subdivision to the developer:

Venetian Bay Electric WO 60-1-32633:	
Excess cost of 150 poles and 180 street lights not billed to developer or to homeowners' association	$ 108,796
Venetian Bay Water WO 60-2-33321:	
Survey of land for Venetian Bay development not billed to developer (paid by UCNSB on 12/31/2002)	$ 6,250
Permit paid to Florida Department of Environmental Protection for Venetian Bay development not billed to developer (paid by UCNSB on 3/7/2003)	$ 500
Permit paid to Volusia County Public Health Unit for Venetian Bay development not billed to developer (paid by UCNSB on 3/7/2003)	$ 500

We noted that the costs incurred for the electric poles purchased from Ameron, and the lights acquired from Tri-State, are documented in the Venetian Bay-Electric Work Order, along with copies of vendor invoices for the above items. To date, we found that only 10 poles with the light fixtures have been billed…and they were billed to the homeowners' association rather than to the developer.

The surveyors fee paid to Allen Campbell & Associates, Inc. was for a specific purpose survey which included the preparation of a legal description of the land being surveyed that includes references to the description of property eventually sold to Jerry Johnson/Venetian Bay of New Smyrna Beach, LLC. This was never billed to the developer.

The amounts collected from the developer for reimbursements of some of the costs incurred for these projects appear to have been timely billed, even though the work orders were closed sometime later. While there is nothing in writing outlining the understanding between the Commission and the developer pertaining to the reimbursement arrangement, it appears that management had met with the developer to address these matters as early as August 2003. The first invoice rendered by the Commission was dated 9/2/2003 in the amount of $426,712.68, which involved the billing for the purchase and installation of 12" PVC mains and pipes for water, wastewater, and reclaimed water systems that were installed in the first phase of the Venetian Bay subdivision. The billing for the installation of these in-ground assets appears to be reasonable and complete. However, with regard to the above mentioned items that have not been billed there may be other items that could be recovered through additional billings.

Recommendation: It is concerning that the Commission would enter into such a massive developmental project without a clear, concise, and formal written understanding and Agreement of the role and, more importantly, the costs anticipated to be borne by the Commission in a project of this monumental size. Based on our findings, we would recommend that an additional analysis of the costs accounted for in the Venetian Bay project work orders be prepared by the Commission's Engineering Department to ensure that all costs incurred by the Commission, that are normally costs borne by the developer, related to the installation of electric, water, wastewater, reclaimed water, and fiber optic cable costs, are in fact billed and reimbursed by the developer. The nature of this work is beyond the scope of our audit; however, we believe that further investigation is merited, especially since the amounts that we have been able to readily identify are material.

6. Accounting/Finance-Capital Assets - Head End Building/Venetian Bay Work Orders

During the audit, we noted that several large work orders had been open in the prior year, which were directly related to the Communications System for several ongoing projects. At the end of the prior fiscal year (9/30/2004), there were no capital assets contained on active work orders which were completed and placed in service, and subject to depreciation, related to the Communications System. During the fiscal year ended 9/30/2005, we noted that several project work orders related to the Communications System were erroneously misclassified as either Common Utility Plant or Electric System construction work-in-progress, all of which were subsequently (and erroneously) closed to Electric System Utility Plant in Service accounts.

Accordingly, we specifically reviewed five project work order files involving the Venetian Bay Electric and Venetian Bay Water project work orders, in addition to the Fiber Optics, Fiber To The Home (FTTH), and Broadband projects. Upon further investigation, we found that all five of these work orders involved substantial costs related to the Head End Building and the first phase of the Venetian Bay subdivision development. The total costs of these projects amounted to over $4 million. While reviewing the detailed transactions accumulated in the work order file folders, we discovered numerous items, all of which include exceptions for the types of costs incurred that should be capitalized, as follows:

a. Two (2) HP Pavilion Notebooks, Serial # SDND4200K6N and Serial # CNF41917SV purchased by the former General Manager/CEO on 5/30/2004 from Circuit City with a total cost for both amounting to $2,236.48 were charged to W.O. No. 60-1-32634, Fiber Optic, and capitalized along with the other costs that were initially recorded as Electric System UPIS-Miscellaneous Equipment to G/L Account No. 000-010-101-0010. The concern – the portable computers are a type of asset more susceptible to misappropriation. By charging the cost of these notebooks to an extensive project work order along with other costs that eventually are capitalized as one large asset in the Commission’s Fixed Asset Property Record and Depreciation Schedule, instead of capitalizing these assets separately, these un-inventoried assets can be easily lost in the system. We further inquired of IT staff about the whereabouts of these notebooks. We were informed that they are kept track of by the IT Department; however, they are not tagged with a UC property tag. In fact, upon further inquiry of Finance Department personnel, we found that the practice of tagging assets had eventually stopped due to a lack of available personnel dedicated to keep up with this project. While computer equipment is being tracked by the IT Department with service tag numbers and other demarcation provided by each computer manufacturer, this practice falls short of the proper tagging of UC property as was originally adopted years ago.

b. A 6 foot by 10 foot white cargo trailer equipped with side door and ramp with 6 foot interior height costing $2,643 and acquired on 3/10/2004 was charged to W.O. No. 60-2-33321, Venetian Bay Water, and capitalized as Water System UPIS-Transmission and Distribution Mains, which is obviously an erroneous classification for the reporting of this asset. This is a trailer required to be registered and tagged. Again, the concerns with this cost are that it relates to an asset that should not be lumped together with other project costs and accounted for as one large single asset. The Commission could easily lose this asset to misappropriation. Without accounting for it separately, it is difficult to demonstrate compliance with the Commission’s own custodial accounting of capital assets.

c. Fees paid to Exceleron Software, Inc. pursuant to an agreement for access charges, configuration and training pertaining to the *CommWorx* system used for telephone customer ordering, sales, etc. amounting to $10,000 were charged to W.O. No. 60-1-72609, Broadband, and erroneously capitalized as Electric System UPIS-Towers, Poles and Fixtures (Distribution). These fees are non-capital subscriber fees for operational use of the *CommWorx* software system and are not costs that should be capitalized. Furthermore, these expenses should be classified as operational costs of the Communications Division, and not capital costs of the Electric Division.

d. Legal fees paid for a legal opinion rendered by an attorney related to federal regulatory and local franchise compliance requirements related to cable TV services amounting to $7,450 were charged to W.O. No. 60-1-42640, Fiber To The Home, and capitalized with all other costs of this project to Electric System UPIS-Towers, Poles, and Fixtures (Distribution). This is an expense for legal services and does not include cost elements that should be capitalized. Furthermore, these expenses should be classified as operational costs of the Communications Division, and not capital costs of the Electric Division.

e. A fiber splice trailer (vehicle with a VIN) costing $17,595 used for pulling fiber cable was charged to W.O. No. 60-1-32634, Fiber Optics, and capitalized as Electric System UPIS-Misc Equipment, which is an erroneous classification in the reporting of this asset. Again, the concerns with this cost are that it relates to an asset that should not be lumped together with other costs and accounted for as one large single asset. The Commission could easily lose this asset to misappropriation by not accounting for it separately. Furthermore, this asset should be capitalized as an asset of the Communications Division, and not as a capital cost of the Electric Division.

f. Amounts paid for airfare and airport parking ($825) for a one-day trip taken by the former General Manager/CEO and a member of the Commission's Engineering staff from Orlando, FL to Atlanta, GA to Greensboro, NC on 12/4/2003 and charged to a Bank of America Purchase Card was charged to W.O. No. 60-1-42640, Fiber To The Home, and capitalized as Electric System UPIS-Towers, Poles, & Fixtures, which is an erroneous accounting of this administrative travel expense. We also noted that there was no travel expense voucher existing for this trip. These costs are non-capital expenses and are not costs that should be capitalized. Furthermore, these expenses should be classified as operational costs of the Communications Division, and not capital costs of the Electric Division.

g. A total of $10,800 paid to BellSouth Telecommunications for a Basic CLEC Class and for UNE-P two (2) day class for UC personnel for basic training of staff in early and late June 2003 related to the telephone portion of Communications System, were charged to W.O. #60-1-72609, Broadband, and were capitalized as Electric System UPIS-Towers, Poles, & Fixtures, which is incorrect accounting treatment for this administrative training expense. These costs are non-capital expenses and are not costs that should be capitalized. Furthermore, these expenses should be classified as operational costs of the Communications Division, and not capital costs of the Electric Division.

h. We found evidence of incidental miscellaneous expenses being charged to various work orders; for example, drinks, and lunches for employees, being capitalized as a component of utility plant costs on numerous project work orders. We also noted numerous instances where the Commission's project work orders reflect a number of clearly immaterial items that have been capitalized in the past. These items require the same amount of recordkeeping by the Commission regardless of the size of the transaction. While the amounts we were able to identify were immaterial, nonetheless, such expenses should not be capitalized and accumulated with other costs that are eventually included in the total cost of the asset placed in service.

i. During our testing of the current year's utility plant additions, it was noted that the some Project Transaction Ledger Detail reports did not tie to the Work Order Closing Statements.

Recommendation: We recommend consistent accounting treatment, in conformity with generally accepted accounting principles, be applied to all project work orders, so that items that are not true utility plant additions or do not meet the capitalization threshold of $750, be expensed. This will ensure accurate financial reporting and prevent overstating the costs of utility plant additions. We also recommend that utility plant purchases be properly coded to the correct utility plant class to ensure proper reporting of assets that impact the determination of depreciation expense allocation to appropriate systems.

We also recommend that management should consider revisiting the Commission's capitalization policy and, if necessary, draft changes to limit the costs accumulated on work orders to only those charges that add value to the asset or extend its useful life, with all other items to be expensed. The Commission's capitalization policy should be communicated to those personnel who code property invoices to ensure the policy is consistently followed.

Further, we recommend a more careful review of all capitalization matters and accounting procedures with all personnel to better inform them of the types of appropriate costs that are capitalized and those that are expensed in accordance with generally accepted accounting principles (GAAP). According to GAAP, property, plant and equipment (PP&E) related costs incurred during the preacquisition, acquisition-or-construction, and in-service stages should be charged to expense unless the costs are directly identifiable with the specific PP&E. Directly identifiable costs include only (a) incremental direct costs incurred with independent third parties for the specific PP&E, (b) employee payroll and payroll benefit-related costs related to time spent on specified activities performed by the entity during those stages, (c) depreciation of machinery and equipment used directly in the construction or installation of PP&E and incremental costs directly associated with the utilization of that machinery and equipment during the acquisition-or-construction stage, and (d) inventory (including spare parts) used directly in the construction or installation of PP&E. All general and administrative and overhead costs incurred, including all costs of support functions, should be charged to expense.

We also recommend that staff should reconcile any differences between the Project Transaction Ledger Detail reports and the Work Order Closing Statements to ensure proper capitalization of all costs.
Finally, we recommend that the Commission review the practice of tagging Commission owned property and equipment and to prepare logs of the location and custodian of all tangible assets. Additionally, we recommend a periodic inventory of all tangible personal

property to compare to the Property, Plant and Equipment Record to ensure custodial safekeeping and accounting of all tangible capital assets.

7. Accounting/Finance-Internal Auditor

With the explosive development and growth in the City, the Commission is also experiencing growth, and the challenges it faces to finance this growth. This will result in an increase in the Commission's financial reporting requirements and compliance with laws and regulations impacting the accountability of its resources. Currently, the Commission does not have an internal audit function. With the amount of issues that the Commission has had of late, the investment in a full time internal auditor may well be worth the investment. An internal auditor can help the Commission save money in a number of ways, such as, identifying accounting issues, simplifying the time and effort to conduct formal audits, and by assisting in the collecting and filing of any compliance documents. Rather than waiting until formal audits are conducted at predefined intervals, an internal auditor can conduct continuous informal audits of everything from accounting, security controls, monitoring for fraud, testing internal procedures and practices to ensure compliance with established policies, and to enhance the internal control function over compliance with the various laws and regulations applicable to the Commission's business.

Recommendation: We recommend that management give consideration to adding an internal auditor position and employ an individual that possess the requisite educational background, skills, and experience to perform this function.

8. Accounting/Finance-Employee Reimbursements – Cable (Road Runner) Internet Fees

We noted that the Commission currently reimburses a limited number of employees for their personal home internet access fees paid to Brighthouse Networks, a primary competitor of the Commission. Access fee reimbursements made between April 2004 and September 2005 totaled $9,170 for employees' home use of RoadRunner cable internet access.

Recommendation: We are not fully aware of the Commission's true need to reimburse employees for these fees. We recommend that this issue be examined to determine if this service is essential, and if it could be provided directly by the Commission.

9. Communications-Carrier Access Billing (CAB) Discrepancies

During the audit, we noted several inconsistencies and related instances of discrepancies as it relates to the formal systems for managing the Commission's Carrier Access Billing (CABs) revenues. CABs is a source of revenue for the Commission's Communications System which is derived from global network access charges billed to long-distance companies who use the Commission's CLEC network to complete long distance calls. The CABs billing process is a complex model for access compensation and requires the Commission to contract with a third-party service organization to process the elements of billing, using rates established by the Commission to complete the billing of these revenues. The findings listed below pertain specifically to the Commission's CABs revenue billing, recording and collection procedures:

a. The Commission failed to file access service tariffs in the states of Georgia, North Carolina, South Carolina, Tennessee, and Mississippi since inception of the first CABs billing on December 16, 2003 (fiscal year ended 2004) through the end of January 2006. Correspondingly, the Commission failed to setup these states for billing CABs with the third-party service organization, Intec Telecomm Systems PLC, who gathers the voluminous communications traffic data, computes the billings, prepares the invoices, mails the invoices on behalf of the Commission, and provides the Commission with an accounting of the billings and aging of amounts receivable each month.

From the initial inception of establishing CABs, the Commission's Communications System's management at the time failed to properly communicate with representatives of Exceleron and Intec to confirm, or obtain any assurance, that these third party service organizations were fully informed of the business being conducted in states other than Florida. It appears that management (1) placed too much reliance on Exceleron and Intec to assume this obligation, (2) did not review the work of these contractors, (3) did not fully comprehend the concept of the CABs, (4) failed to direct the telecommunications attorney to file the appropriate tariffs in the other states, (5) failed to complete the Implementation Guide supplied by Intec to ensure that long distance traffic in the other states would be billed, and (6) allowed the problems to persist until current management recognized the problem and took steps to correct them.

The Commission has since contracted with external consultants to formulate the appropriate tariffs for access charges for these other states for filing with the various Public Service Commissions and to coordinate with Intec to ensure that transmission of access usage files are provided so that CABs billing can commence in the other states as soon as possible. While this process was not implemented until February 2006, the Commission may have lost the opportunity to have available access usage files from inception through January 2006 to allow for back billing CABs. This has resulted in the Commission failing to bill and collect revenue associated with the Communications Department that may have helped to reduce the amount of operating losses reported in the past two fiscal years.

b. The CABs access tariffs used in rating access charges from inception of billing CABs through the September 16, 2005 billings resulted in higher than usual rates, causing billing disputes with some of the larger long distance carriers. As a consequence, the Commission has been unsuccessful in collecting all amounts billed for CABs. The *Intrastate Competitive Local Services Access Price List* issued on August 14, 2003 by the Commission's telecommunications legal counsel was filed with the Florida Public Service Commission to establish the tariff for the intrastate component of CABs. The Interstate Access Services Tariff issued on November 4, 2003 was not required to be filed with the FCC, since the Commission was not required to file. These tariffs were provided to Intec to accommodate preparation of the CABs billings. Based on our inquiries of representatives from Intec, and subsequent verification with contracted consultants, it is our understanding that the Commission's rate structure included too many elements, resulting in a composite rate that was much higher than the standard rates that the long distance carriers were accustomed to.

It is our understanding that for CLECs that entered into the market to provide telephone services after June 20, 2001, the FCC's "benchmark rate" does not apply. In lieu of setting tariffs and filing them with the FCC, CLECs that entered into the market after

June 20, 2001 were encouraged by the FCC to contract directly with their long distance carriers to establish a reasonable interstate rate that both parties could successfully agree upon. According to the contracted consultants, this process has led to a lot of disputes made by the larger long distance carriers. Whereas ILECs must file tariffs with the FCC for the Interstate network access charges, CLECs may, but are not required to, file tariffs with the FCC for the Interstate network access charges.

CLECs that were in the market as of June 20, 2001 are subject to FCC regulation on the Interstate rate component of the CABs billings. CLECs in the market as of June 20, 2001 cannot tariff more than the competing ILEC rates in effect for their respective territories. Initially the FCC established a “benchmark rate” and, thereafter on June 20th of each year, the CLECs are limited to an Interstate rate that is not more than the competing ILEC rates. This regulation put in place by the FCC was a concession to the ILECs to put CLECs on the same level playing field.

Subsequent to a formal inquiry made by the Finance Department as to why collections of CABs were a mere 10% of the amount billed, the Communications Department Head began inquiries with both AT&T and MCI in March 2005. These inquiries, and any ultimate resolution of the inherent disputes, were never resolved. From a series of email communications, we noted that Intec had already informed the Communications Department Head that these problems were most likely attributable to the actual rates improperly established by the Commission. However, no significant further attempts were made to follow-up on these findings or to satisfactorily and timely resolve the disputes.

Management met with the contracted consultants on these matters and requested that they establish a straightforward tariff rate structure for both interstate and intrastate access charges that were filed with both the FCC and with FPSC to establish “legally enforceable rates” that became effective with the CABs billing on October 16, 2005. This was done so that the larger long distance carriers could no longer dispute CABs billings from that point forward. While a considerable amount of effort has been made to correct this problem, there has been no significant effort to secure collection of amounts billed since the changes have been made and there have been no communications with AT&T to address their complete disregard for past billings.

c. It appears that the Commission failed to exercise due diligence in the billing and collection of CABs. As of September 30, 2005, the total amount due the Commission for outstanding CABs billings totaled $579,633.97. Furthermore, an allowance for uncollectible accounts has been established with a balance at September 30, 2005 amounting to $466,298.71. Approximately 80% of the amounts billed and outstanding have never been collected. Of the amounts due the Commission, two of the larger long distance carriers, AT&T and MCI, owed the Commission $211,152.65 and $278,227.99, respectively, as of year-end.

There has been very little or no significant collection effort put forth by management in collecting the amounts due from AT&T. MCI officially filed a dispute notification with the Commission and stopped payment of CABs revenues to the Commission in May 2005. The total amount that MCI disputed was $378,284.58 in over-billed interstate charges for amounts billed from inception through April 2005. It is our understanding that MCI is not disputing the intrastate charge component. With loss of personnel attributed to downsizing the Communications Division, the Finance Department is charged with working with an outside contracted consultant and with MCI to resolve these disputes.

We confirmed our understanding of the legal issues regarding CABs disputes with one of the Commission's contracted consultants. From their preliminary review of these CABs issues, it is their opinion that the access billings prepared by Intec on behalf of the Commission conform to industry guidelines, as established by the Alliance for Telecommunications Industry Solutions, Order and Billing Forum (OBF), which is mandated by the FCC to write and maintain the rules for Carrier Access Billings. Accordingly, as long as the billings were rendered in good faith and are in compliance with these rules, any amounts collected by the Commission do not legally have to be refunded. Whatever amounts billed and collected should be allowed. Therefore, MCI should not be disputing invoices that they have already paid to the Commission. In a recent follow-up telephone conversation with this consultant, it is our understanding that the Commission may have sufficient grounds for a legal dispute with MCI on these matters. Accordingly, we recommend that management consider consulting with this consultant to prepare a memorandum of the dispute which can then be submitted to the Commission's telecommunications legal counsel for consideration in recovering amounts that have since been billed using the revised tariffs established on legally enforceable rates that went into effect with the October 2005 billing.

The contracted consultants also informed us that, for those companies that have not paid from the very first billing, such as AT&T, the Commission could encounter legal resistance in requesting the courts to enforce payment by these long distance carriers, since the rates billed were higher than the current "average traffic sensitive revenue per minute" rate. In order to collect anything from AT&T, we recommend that management assign the responsibility of working with the consultants and with Intec to develop a strategy to re-bill AT&T and other companies at the appropriate rates and follow-up on collections until amounts are received from these delinquent payers.

d. In reviewing the CABs data, we discovered that there was an improper and unauthorized rate change made to the interstate and intrastate rates for billing CABs. Upon learning from Intec that the most logical reason for the Commission's unsuccessful collection of CABs was attributed to high rates, they informed us that the former Communications Department Director had formally communicated a rate reduction to Intec effective with the April 16, 2005 billing. Subsequently, the rates were mysteriously changed back to the original rates, with some exceptions to retain the revised lower rates. In our discussion with one of the Commission's consultants, we found that such changes are in violation of the "filed rate doctrine" also referred to as the "filed tariff doctrine." The "filed rate doctrine" is a legal principle which holds that filed tariffs are the ultimate authority in telecommunications regulation. Essentially, this legal concept states that the switched access rates that the Commission had filed with the Florida Public Service Commission for intrastate services and the rates established for interstate services, that were not required to be filed with the FCC, are the only lawful charges allowed. This doctrine precludes courts from deciding whether a tariff is reasonable, preserving the evaluation of tariffs to the FCC and to the Public Service Commissions.

While tariffs can be updated with rate changes, no such revisions were filed with either the FPSC or FCC when the action taken by the former Director was made. Accordingly, there was no legal authority to reduce the CABs interstate and intrastate rates without first filing updated tariffs. Upon discovery of this fact, and with knowledge that the rates charged since inception were higher than normal, the contracted consultant was directed by current management to file the appropriate tariffs to establish a “legally enforceable rate” that would hopefully end the dilemma of collecting overdue CABs billings.

e. Due to the extremely complex nature of the CABs billings, the Commission contracted with a service organization to compile the access usage files to prepare the calculations and invoices for billing CABs to the long distance carriers. Because of the Commission’s heavy reliance on two principal service organizations, namely Exceleron Software, Inc. and Intec Telecomm Systems PLC, we continued to strongly recommend to management that it was necessary to obtain a SAS 70 internal control reports on each of these companies. In the absence of securing such reports, we recommended that management direct knowledgeable staff to conduct its own substantial review of each service organizations’ internal controls. A SAS 70 report would provide the Commission with information regarding the service organization's controls and the effectiveness of those controls affecting the accuracy of transactions processed by these systems on behalf of the Commission.

Management was unsuccessful in obtaining SAS 70 reports from its service organizations. Furthermore, management and staff did not conduct alternative procedures to satisfy the Commission that the third-party service organizations have been properly capturing all relevant data to ensure that revenue is being billed properly. These findings prompted us to inquire about the appropriate procedures in place to specifically test the transmission of data files through Exceleron’s *CommGate*, that are received from the ILECs, that eventually are picked-up by Intec, who also uses Exceleron’s *CommGate*, to obtain the access usage files to prepare the CABs billings. We were informed by the Commission’s former IT Director that the Commission lacks the personnel and time to devote to such testing and due to the complex nature of the billing process involved, such a task would be beyond their capabilities to do so. Nothing further was done by management with respect to this critical issue.

We consulted with the Commission’s contracted experts on these matters and they confirmed that very little attention is devoted to verifying CABs with the exception of checking billings for correct rates. During our audit, we tested a sample of CABs billings using the tariffs in place during the year for the rates used in the billings and we found no exceptions. However, due to complex nature of the process we found that further testing on our part was beyond the expanded scope of our audit.

Based on the assessment of the process involved with managing the CABs billings and collections, we concluded that substantially more managerial emphasis should have been afforded to this subject. However, with the Commission getting out of the telephone service business, we believe it would be a daunting task to delve into the detailed testing of the transmission of customer files between the ILECs, Exceleron, and Intec. We also would anticipate that the potential costs could substantially outweigh the benefits to be derived from this additional work.

Recommendation: We recommend that management continue to work with the contracted consultants to ensure that steps have been taken to actively "turn on" the data switches to effect the transmission of switched access files in the other states, and to ensure that the appropriate tariffs have been filed with the PSCs in those states so that current CABs billings can be invoiced and increase the revenue stream from this source. We also recommend that management develop a strategy with the consultants to address the possibility of back billing the CABs in the other states.

We also recommend that management assign the responsibility to knowledgeable staff for collections of past amounts due from all delinquent payers of CABs, starting with the largest non-payer, AT&T. We also recommend that the Commission consult with its attorneys on the legal dispute with MCI to determine what legal recourse the Commission has in collecting amounts that have been billed and not collected.

A resolution to these matters would help to offset some of the operating losses sustained by the Communications System for the past two years.

10. Communications-ILEC Charges-Breakdown in Accounting Procedures

During the conduct of our supplemental auditing procedures, we were specifically asked by current management to examine the status of the Commission's then current and outstanding billings for telecommunications services from both Sprint and BellSouth in response to allegations from the previous Communications Division Director that duplicate payments had been made to both companies, and that such amounts had never been appropriately recovered. In conducting this review, we examined the accounts payable processing system and discovered the existence of duplicate (repeated) billings of past due amounts payable to the Incumbent Local Exchange Carriers (ILECs) for access charges under the agreements by and between Sprint and BellSouth and the Commission. We subsequently examined 100% of the ILEC charges billed by Sprint and BellSouth to account for amounts payable and paid from inception (approximately August 15, 2003) through November 1, 2005 to these two ILEC vendors and reconciled the billings with vendor payments subsequently made by the Commission. While we were able to conclude that immaterial duplicate payments had been made throughout this process, we were able to subsequently determine that no payments had been made by the Commission for duplicate service billings by these companies that were not appropriately recovered.

We are listing below the breakdown in accounting procedures and problems encountered in processing the payments of ILEC charges, as follows:

a. We found numerous instances of late and/or incomplete payments of ILEC charges due to human error on the part of the assigned UC employee charged with the responsibility for the preparation of the vouchers and gathering of invoices to be approved for payment. We also noted a lack of adequate supervisory oversight in the Communications Division as it related to obtaining managerial approval of the charges before the compiled voucher package was forwarded to the Finance Department for payment.

b. We found several immaterial duplicate payments due to the above problem and due to failure to adequately reconcile prior month billing statements processed and paid to current billing statements. The person(s) preparing the vouchers and the supervisor approving them for payment in the Communications Department should obtain copies of prior monthly invoices that are maintained in files kept in the Finance Department in order to properly reconcile the appropriate amount to be paid.

c. We found several instances of incorrect application of credits and/or reconciliation of duplicate payments that exacerbate the incomplete payment of balances owed to each vendor.

d. We found human error in failing to print invoices from CD-ROMs provided by both ILECs and in failing to account for all invoices for all Billing Account Numbers (BANs) for each vendor. Based on how the billings are provided, a Commission employee in the Communications Department is required to print hard copies of the invoices or remittance advice from the CD-ROMs provided by both vendors. Personnel in the Billings and Collection Division of the Communications Department were in charge of printing these invoices, preparing vouchers for payment approval and submitting them to the Communications Director for approval. Once approved the vouchers were sent to the Finance Department for payment.

e. We found that there was an incomplete record or log of CD-ROMs received from vendors in prior years and through the majority of the fiscal year ended September 30, 2005. Since year-end, a log is being maintained to keep track of the CDs as they come in from the vendors. Based on our review, it is apparent that there are still missing CD-ROMs according to staff, which indicates there may still be a problem.

f. Finally, the actions of the former Communications Director essentially had the effect of circumventing the accrual accounting system used by the Commission for outstanding invoices, resulting in ILEC charges being paid on a cash basis. Also, it is apparent that the previous practice of the former Communications Director to only approve payment of current charges, while ignoring some valid billings of past due amounts, significantly contributed to the inaccurate reporting of accounts payable and communications expenses related to the ILEC charges.

Each of the above described factors contributed to several instances during the fiscal year ended September 30, 2005 where Sprint threatened to cutoff service after requesting large sums to be paid on short notice; much to the surprise of management and to the Commission.

Recommendation: We understand that management has addressed some of these problems with staff and will be adopting changes in the accounts payable process, especially as it pertains to communications related bills and, in particular, the ILEC charges, to better account for all bills relating to the Communications Department and in reconciling liquidation of payments to the general ledger system.

11. Communications-ILEC Bill Auditing Procedures

In August 2003, the Commission entered into a professional services contract with Murphy Software Consulting, Inc. that was essentially a service provided in the form of a tailored Microsoft Access program designed to enable the Commission to perform audit reconciliations and revenue assurance functions related to Sprint and BellSouth bills. The cost of this service is approximately $4,000 per month. The first version of this tailored software application was not properly installed on the Commission's computer systems, or was setup so that it made it very difficult for staff at the Commission to use. Consequently, the Commission revised the terms of its needs and requested that the company perform the bill auditing function until such time that the Commission could correct its installation and setup of the software for use internally.

With reliance on this third party to perform this important function, and as a result of staff failing to obtain a SAS 70 report, we reviewed these bill auditing procedures to determine if the system was used solely for identifying billing disputes, and to determine whether or not it was used to help analyze the profit margins on local telephone services. With the assistance of our outside specialist and contracted consultant to the Commission, we obtained a copy of the Commission's telephone service billing database and performed a very high level straight-forward examination comparing the lines on the BellSouth and Sprint ILEC bills to the database.

We also sampled customer billings for a period after the fiscal year ended September 30, 2005 to see if billing discrepancies continued beyond year-end. Our testing produced various results, including discovery of customer phone lines that BellSouth and Sprint continue to bill the Commission monthly recurring charges for, even though the dropped customer accounts had been deactivated in *CommWorx* for months and, in some cases, for more than one year. Our review included a sample of December 2005 billings, where we continued to identify similar billing discrepancies.

Recommendation: We believe that more research into these matters is warranted to determine if such lines should or should not be active in the Exceleron system. We therefore recommend that management designate an employee to work with its outside consultant to research suspicious inconsistencies between BellSouth and Sprint recurring charges and Exceleron and, if identified, submit any billing disputes for such charges with the appropriate ILEC. This project would require an update of the tables and *CommWorx* database files that were provided to us and to the outside consultant earlier. The end result of this additional work should result in proper management notification detailing the financial impact of changes, including but not limited to, the cost and the number of customers impacted. Upon management approval, staff should proceed with customer notification and follow-up with appropriate billing updates, including resolution of billing disputes with the ILECs to be reflected as credits on future bills or refunded to the Commission.

12. Communications-Exceleron *CommWorx* System Flaws

The Commission utilizes a web-based application provided by Exceleron Software, Inc., that supports, designs, and maintains the *CommWorx* web-based software package used to manage telephone customer sales and to account for balances owed on these sales, among other customer service functions. While this arrangement was made in late 2003, the UC telecommunications customer platform was not significantly functional until the end of 2003 (in fiscal 2004). Last year, we expanded the scope of our audit to conduct a more thorough review of this system and its reporting capabilities. In the process of this review, we noted numerous significant fundamental flaws in the program.

Based on detailed inquiries of the former IT Director and other employees, we found that the Commission prematurely entered into the subject agreement with Exceleron at a time when the *CommWorx* system was still in a "beta test" mode. In other words, the actual accounting and database management system selected by the formal General Manager/CEO and Commission to maintain its newly developing customer platform was not fully developed and functional on the date it was selected. Furthermore, the Commission was the only CLEC using this system. We also noted that this system had never been used in a production mode by any other competitors. Management's ultimate decision to select this vendor who (1) has an incomplete, unproven and non-working product, (2) has no proven track record, and (3) has no other similar customers in the same industry, is certainly questionable.

A significant number of the original issues and system limitations have still not been resolved since the Commission first began using this program. It should be noted, however, that from the inception of this agreement, including the whole time the Commission has been using this program, the Commission has continued to pay monthly maintenance fees, as well as technical fees, for the reported problems to be resolved, without success. At some point these problems appear to be a global issue. We do not believe that the Commission should have been charged, or held responsible for, the vendor's time for their own support staff to correct these dysfunctional elements. Additionally, it is our opinion that in lieu of the maintenance fees that were being paid, Exceleron should have been monitoring the program for these and similar dysfunctional problems on a more proactive stance.

It should be noted that we found numerous email communications from the former IT Director to Exceleron wherein many of these and other important accounting issues and system flaws were identified. This individual possessed knowledge of a material number of identified limitations and shortcomings of this application, most of which were never appropriately corrected. Some of these issues that were never appropriately addressed and resolved included the following:

a. The Director had knowledge that the "unmatched payment" report contains errors that do not automatically clear after resolution and therefore display a huge numerical error in the reports.

b. The Director had knowledge that only Exceleron personnel were allowed to setup and update rate tables in the *CommWorx* system maintained on a separate database server residing in Texas. A rate change made by Exceleron resulted in negative amounts being billed for 800 queries. No evidence exists which documents that the testing of rate changes was performed on a separate database first, to ensure continuing accuracy of the updates.

c. The Director had knowledge of material revenue reporting discrepancies and invoice discrepancies.

d. The Director had knowledge of the limitations and discrepancies that occurred as a result of customer deposit posting errors.

e. The Director had knowledge that the *CommWorx* system continuously produced errors in posting Western Union processed payments.

f. The Director had knowledge that the Master Reports do not display correct data

Throughout the conduct of our audit, we noted serious programmatic errors in the *CommWorx* system. We have been able to conclude that the system is not reliable in the production of key customer account billing and maintenance information. We also noted that the Commission has not undertaken the appropriate steps that are essential to verify the data flowing in and out of this system on an ongoing basis. These continuing errors in the *CommWorx* application are potentially disastrous.

We inspected a report where header information on the page does not correspond, and in actuality contradicts, the data displayed in the footer section of the page. The program's link to Billco, Inc., the billing mechanism, was also found to be dysfunctional. Additionally, the Commission has not been able to adequately produce reliable management reports which must be developed to support your customer accounting functions. Both the Finance Department and the Communications Division routinely complained that the *CommWorx* product was incapable of providing enough detail to adequately track customer revenues, expenses, aged accounts receivables, related customer uncollectible amounts, and customer refunds. Additionally, we have found that Exceleron has been unable to, or unwilling to, accommodate direct confirmation requests made by us to address these issues. Upon inquiry, we learned that the customer deposit maintenance module took almost one year for Exceleron to develop. After the revised version of the module was deployed, the Commission found it was dysfunctional and still did not work. We also found that a Sprint gateway was requested but never provided. This required an employee to manually upload CD-ROMs provided by Sprint to an FTP site for Exceleron to pick-up and load into the *CommWorx* system. Email correspondence between the former IT Director and Exceleron show that Exceleron was having problems calculating interest on deposits, figuring taxes, and how to apply taxes on reports.

When we analyzed the *CommWorx* database we found that there were numerous SQL statements embedded within data fields. Although we have not been able to review the code for the web interface, if these fields were being used, we can easily conclude that this condition would have allowed someone to change report views on the fly. Additionally, the reports that are formulated from these fields would have resulted in a slower load time of the viewed web page. The slowness of the product is a common complaint by the users at the Commission.

In the course of the CIBER security lockdown, we made numerous formal requests to Exceleron for support. Working with Exceleron proved to be a very frustrating experience and raised several concerns regarding the relationship between this company and the Commission’s former IT Director, who was previously employed by Exceleron. During the security exercise, we requested permission changes on the procedures listing that Exceleron provided. As the course of the lockdown occurred, we discovered several access points that had not been secured. Even though formal written requests were made to obtain this information, Exceleron neglected to mention these access points to our auditors. Furthermore, after discovery of these unauthorized portals, we found that Exceleron would not secure these areas until a letter was signed and faxed by the CEO. We went through this exercise on more than one occasion, because we continued to find other unsecure areas that Exceleron would not reveal to us. As a consequence, we spent considerable unanticipated time requesting information on a repeated basis, which required numerous interruptions in the work day of the Commission's CEO to secure the log-in IDs for the production, development, and administration sections of the Exceleron application. We continue to be obviously suspicious of the intent of Exceleron to possibly conceal this information from both our firm and Commission management.

Considering that the *CommWorx* system is a web-based application service, an integral part of our review of this system was to test the inherent security features. We later discovered that all of our audit requests, which the Commission's CEO had expressly requested to keep private and confidential, had been publicly published by someone at Exceleron in the administration module of the program. Exceleron's subsequent disclosure of this confidential information could have contributed to allowing any number of unauthorized users unimpeded access to the Commission's data to potentially alter or sabotage the databases we were simultaneously attempting to evaluate, not to mention a possible disruption of tracking customer telephone traffic through the system and potential loss of revenue.

Recommendation: We believe that more research is warranted to determine if the system flaws could have contributed to significant revenue loss to the Commission. We recommend that management assign this responsibility to the new interim IT Director and if necessary give consideration to hiring an outside consultant to assist in this review. If sufficient evidence exits to support this assertion then we would recommend that management consult with its legal counsel to assess the possibility of a civil action to recover fees paid to Exceleron.

13. Communications-*CommWorx* Reporting Discrepancies and Reconciliation Procedures

As indicated in the comment above we expanded the scope of our audit to review this system in more detail, to test the processing of data in the *CommWorx* system, and to test the transmission of data files from the *CommWorx* system to Billco, Inc., the third-party service organization that prepares the individual billings and mails the invoices on the Commission's behalf to its customers. Our examination revealed some serious concerns regarding the *CommWorx* system, the apparent lack of reconciliation procedures performed by staff for revenue assurance, and verification of sales reported in the *CommWorx* system from billings processed by Billco, as explained in more detail below.

a. The reconciliation process for customer payments (receipts) relative to various telecommunications billings processed through *CommWorx* to the banking activity is conducted in a manner to work around the reporting differences in the Payment Summary Master Report produced by *CommWorx*. The timing of receipt of payments posted electronically in *CommWorx* for Western Union payments, ACH Direct payments, credit card and online bill pay payments, compared to when these payments are reflected in Commission's Bank of America banking account, makes it impossible to rely on the *CommWorx* Payment Summary Master Report in the bank reconciliation and cash receipts reconciliation processes.

While the Finance Department has properly identified this aspect of *CommWorx's* reporting limitations, alternative procedures are deployed to reconcile the total of the payments applied to customer accounts in *CommWorx* to each day's banking deposits. However, a complete reconciliation, and related proofing, of the customer accounts receivable balances with the general ledger control totals has never been performed.

b. Although the Commission requested Exceleron and Billco to provide our firm with SAS 70 reports, we received no responses from either service organization, even after several attempts were made both by us and Finance Department personnel. We believe that these companies do not contract to have an in-depth study and evaluation of their internal controls conducted by an independent audit firm. Therefore, no such reports are available. We recommended in our prior year management letter comments that staff should secure these documents. In absence of any such reports, or any such evidence that these companies have their organizations subject to such testing, we recommended that procedures should be performed to appropriately satisfy the Commission and management that the third-party service organizations are properly capturing all relevant data, all revenue is properly billed, and all customer account payments received are properly posted.

c. The relationship between the amount of costs incurred for ILEC charges and revenue generated for sales to customers has never been analyzed by Communications Department staff. Although it was staff's understanding that Murphy Software Consulting, Inc. was preparing cost versus profit analysis, upon our inquiry of the proprietor, Patty Murphy, she indicated that all she was doing on behalf of the Commission was billing disputes for accounts that were billed by ILECs that were not working telephone numbers of Commission customers.

The most important question asked by management is whether or not there is any form of assurance that customer phone charges paid for by the Commission are eventually billed to customers. Any assertion of the answer to this question cannot be made without additional work, which prompted us to expand the scope of our audit to include procedures necessary to test this relationship. With respect to one side of the equation, we tested the communication and transmission of data between Exceleron's *CommWorx* system to Billco, Inc. to ascertain the completeness and accuracy of the billing for telephone customer sales. While we are satisfied that 100% of the data produced in *CommWorx* is being properly billed by Billco, we were not satisfied with the reporting differences between *CommWorx* Statement Manager and the Sales Summary master report. For one test month, we found an immaterial difference in the amount reported as revenue in the *CommWorx* Sales Summary master report, as compared to the amount billed in the *CommWorx* Statement Manager report.

Another observation we made while comparing the customer sales computed in Exceleron to Billco's customer billings is that Billco's processing confirmations do not provide totals for the amounts billed for each batch. Rather, they confirm the total amount due for all customer invoices contained in each batch. The difference being that the total amount due will, in almost all circumstances, contain unpaid balances carried forward from the previous month. Of greater importance, the Billco summary reports do not contain any summaries of the total amounts billed for each batch. Therefore, substantially more work is required to view each invoice, in each batch, from Billco's website, and to the drill down into the *CommWorx* Statement Manager to view each invoice to verify the amount of each month's current billing and to then sum all invoices for the batch. While the *CommWorx* Statement Manager lists each batch, and the total amount of the current month's billings for each batch, the confirmation provided by Billco does not. Consequently, the verification process which is necessary to be employed by staff to examine routine monthly customer billings becomes an extremely tedious and costly, time-consuming job.

d. The difference in the billings, as processed by Billco and reconciled to *CommWorx* Statement Manager, and the total amount reported as revenue in the *CommWorx* Sales Summary master report continues to be a significant problem, as cited above. We also noted several instances of reporting differences in the year-end accounts receivable balance produced in the Accounts Receivable Aging Report as of September 30, 2005 based on the date of the report inquiry. The total balance due on accounts receivable for September 30, 2005, as printed on November 1, 2005, amounted to $3,252,530.48. When the same inquiry (for the exact same time period) was made on November 18th, the *CommWorx* system reported a balance of $3,249,401.82. While the actual monetary difference of $3,128.66 is immaterial, *CommWorx* cannot explain any apparent reasoning to justify this difference. We also noted differences in the amounts reported for Fees in the Sales Summary master report on two different print query dates. The total amount reported for Fees for the month of September 2005, as reported in the Sales Summary master report printed on October 19, 2005 amounted to $57,832.53. Whereas the amount reported for the same item on Sales Summary master report printed on November 1, 2005 totaled $57,810.87. Once again, while the difference of $21.66 is immaterial, these constant reporting differences are examples of system problems in the reporting side of *CommWorx*. We subsequently discovered attempts by the former IT Director to correct these reporting problems by evidence of SQL scripts that allowed reports to be produced outside of the systems report writer, which may have caused and/or contributed to concealing other reporting problems. Our primary concern, as is management's, is that the reliability of the reporting information generated by the *CommWorx* system is suspect and it provides an obstacle for accurate accounting and reconciliation to the general ledger.

Subsequent to the discovery of these matters, we expanded our testing of the financial activities reported subsequent to year-end for the month of October 2005. Our findings indicate that the system continues to produce similar adverse results. There continues to be ongoing differences in amounts reported and amounts computed for accounts receivable, all of which are immaterial. No explanation for these differences could be provided by the former IT Director.

It is apparent that the *CommWorx* application is not, and never was, designed to be an accounting package, or even an application that could be integrated with the Commission's current general ledger systems. At best, it is a poorly designed database management system which is used primarily to provide customer service and customer billings. The reporting problems noted above are indicative of the lack of attention on the part of Exceleron to ensure that the same conventions are used throughout the system, to ensure that customer revenues reported and sales billed will agree on a consistent basis.

Recommendation: While our testing of reported revenues and sales billed to customers provided reasonable assurance that the rates in effect were adequately billed to your telephone service customers, we recommend that Communications Division staff periodically conduct the same reconciliation and testing procedures to ensure there is no breakdown in the process that could lead to the possibility of lost sales. We also strongly recommend that reconciliation procedures be employed monthly to ascertain, and or proof, the ending period's accounts receivable balances to ascertain control over the billing, collection, and continued maintenance of customer accounts.

We also recommend that if the Commission continues to rely on *CommWorx* for reporting revenue of various telecommunications system services, that the reporting differences are appropriately investigated and resolved to ensure accurate reporting of the system's revenue for each period. Of most concern is the difference between the revenue reported in *CommWorx's* master reports compared to the sales reported in *CommWorx's* Statement Manager. We continue to reiterate that there should be no unreconciled differences in these amounts.

14. Communications-BellSouth Calling Name and Number Database Queries

During our review of the Commission's ILEC billings and payments, we found that beginning in September 2005 BellSouth began charging and back-billing the Commission retroactive to June 2005 for queries made to their Calling Name and Number (CNAM) database. The Commission is charged a fee each time someone calls a customer who has the Caller ID Name and Number feature to "query" the database and deliver the name along with the number. On an average, this can add an additional cost of $4.00 or more per line for those customers that have the Caller ID Name and Number feature. We noted that this cost is not passed along to the consumer. The November 2005 charges that the Commission incurred for these queries was approximately $15,000.

Recommendation: With the Commission exiting the telephone service business it may be too late to initiate any changes we would otherwise recommend to remedy this situation. Ideally an additional flat monthly fee should have been placed on any line that has Caller ID Name and Number, which was never done. This would have required proper customer notification of the additional charge and their option to change to Caller ID Number and not be charged the new monthly fee. The estimated initial impact would have been a $3.50 charge per request to process the order through BellSouth to change their feature from Caller ID Name and Number to Caller ID Number only. Alternatively, the Commission could have elected to increase the package pricing to include the above discussed fee. A resolution to this matter would have increased revenue and/or lessen monthly expense.

15. Communications-Long Distance Rates, Profit Margin and Cost Analysis

We prepared an analysis of the long distance charges incurred by the Commission and paid to the contracted long distance company providers, Red River Networks, LLC. As a part of this analysis, we compared the costs of providing long distance service to customers to the amounts reported for sales of these services, as reported in the Usage Summary *CommWorx* Master Reports. Correspondingly, we identified a material difference in the amount of costs versus revenue. A recent monthly comparison prepared by staff confirmed that the amount paid versus the revenue billed to customers for these services is still a problem, with the Commission paying higher costs than revenue billed to customers.

Upon further inquiry of staff, we found that the Commission is unable to reconcile customer minutes of usage from invoices rendered by the long distance provider to a corresponding amount of minutes of usage for sales which is essential to making a valid and complete profit margin analysis of these services. The lack of sufficient data is attributed to a feature in the *CommWorx* system that was never turned on from inception of the setup of the system for customer billing to capture the usage for customers with long distance minutes provided in the total package pricing.

Existing telephone service local packages, also include long distance minutes bundled in the package or long distance, are offered with the local package, providing customers with various options of either unlimited long distance as part of the total price, or packages where customers receive the first 1,000 minutes of long distance as part of the total package price.

The usage summary master report produced by *CommWorx* only includes long distance usage that is separately billed and not included as part of a local package; whereas, invoices provided by the long distance service provider includes all long distance usage. If the data was available for customers that selected unlimited long distance that was included in the total package price, it would result in additional pages for each bill, which would cost the Commission more money in fees paid to Exceleron to provide this information for inclusion in the billing. Similarly, the costs paid to a separate provider to prepare the customer billing invoices would be much higher for inclusion of a listing of long distance calls with no price associated for each event. This may have been a factor in the setup in *CommWorx*. Consequently, no such data is available from the customer billing side of the equation, which makes it impossible to perform a complete profit margin analysis for long distance service.

Therefore, a more detailed evaluation of the long distance rates to costs was performed that revealed several areas in which the Commission had been charging the customer lower rates than it was being charged by the long distance service provider. An example of the findings is the costs incurred for long distance calls to Canada. The detailed examination revealed that the Commission is charging $0.05 per minute to the customer. However, the long distance service provider was charging the Commission $0.07 per minute for these same long distance calls.

In addition to the rate per minute loss, the long distance service provider had been charging the Commission in increments of 30-second minimums and 6-second increments thereafter for domestic calls. The industry standard for domestic calls is 18-second minimum and 6-second increments thereafter. Upon inquiry of staff, it was their understanding that the Commission had been charging its customers the industry standard of 18-second minimum and 6-second increments thereafter for all domestic calls. So, there is a discrepancy in the manner in which costs are incurred compared to customer billings.

For example, if a customer makes a domestic long distance call and the call is completed to an answering machine (voicemail), and they leave a message, this call would take no longer than 18 seconds on the average. The Commission would then charge the customer for the 18-second minimum while, in turn, the long distance service provider will charge the Commission 30 seconds for the same call. In this example the Commission is paying 12 seconds more for the call than it is billing to the customer. International long distance billing increments appeared to conform to industry standards for both the long distance service provider and the Commission, which are 30-second minimums and 6-second minimums thereafter.

Various international rates were also found being billed below cost. An example is calls to South Korea. The Commission is charging the customer $0.05 per minute and the corresponding cost from the long distance service provider is $0.10 per minute. As a result, for each minute a call is made to South Korea, the Commission loses $0.05 per minute.

Recommendation: The outside consultant's detailed review produced recommendations to management to update the long distance rates that the Commission implemented mid-January 2006. Based on these findings, it was also recommended that the Commission initiate negotiations with the long distance service provider regarding the billing increments. Specifically, the Commission should have requested that the domestic billing increments be revised to conform to the industry standard of 18-second minimums and 6-second increments thereafter.

16. Communications-Tax Collection Liability/Opportunity for Refunds

On September 26, 2003, the Commission entered into a third-party processor agreement and automated clearing house service agreement with the Bank of Oklahoma, N.A. and Telecom Professionals, Inc. (hereinafter referred to as "TPI"). Under these agreements, TPI was granted authority to process ACH transfers on the checking account established by the Commission with the Bank of Oklahoma for payment of communications services taxes on behalf of the Commission. The various taxes are included in customer billings and are required to be remitted to various state and local government taxing agencies.

Tax reporting and remittance of taxes are compliance procedures performed by TPI as part of the services offered under the agreement. Each month a detailed register is provided to support the taxes paid out of the banking account. However, we noted that copies of tax returns and other reporting are provided to the Commission on an infrequent basis or, only as requested.

During the period that we conducted our audit, we were made aware of an examination being conducted by the Florida Department of Revenue with respect to communications services tax returns that were submitted to the state electronically on the Commission's behalf by TPI. This examination has been going on for approximately one year, and it still isn't resolved. It is our understanding that there are significant problems with the source data coming from the Exceleron *CommWorx* system that is the basis for the preparation of each monthly return to the State of Florida. From our review of the state auditor's comments with representatives of Exceleron, there are discrepancies in the reporting of business and residential telephone sales and occurrences where there are no sales tax or gross receipts taxes reported for periods where there were business sales.

From inquiries of Commission personnel in the Finance Department, we were made aware that there are inconsistencies throughout the entire audit period being examined by the Florida Department of Revenue and efforts to replicate the results reported from the current database files have made it difficult to match the returns that were filed for the audit period. TPI had been trying to work with the Commission's former IT Director for over a year to resolve these matters. However, we found no evidence of any assistance provided by the IT Director and, as a result, the Commission's Finance Department has inherited this problem.

In addition, we discovered that the Commission may be in default of filing various information reports and has failed to comply with filing over a year's worth of reports to various taxing agencies. While some annual information reports have been prepared and filed on the Commission's behalf by TPI, there were many more that required Commission staff to prepare. According to TPI these reports were forwarded to the appropriate personnel for completion; however, it appears that neither the former Communications Director nor the former IT Director assumed the responsibility to handle these important filings. As a result, the Commission was informed by TPI that the Commission could expect more examinations of communications services tax returns from other taxing agencies.

In our review of the agreement with TPI, we found that there are some relevant issues that are not specifically addressed; such as, assistance with the preparation of claims for refunds for taxes remitted that were never collected from customers, and TPI's role in providing audit representation for returns and remittance of taxes that are compliance matters performed on behalf of the Commission. In this regard we believe an opportunity exists to file amended returns for purposes of filing claims for refunds of amounts previously paid for taxes that were never collected on customer billing accounts that have been outstanding and written off as uncollectible by the Commission. The amount of taxes remitted for the fiscal year ended September 30, 2005 amounted to more than $1.2 million. We know that there is a large provision for uncollectible accounts receivables for telephone service credit sales to customers and consequently there is an opportunity to recover some of the taxes associated with the bad debt accounts and the potential refund amounts in the aggregate may be material.

In addition, we noted in the response to a confirmation request for a SAS-70 report that TPI confirmed to us that such a report is not available and that the services performed by this company are not subject to independent auditing procedures to produce such a report. Due to the importance of their role, and the potential for additional liability for failure to remit taxes, we recommended in our prior year comments that in the absence of such a report, management should assign the responsibility of reviewing the transactions processed and reported by TPI to knowledgeable staff to at least gain some assurance of compliance with the various taxing agencies' requirements for reporting and remittance of these taxes. During our current year audit, we noted that staff did not perform alternative procedures to determine whether TPI is fully complying with these requirements.

Finally, we reviewed internal billings for telephone customer accounts the Commission established for its own use in providing telephone and related communications services to determine if appropriate rates were used and to address a concern expressed by management that there may have been taxes collected and remitted on these internal billings. We did find evidence that the Commission did not properly setup its own customer accounts for Customer Service, IT, Sales, Provisioning, and other lines used in providing telephone services to customers. While the rates charged for the various services were correct and agreed with the tariffs and pricing charged to other commercial customer accounts, we did find that the Commission had incorrectly charged, collected, and remitted state communications services and gross receipts taxes for these services. Pursuant to Section 202.125, Florida Statutes, Rules 12A-19.041 and 12A19-043, Florida Administrative Code, the Utilities Commission is specifically exempt from the communications services and gross receipts taxes.

Recommendation: We recommend that management assess the opportunity to file claims for refunds with TPI and that TPI provide an estimate of the cost for filing amended returns or separate requests for refunds on behalf of the Commission. This will involve the transmission of data for all accounts that are uncollectible from inception through the period in which such services will no longer be billed. Separate claims for refunds should be filed with the Florida Department of Revenue for exempt sales made by the Commission on internal billings to itself, which will require proof that such billings included taxes that the Commission is exempt from.

Additionally we recommend that TPI provide the Commission with archived copies of all filings prepared on your behalf with supporting data files obtained through *CommWorx*, so that this information can be stored and available to substantiate compliance with the various taxing agencies at such time that the Commission is selected for an audit or examination of such filings.

17. Information Technology-Organization and Management

In mid-2004, the Commission hired the former IT Director to head the evolving IT Department, in addition to helping the various users in the Communications division with use of the Exceleron *CommWorx* system. From the date this individual was in charge, none of the matters that we had communicated in our prior year management letter comments were adequately addressed or appropriately resolved.

During the current year, we expanded the scope of our audit to include a review of the Commission's IT Department organizational and operational capabilities. In the process of conducting these procedures, we continued to incur ongoing difficulties in obtaining unimpeded access to financial information stored on the Commission's data processing systems from the Information Technology (IT) Department. We encountered a complete lack of cooperation by the former IT Director to assist our firm in addressing many important issues pertaining to the Commission's local area network (LAN), systems and programs which were essential in allowing our firm to extract database files and tables for analysis and testing of financial transactions material to the Commission's financial statements. These actions included limitations on reviewing internally managed database records and files, as well as those files maintained offsite with the *Commworx* system. We also encountered one instance where a network access card was purposely (manually) disabled on a network workstation at 7:00 a.m. on the morning in which we were scheduled to utilize this specific workstation to obtain detailed backups of Commission files.

During the conduct of our procedures, we also discovered that this individual possessed complete physical access and control of virtually all of the Commission's internal and external computer systems, including sole control of all systems' user names and password controls. When formally requested by the CEO to provide him with a detailed listing of all known system access portals, including all related supervisory access names and related passwords, the request was essentially denied, in that this information was never communicated in response to the request.

The above situations, which were immediately reported to management, further prompted our firm to contract with a third party computer specialist, CIBER Global Security Practice (hereinafter referred to as "CIBER"), to conduct a full system lockdown of the Commission's IT systems and to perform an assessment of security issues and operational capabilities of not only the *CommWorx* system, but of the Commission's entire network environment. Our findings and recommendations, including those reported to our firm by CIBER concerning the Commission's IT Department, are included in the comments below:

a. Information obtained by CIBER during the formal computer security lockdown procedures confirmed suspicions of questionable or guarded activities of the former IT Director and a former software developer in the IT Department. From this information, it appears that these two former employees potentially abused their positions for personal benefit. Evidence suggests that there were many instances where employee emails and files were being monitored by these and other employees. This degree of unauthorized monitoring is not typically practiced by IT administrators. Basic IT practices, such as an effective backup strategy, an adequate data backup solution, documented IT and IT Security policies and procedures, storing and reviewing of device audit logs, and effective perimeter security were being ignored. The security of the Commission's network and IT systems was in a state of ineffectiveness. The former IT Director and a former software developer, both with full administration rights to the Commission's systems, had established multiple entry points used to access the internal network from remote locations. It is inconceivable that someone in the former IT Director's position would have exposed the Utilities Commission to such risks without at least attempting to improve the Commission's IT and IT security posture. The former IT Director appeared to be acting in an unusual manner, and the absence of logs and a backup solution could have made it easier to hide some of his actions.

   In addition, the laptop computer subsequently returned by the terminated software developer had been completely re-formatted and cleared of all information, including the computer's operating system. Computer program source code, passwords, design documents and company plans were not presented as requested. We also found that this individual's domain user directory was deleted prior to the lockdown, which may indicate sabotage, or destruction of public information; however, no reason for its removal was determined.

b. The Commission's IT organization is not operating according to best practices with respect to security, systems administration, systems and network management, inventory control, development, and some network practices. Of note is the lack of controls on sensitive roles, lack of internal auditing and pre-development testing of software changes, lack of a structured development environment, lack of a change-control policy, and lack of control of over licensed and/or unlicensed software products installed on Commission hardware, including the unauthorized use of unproven, development stage "beta test" operating systems and software.

c. We noted a complete lack of focus on standard policies and procedures from the Information Technology management staff. The Commission's Information Technology organization is generally tribal in nature. By this, we mean that the information, processes, and the execution of substantially all duties resides in individual's minds and is passed from individual to individual verbally. It is necessary, for the protection of the Commission, to move to a more institutionalized model where information and processes are created, documented in writing, appropriately approved, communicated, and *enforced*. This is especially dangerous when given sets of skills are practiced by only one individual.

d. The IT organization is arranged in an atypical manner with unusual titles and roles. Responsibilities are not well apportioned with several key skills being allocated to a single individual. Included in this is Exchange Server (e-mail) support, *CommWorx* (telecommunications) support, and Avaya (phone system) support. We noted that many individuals in the organization are not fully utilized. Productivity, primarily due to a lack of work direction, is not optimal in a number of individuals. Most of this is related to the lack of resource and workload management disciplines, and some of this is related to lack of computer experience.

e. Reporting structures, for some individuals were blurred between information technology professionals and telecommunications professionals. This was partly due to the fact that the Communications Division also lacked formally defined processes, controls, and workload management disciplines.

f. We noted that the Commission does not require, or utilize, its formal legal counsel in reviewing software contracts and license agreements. While an Information Technology professional can review contracts, there is value in a legal professional rendering an opinion on specific contractual clauses, especially those which do not deal directly with Information Technology subject matter.

g. There appears to be limited accountability within the IT Department at times. This manifests itself through vague commitments and a lack of accountability controls. Information Technology management should be responsible for holding individuals accountable to agreed upon dates. Furthermore, it is necessary to establish the importance of good service from the Information Technology organization to its customers. At times, when critical issues arose resulting in a problem for the users, it was deemed acceptable to work on it on an “as available” basis.

h. The former Director of IT, either through desire or perceived need, was far too involved in the technical aspects of the organization, neglecting the more managerial aspects of the position. Not only did the former IT Director have full security access to all systems and data (a violation of the division of responsibilities best practice) but this individual was actively involved in developing software and modifying business data which is normally done under the auspices of the application programs. The former IT Director had over 300 SQL queries (program code that has the ability to retrieve, update, delete, and insert data records) for data views and manipulation on his user directory. We also noted that one series of these queries was specifically designed to delete the audit trail of his actions, and more importantly, we have been able to determine that this SQL query had been utilized. The former IT Director also developed considerable amounts of software without formal documentation or socialization to others. In many cases, the software was implemented using a non-selective security strategy. This is functionally equivalent to making master keys for anyone needing access to selective doors in a facility rather than a key that only works on the needed doors.

i. The culture of the organization has some perceived weaknesses and vulnerabilities. Some aspects of the organization appear to be individual-centered, as opposed to organizationally-centered. This comment does not apply to every individual equally, but there are issues that would seem to indicate inappropriate allegiances and priorities. In some cases, individuals knew that their tasks were not being performed correctly, yet they continued to operate in this manner. Many individuals reported that they were instructed to violate best practices or lawful statutes, but some aspects of these claims are suspect, and without substantiation. The organization as a whole is a young organization and needs more leadership with respect to professional detachment, allegiances, and what is, and is not, appropriate for a work relationship.

Recommendation: In accordance with industry-recognized best practices, we recommend that the Commission adopt a more traditional Information Technology organization structure divided into two main sub-functions, System and Network Administration, and Development. Within each of these groups, responsibilities would be paired; that is each required skill would be staffed by at least two different individuals. It will, however, be incumbent on who ever is managing the group to ensure that all individuals with similar responsibilities and skills are not out of the office at the same time and that off-hours support structures also leverage this redundant skill model.

We also recommend that management offer a formal ethics and organizational responsibility seminar, where employee responsibilities are clearly defined for this department. We also believe that a formal accountability structure be established and implemented. This process will allow the Commission to determine if its IT employees are capable of successfully discharging the responsibilities of their positions.

We also recommend that management consider improving the formality of some of its policies and procedures relating to the IT Department including adherence to core business hours (8:00 a.m. to 5:00 p.m.), so that individuals are available during normal business hours to assist other employees throughout the Commission and also available to assist customers during these hours.

The Commission needs a more formalized software development life cycle (SDLC). The regimen of an SDLC will ensure that code is not developed and deployed in secret and without the knowledge of the larger organization. The Commission has had a history of doing stealth development without using business requirements, without documenting the code, without defining how and when the application is deployed and what the code is used for. This is extremely problematic when trying to support code that breaks. In addition, some of the developed applications were built upon infrastructure that may not be enterprise worthy. As a part of the development effort, implementation and support phases are normally the final phases in a software development effort, but there is no evidence that anyone in Information Technology knows about many of the applications and therefore is not in a position to support them.

18. Information Technology-Storage Management

The Commission's existing backup and recovery strategies are unreliable, at best. In addition, there is currently no provision for disaster recovery so that in the event that the facility is compromised by either natural forces (e.g., hurricanes), or an individual's action (e.g., fraudulent activity), there may be loss of critical data. Currently, employees of the Commission actually take backup tapes home as a disaster recovery mechanism, as opposed to storing them in an alternate facility (e.g., Smith Street building, Field Street building, the Head End building, etc.).

The Commission currently has a policy to redirect desktop storage of all individual employees' workstation documents (My Documents) to the server. This is a good policy and makes backing up of user information much simpler although formal backups have not been regularly executed. Once policies regarding backup have been defined, they need to be followed. An existing practice of backing up the Exchange Server once per month was not followed. As a result, the Exchange information (electronic mail) which was supposed to be backed up once per month has not been backed up for more than two months.

Data should be backed up on a regular, frequent basis so that in the event that problems occurring with either hardware of software occur, the data can be quickly and adequately recovered. In addition, each of the backup sources (and some data such as Exchange files and SQL servers require specific solutions) should be fully tested to ensure that data can actually be recovered from the backups. Once backups are created, they should be rotated on a defined schedule (and kept offsite) so that in the event that a facility is compromised, data from other locations can be used to re-create the business. During the lockdown procedure implemented in April 2006, we noted that the most current archived backup available for utilization was prepared in January 2006. Of even greater significance, we noted that the data contained in the backup was partially corrupted and could not be used for complete data restoration purposes.

Finally, the Commission utilizes multiple hosting providers for some of its sensitive data (e.g. *CommWorx* system). An inventory of hosting vendor's backup solutions of Commission data needs to be performed to ensure that the data that the Commission uses is securely and completely backed up on a frequent schedule.

> Recommendation: We recommend that the Commission adopt a formal storage management strategy that covers at least three storage classes (offline, critical, and non-critical data), defines a formal schedule for backup of data, formal storage quotas for user storage, departmental storage, and electronic mail storage, defines a tape storage rotation and storage policy, as well as a disaster recovery scenario, especially for critical data. In conjunction with the storage management strategy, work needs to be completed on a formal Records Retention Policy which will define what data and information must be kept and what may be deleted.

19. Information Technology- Move-to-Production Process

The Commission's move-to-production process is currently executed by software developers without a formal change control management procedure. This can lead to unpredictable results and requires giving the developers more authority than they need to perform their jobs. While they may require administrative authority on development systems, they should not have administrative access on the production systems.

> Recommendation: We recommend a formal move-to-production process be implemented where developers, after creating new software, test the software and develop deployment instructions for the systems administrators to follow. This provides two benefits. First, it provides a documented method of deploying an application that transcends the mind of

the developer currently deploying the application. And second, it reduces the level of authority that a developer requires for a production system. In addition, if a server is corrupted, a proper set of application deployment instructions can allow the Systems Administrator to re-deploy the existing applications without the need to locate the Developer.

20. Information Technology-Software/Hardware Inventory Control and IT Infrastructure

At the time we conducted our audit and review of the IT Department, there was no formal inventory of existing hardware or software throughout the organization. A preliminary review of the existing software inventory indicates potentially an insufficient number of software licenses when compared to what is deployed. There are significant penalties for software copyright infringement. Computer hardware purchases are not well controlled either. During the year, we noted instances where a series of Acer laptop computers could not be located for our inspection.

The Commission currently has a considerable amount of hardware dispensed to various physical locations. We were not able to obtain any assurance that this equipment is logged and controlled by the Commission in accordance with prudent asset control procedures.

While conducting our audit, we observed that there was a frequent history of terminated employees destroying company computers. We noted numerous instances where terminated employees routinely, and potentially illegally, eliminated all data, programs and operating systems from desktop and laptop computers provided to them by the Commission immediately subsequent to their terminations. These actions could constitute willful violations of Chapter 119, F.S., as it relates to the unlawful removal and/or destruction of public records.

Recommendation: We recommend that an immediate inventory of all hardware and software items should be conducted by the Commission. In the event it is discovered that variances exist in the use of licensed and deployed software, we recommend that actions be taken to immediately resolve these differences. We also recommend the implementation of a formal asset management discipline with all assets controlled through a single point and the establishment of logical relationships between assets such as between hardware and software. We also recommend the use of asset tags for all major assets. Once an inventory control process is put in place, it makes sense to coordinate the acquisition of new hardware and software, and access to software media through this function so that anytime new software or hardware is needed a record of it can be kept.

We also recommend developing a single, comprehensive environment schematic that covers the Commission's global computing infrastructure. Included in this schematic should be servers and their attributes (names, functions, interfaces, peripherals, storage, memory, and software inventory), and network nodes (type, interfaces). This schematic should include all network links, including connections to external service providers. Such schematics are often used when designing new systems, working with external vendors to implement or upgrade the infrastructure, and as a communication tool so that members of the Information Technology organization understand how the infrastructure is designed.

We strongly recommend that a formal employee termination policy be developed which requires the seizing of all employee assigned hardware prior to giving notice of a termination event. Furthermore, we strongly recommend that similar policies be developed that prohibit the unauthorized removal of data from Commission hardware, and that severe penalties are applied in the event such actions are violated (i.e. immediate reporting to, and prosecution by a law enforcement agency).

21. Information Technology-Common Desktop Image

We found that the many desktops and workstations utilized throughout the Commission have been setup differently with no uniformity. In many instances, we noted that individual employee computer settings vary dramatically throughout the organization.

Recommendation: The Commission should consider developing a common image for each of the system types in deployment and use that image when implementing new desktops. This common desktop image can be used to implement new machines in a timely manner or to re-image a machine after the failure of a key component such as a hard drive. The common image also simplifies and reduces the time it takes to support a desktop device because each device is configured similarly and thus it reduces the time and effort required to locate key files and information.

22. Information Technology-Naming Standards

We found that in the Commission's computer environment, individual network computers and access points are named/identified based upon job titles, department locations or even names of the individuals to which they are assigned. As a result, conditions exist where anyone employed by the Commission with access to the LAN, may potentially have unauthorized access to any other individuals' computer at will.

Recommendation: We recommend that the Commission adopt a series of naming standards for servers, resources, users, networks, and network nodes. The purpose of such a naming standard is to provide a common, yet unique, naming convention through which individuals within the organization can only reference key resources in an individualized manner on a controlled basis, in a controlled environment.

23. Information Technology-Records Retention and Logging Issues

Since the Utilities Commission is a public entity and is subject to various Sunshine laws (Chapter 119, F.S.), and considering that much of the Commission's business is conducted with the use of IT systems, a number of additional controls need to be implemented on Commission data and processes to ensure the integrity of the underlying data and processes. In addition to growing storage and backup needs, we found that there was an inadequate record of system log-ins and related logging controls were seriously lacking. We also found that the former IT Director had run Microsoft SQL Server scripts to delete personal access logs evidencing the history of his access, and to make changes to sensitive database files.

Recommendation: We recommend that the Commission establish the following controls to ensure the integrity of data and processes:

- Formal logging and auditing of all changes to systems and networks,
- Formal management approval for credential and permissions changes,
- Formal logging and as required auditing of all data changes using database logging,
- Formal logging and auditing of all electronic mail items,
- Formal logging and auditing of all website visits using a tool such as Websense,
- Formal logging and auditing of credential and permission changes, and
- Formal management approval for credential and permissions changes.

Each of these logging recommendations carry with it a requirement for space on file servers to house the logs as well as implementation of a strategy to rotate and back up the logs in a consistent manner. There is one other key rule that needs to be employed wherever possible, but is not possible in all situations. We strongly recommend that no individual with authority to make changes should have the ability to delete log entries containing information about those changes. There are some operating systems that do not easily lend themselves to this level of granular security control (especially for administrator positions). In these cases, it is important to strive to minimize the number of administrative users and to develop a well thought out security role and permissions schema. In addition, we recommend that the Commission define policies associated with retention of various forms of electronic communications including electronic mail.

24. Information Technology-Electronic Communications Policy

Prior to May 2005, the Utilities Commission was routing its own internal email through a private organization. Neither of the entities involved provided any backup on the email, nor did prior management ever request for a backup procedure to take place. As a result of this situation, a majority of email generated and/or received prior to May 2005 was lost. Backup procedures could have been, and should have been, established internally. We also found evidence that email residing on employee workstations and desktops were susceptible to being deleted by the employees without any ability to recover such communications. Email was brought in-house in May 2005 and was managed through an exchange server. During our audit process, we found the exchange server to be relatively unstable. The former employee who worked with the exchange server seemed to have limited knowledge on how to manage it.

Our review of exchange files for the audit period uncovered a tremendous amount of unprofessional activity taking place within the Commission. We discovered an abundant number of eBay transactions taking place during the work day. We estimated that there were hundreds of eBay electronic traffic transactions recorded at the Commission throughout the past year. Additionally, email strings show that numerous employees are using company computers to conduct work for personal, businesses, and school work.

The email traffic we uncovered from the former IT Director suggested inappropriate behavior taking place both in, and outside of, the Commission. The former IT Director was fully aware that all email traffic pertaining to the Commission was publicly owned and subject to records retention requirements under the Florida Sunshine Law. However, we found that on some business sensitive questions, he would instruct the other party via email to re-direct inquiries to him through Instant Messenger, so that no formal archived record would be kept of their conversation using this type of program.

We also discovered email received from BellSouth proving that Commission information was recently submitted to the private email addresses of two former employees. Both of these individuals had previously left the employment of the Commission. This potential security problem should have been handled by the previous Director of Communications.

We also found that the use of Instant Messaging programs is very prevalent throughout the Commission. Such programs do not lend themselves to a productive workplace and have no place in government business environments.

Recommendation: We recommend the creation of a set of policies that govern employee activity with respect to electronic communications. This would cover the following items:

- Appropriate and inappropriate use of electronic mail (i.e.; quotas on storage space for electronic mail; disposition of electronic mail, etc.),
- Appropriate and inappropriate use of website access,
- Appropriate and inappropriate use of cellular phone technology,
- Appropriate and inappropriate use of instant messaging technology,
- Appropriate and inappropriate use of hardware supporting electronic communications, and
- Establish a policy to prohibit the use of such programs (i.e., AOL and Instant Messenger, from all desktops and workstations). It is also prudent to remove such programs at the time such policy is implemented.

We also recommend that all employees sign formal acknowledgements of their responsibility to adhere to such policies. When new employees are acquired by the Commission, we recommend that this should be a part of the indoctrination process normally coordinated by Human Resources.

25. Information Technology-Password Policy

The Commission does not have a formal password policy for the majority of its systems. This can lead to problems when employees or external individuals are seeking to commit fraud, or are discharged. Since the ID's of most individuals are known to most employees because of ID naming schemes, passwords can often be discerned using personal information or common passwords.

Recommendation: We recommend that the Commission develop and adhere to a formal password policy that should be used for all systems. Such a policy should specify a minimum length and the number and type of characters required. When possible (e.g. Windows domain), the system should enforce the password rules automatically.

26. Information Technology-Security Policy

During the conduct of the audit, we noted that the overall security policy for the IT Department was not documented. The existing practices appeared to be communicated via e-mail, or word of mouth. Many of the practices seem ad-hoc and were communicated by the former IT Director on an as-needed basis. No written policies are available, and all policies and procedures are largely implied and not cooperatively developed.

The lack of an implemented security policy created an environment where the former IT Director was able to control the organization without having a clear system for reporting suspicious or inappropriate behavior. Legally, it is difficult to enforce prosecution of any individuals without a robust IT and IT security policy and associated procedures for handling a security situation.

Recommendation: We recommend that management develop and implement a formal set of security policies and procedures. The policy will clarify what is and is not allowed and the procedure will clearly show the employees how to properly handle incidents.

27. Information Technology-Security Issues

The security evaluation performed by CIBER and communicated to our firm in connection with the expanded scope of our audit disclosed the following technical findings and recommendations on various security issues.

A. Software Inventory

The software inventory listing developed during the process of the complete system lockdown showed multiple copies of remote administration tools such as GoToMyPC and WebEx were installed on several computers on the network, including on the workstations of terminated individuals and on the ITRON meter reading computer.

Also discovered on the workstations of terminated individuals was the LimeWire software peer-to-peer software package. This is a strong indication that the workstations and network resources were being used for personal use, and the possibility exists that illegal use (piracy) was being performed. A manual inspection was also performed to check for such software on each computer at the Central Office Building.

Recommendation: We recommend that a formal policy be created that clearly states allowed and disallowed software packages as well as clearly defining employee responsibilities for personal use of computer equipment and network resources.

B. E-mail Security

The Commission's web-based e-mail system (Outlook Web Access) had a security configuration flaw that allowed domain administrators to read e-mail from other accounts. Interviews conducted with employees corroborated this existed. Comments were made that the former IT Director had read e-mail sent both to and from other employees on a regular basis. According to the e-mail administrator, the security configuration flaw that allowed this "hole" was not a part of the original configuration and was presumably added by another administrator. The problem was corrected on April 1, 2006.

C. Malicious Software

The Commission presently uses Norton Anti-Virus software as mandated by the security policy. However, CIBER conducted a manual review of the Commissions desktop systems to see if such software was properly installed and working. The review concentrated on searching for malicious or unwanted software. A total of 296 unwanted software packages were detected, including 26 programs that were considered dangerous for the organization. As a matter of policy, all software that was not installed by a formal process should not be installed on organizational servers and workstations.

Many instances of Trojan viruses (a malicious software virus that can potentially be activated to take control of a system) were found on the Commission's systems. We were unable to define who created these Trojans; however, it seems that the former IT Director should have been aware of this problem.

> Recommendation: We recommend that all unlicensed software and malware should be removed immediately and that enhanced protective measures be taken so that these occurrences can be discovered and corrected on a more timely basis.

D. Vulnerability Scan

A vulnerability scan was performed on the Commission's Intranet using Microsoft Baseline Security Analyzer. The results uncovered a large number of local Administrator accounts that have passwords of weak or trivial composition. Several machines scanned did not have security updates and/or have recent patches installed.

> Recommendation: Recommendations made to initiate a change of all local administrator passwords to address the vulnerability of access to the Commission's Intranet were implemnented. We also recommend that systems should be patched with the most current operating system version so that they are not susceptible to viruses, worms, and/or hackers.

E. Encryption

Aside from basic encryption functions that are automatically used by Microsoft Windows, virtually no data encryption was detected in the network. We found that one particular computer was identified as having "constant irregularities" and that computer did not encrypt the contents of its hard drive. Although this is not a requirement under current policies and procedures, it is recommended that computers that hold financial data employ strong encryption.

> Recommendation: We recommend that the Commission employ encryption on workstations and servers hosting sensitive information, in order to limit access to the data.

F. Remote Administration and Backdoors

Remote administration systems were discovered in several places on the network that could allow an external party to access or control a computer inside the Commission's network. Four specific types were discovered, as follows:

- Microsoft Terminal Services
- GoToMyPC Software Package
- WebEx Client
- VNC (Virtual Network Console)

Of these, GoToMyPC was considered the most critical because it is deployed in such a fashion that it easily traverses a firewall. Multiple copies of GoToMyPC were installed on company computers, including the workstations assigned to terminated individuals. A firewall rule was created to block GoToMyPC access on April 1, 2006, allowing for a search of the remaining systems for copies of the software.

There is no security and audit logging maintained on the servers or firewalls to track unauthorized access or break-in activity.

We also found that the Avaya phone system has a dial-up modem installed within it that could be used as an entry point into the organization's network. The former IT Director had administrator access to the phone system. Employees reported that individuals with a high level of access could listen in to phone calls as part of the functionality of monitoring sales calls for the telecommunications business.

> Recommendation: We recommend that the Commission give consideration to contracting with a third party expert to periodically assess the Commission's systems to limit future exposure to possibility of remote access to its network. We also recommend that steps be considered which prohibit the monitoring of telephone conversations.

G. Firewall

The Commission has an outdated firewall that performs both network and VPN services for the organization. The firewall has a minimal rule set that was inspected immediately at the point of lockdown. After conferring with the General Manager/CEO, changes were made to firewall security to disable remote firewall administration from the Internet. Similarly, GoToMyPC access was blocked at that time.

The existing firewall has exceeded its capacity and is reported to have load issues when all security features are enabled. The current configuration holds 2 days worth of logs, and the logs are not archived. Therefore, these logs only provide a minimum amount of protection for the Commission. We noted that a more robust SonicWall appliance has recently been purchased and has been configured.

> Recommendation: We recommend that the Commission continue to monitor and maintain the SonicWall appliance to substantially increase the security of the Commission and allow for the storage and retrieval of firewall logs.

H. Intrusion Detection

No intrusion detection system (IDS) was found to be deployed by the IT Department. An IDS could aid in identifying and preventing attacks on the Commission's network. This would present a better method of determining if an attack is occurring inside the network, or if a virus is infecting computers.

Recommendation: We recommend that an IDS solution be configured, implemented, and monitored by the IT Department.

I. Providing Internet Service

The Commission provides Internet access via dial-up and wireless access. Although the equipment is located in the same building, external access to the UCNSB network via the wireless or dial-up Internet Service Provider (ISP) connections that the Commission provides does not appear to be possible. Although publicly-accessible ISP's are considered a hotbed for security problems, it was outside of the scope of our engagement to perform a risk assessment on the ISP side.

Recommendation: We recommend that the Commission give consideration to contracting with a third party expert to perform a risk assessment of the Commission's Internet services and how they connect to the Commission's internal network.

J. Wireless Networks

A wireless network router was discovered in the Central Office Building that was used for testing and use by mobile devices. We determined that this router could have allowed unauthorized and/or uncompensated access to the Commission's network and to the downtown area of New Smyrna Beach. This can allow unauthorized users potential access to your entire network system. The router was later disabled to prevent such access.

Recommendation: We recommend that management direct the IT Department to develop and implement a policy regarding the deployment and acceptable use of wireless devices.

28. General-New Accounting Pronouncements

In May 2004 the Governmental Accounting Standards Board (GASB) issued Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1* the provisions of which are effective with the Commission's fiscal year beginning October 1, 2005. Steps will have to be taken to compile this information in the formatting conventions that apply for your financial model. Significant additional work may have to be provided by non-finance personnel in other departments of the Commission in the compilation of this information.

In addition the GASB issued Statements 43 and 45 in 2004 relating to accounting and financial reporting by employers for postemployment benefits other than pensions. Implementing the provisions of these new accounting pronouncements may be somewhat more difficult to comply with since the financial data you will be required to accumulate may also be difficult to acquire.

Steps should be taken to coordinate the identification of this required data from meetings with your current health insurance providers and underwriters. The requirements of these statements are effective with your fiscal year beginning on October 1, 2006.

Recommendation: We recommend that management coordinate the assignment of responsibilities for the compiling the statistical data to appropriately designated personnel and develop a timeline to ensure that adequate time and resources can be set aside for the development of the statistical section of your annual reporting.

We also recommend that management make a comprehensive assessment of all of the City's employee benefit programs, summaries of the underwriting criteria used by the insurance providers in their determination of the related premium costs and unit classifications, and current employee census information that will be needed to be compiled to appropriately determine the expenses and liabilities associated with the postemployment benefits for inclusion in your financial statements.

POST YEAR-END MATTERS (Dated August 1, 2006)

Section 10.554(1)(h)4., Rules of the Auditor General, requires disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal control: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. The following is a summary of our Current Year Findings and Recommendations (sorted by departmental responsibility) which were developed subsequent to the end of our fieldwork procedures (which are dated August 1, 2006):

1. Accounting/Finance-Improperly Designated Access to SQL Database

The existing Cogsdale interfaced application of the Great Plains financial management system does not adequately query data in a manner that is conducive to the business needs of the Finance Department. As a result, some personnel within the Finance Department have a query analyzer installed on their computers to access the Great Plains database with pre-established SQL statements that reside on the server in a distinct folder. We inquired of Finance Department personnel about their interaction with the Great Plains database and determined that some individuals access the database directly on a global basis. This is a concern because such access circumvents logging mechanisms and could result in changes being made to the database that may not have been reviewed or otherwise authorized. This level of access should not be extended to the Finance Department, and should be maintained exclusively by the IT Department.

Prior to development of the Commission's IT Department, the Finance Department was the owner of the Great Plains database, since the only system administrator that the Commission had prior to 2004 worked under the Finance Department. Management of the Great Plains database should have been transferred and secured by the IT Department upon its inception, and any log-in features that were turned off should have been turned back on.

Because of this level of access, a primary concern related to the integrity of the Great Plains database prompted us to run a Microsoft SQL database integrity check that reported zero errors in the database. We did find evidence that some data is not properly linked or indexed, which causes orphaned records to exist in the current database file. We also found the existence of human error in customer account set-up that resulted in immaterial credits being applied to customer accounts.

Furthermore, we found that the current version of Great Plains system in use is several generations behind the current product. It is our understanding that features available in the most recent version will address some of the security shortcomings and reporting limitations found in the version presently in use, in addition to enabling the Finance Department to replace the separate third party software application from Workforce ROI that has been used for the Commission's purchasing and capital asset work order needs. However, we found that the archived files of the database may be corrupt.

Recommendation: We recommend that the IT Department stage a report mechanism on the Intranet for use by the Finance Department, which will eliminate the direct access to the database and enable users to analyze customer account information in more detail without potentially compromising the data. We also recommend that the IT Department turn back on the database user logon mechanism. Additionally, the IT Department should work with the Finance Department to upgrade and install the most recent version of Great Plains, which should take care of some of the known problems under the current version in use. Additionally it is our recommendation that when the upgrade is implemented that the Commission start over with a clean slate and incorporate a brand new database, so that each row of the database can be analyzed for corruption before being moved to the new system.

2. Communications-Management Issues

As the Commission has found, operating a telephone business is a very complicated undertaking. The telecommunications industry is controlled by large established incumbent conglomerates (Bellsouth, Sprint, and others) and it is extremely competitive. Since inception, the Communications Division has not effectively competed or operated in this industry. Its failure to do so efficiently and economically was due primarily to managerial deficiencies from the very beginning. Not all of the blame can be placed on management; however, it was an important factor that the Commission relied on as it headed into this new business activity. The comments below summarize our assessment of prior management's role in the business failure of the Communications Division.

a. Prior management never developed a comprehensive business plan, or clearly defined the Commission's goals relating primarily to telephone sales and service, including cable TV services, which is another regulated, costly, and extremely competitive industry. Verbal commitments were routinely made by former management with developers to install costly fiber cabling at a rate that was significantly higher than industry standard costs that ultimately cost the Commission millions to deploy. Current assessment and cost projections provided by consultants later proved the fiber projects, which were started by former management, was significantly too costly to continue. Meanwhile, other utility infrastructure needs were overlooked. Westward growth, expansion and development in the City have brought existing utilities infrastructures to the brink of their capacity requiring current management to now address these important matters. The investment in costly fiber projects, and losses incurred by the Communications Division, have also drained Commission resources making it more difficult to fund necessary improvements to electric, water, wastewater and water reuse systems.

b. Prior management failed to clearly communicate the marketing strategies and the full impact of the financial commitment required to grow the customer base of a competitor (EPICUS) at the Commission's expense. More importantly, these actions occurred prior to, and subsequent to, the same time that the Commission was preparing for entry into the market under its own CLEC license. As a result, the Commission incurred overlapping marketing efforts and costs paid to vendors that were unknown to the Commission (RSVP and VStar). Both vendors also provided services to EPICUS simultaneously while providing services to the Commission at a time when the Commission was trying to solicit and develop its own customer base outside of its immediate service area. We could find no evidence in the minutes of Commission meetings, manager reports or other correspondence where these matters were brought to the attention of the Commission. We also noted that the financial commitment that the Commission initially approved in December 2002 authorized customer expansion costs for a period of only twelve months that would have totaled $1.2 million. Prior management ignored this and continued to incur costs for a total period lasting 26 months through November 2004, including costs totaling $2,873,775.06, of which $612,500 was paid directly to EPICUS and $2,261,275.06 was paid to RSVP. These matters are discussed in substantially more detail in our special Report on Audit Matters dated June 5, 2006, which is appended hereto.

c. Prior management did not involve any participation of the Commission's Finance Department in the establishment of appropriate controls and procedures for managing and recording the related system revenues and expenses. Contrary to this delegated authority, prior management, in essence, decentralized the customer service, accounting and finance functions relating to the telecommunications portion of the Commission's business that is customarily performed by experienced personnel in the Finance Department. Once the Commission developed its exclusive telecommunications customer platform (at the beginning of Fiscal 2004) and began operating under its own CLEC license, the telecommunications personnel performing these functions should have adopted the same practices and internal control procedures performed in the Finance Department. At a minimum, steps should have been implemented to reconcile outgoing customer billings to incoming billings from vendors. Similarly, specific accounting and reconciliation procedures that would have helped to identify problem areas requiring immediate attention, such as uncollectible customer accounts, should have been established. Unfortunately, these procedures were never established, or performed. After communicating these findings in our prior year comments, we were surprised to discover that no efforts were taken to perform these required accounting procedures.

d. Prior management chose to use a program (*CommWorx*) that was still in a beta stage whereas; many other smaller CLECs were using other vendor's services to manage their telecommunications business. As we mentioned above, the *CommWorx* program has many flaws and lacks ability to integrate with the Commission's other financial management systems, making it completely unreliable for the Commission's needs.

e. Many members of the Communications Division lacked the proper education, training, experience, and management skills which are essential to effectively manage this multi-million dollar venture into a new and extremely competitive industry. Many of the employees had to learn their jobs on their own without adequate supervision or a lack of direction from management. Prior management's focus was exclusively on sales and, in particular, processing customer orders attributed to a specific sales agent (VStar). The division lacked an individual leader with established seniority and diversified management skills, which was necessary to run all aspects of the daily operations efficiently. Much of the staff hired to process vendor payments and customer billings, including their immediate supervisors, lacked a clear understanding of generally accepted and industry accepted accounting principles. Management's inability to identify the importance and necessity of keeping control of all financial aspects of the individual customer accounts, as is evidenced from the lack of performing any significant billing-payment-balance reconciliation procedures, significantly contributed to the ongoing problems, which are still encountered today.

f. During the audit, we noted what appeared to be the equivalent of free advertising provided by the Commission on its telecommunications billings to Kissimmee residents for KUA.net (Kissimmee Utility Authority Internet Services). While the Commission had a one-year agreement with KUA, executed on January 6, 2004, for KUA to provide telephone sales agent and marketing services on behalf of the Utilities Commission d/b/a Sparks Communications, there was nothing in the agreement where the Commission would pay reduced sales agent commissions to KUA in exchange for providing advertising of KUA.net's competitive services. We also noted that the former Director of Communications signed a Letter of Agreement with KUA on May 31, 2005, to modify the existing sales representative agreement that did not specifically address this free advertisement issue. More importantly, the former Director of Communications did not have proper authority to enter into such an agreement without first presenting the matter to the Commission for formal approval. Accordingly, the actions taken by this former employee did not conform to established policies and procedures and an opportunity to generate additional revenue from advertising income was completely disregarded.

Related to this matter, we found documentation of conversations from IT personnel and the Communications Division's Sales and Marketing Manager taking place with KUA's Vice President of Information Technology in December 2005, indicating some intent to partner marketing efforts. We could find no indication that such matters were presented to management and to the Commission for approval. At the time, the Commission had already formally decided to cut down on advertising and marketing costs related to the telephone service sales in response to the preliminary findings of questioned costs incurred for other sales agent and telemarketing expenses from our prior year audit.

Our primary concern is the apparent lack of management oversight and supervision of staff in the Communications Division. Additionally, the Communications Division lacked formally defined processes and controls that we believe contributed to a lack of understanding of authority to enter into agreements and in general a lack of accountability to management.

g. During the current year, we noted a lack of managerial oversight in reconciling telephone account billings for Commission based access lines. Subsequent to year end, the Commission discovered the existence of two active Commission paid "800 number" telephone lines that provided unlimited long-distance phone access to a former General Manager's (Turano) home telephone number. This discovery was first communicated to the current General Manager on April 3, 2006. At the same time, it was determined that other 800 lines rang to disconnected numbers. These matters only came to the attention of management after encountering a disruption in service after the fiscal year end subject to our audit. From the documentation we obtained on these matters, it was obvious that this discovery came as a surprise. There is no known reason why two 800 numbers rang directly to a former employee's home telephone number or why the Commission was paying for 800 service on lines that were not properly setup or no longer working.

h. In our review of a limited portion of the Commission's internal email correspondence, we found evidence of discussions between the former Director of Communications and Former Director of IT concerning their knowledge of the fact that cable customers in Venetian Bay were not being billed for cable use. Responses to our inquiries of Commission staff indicated that Venetian Bay cable use was not billed for an entire year of use. The act of not billing customers should have been brought to the attention of the General Manager and to the Commission.

i. We found instances where Commission employees were gainfully engaged in host of personal activities during the work day, as opposed to working on the success of the department. During the audit, we noted several instances where employees were conducting significant eBay sales and purchase activity from their workplace at the Commission. The Commission is also very aware that during the time of his employment, the former Director of Communications created a separate legal entity (Mustang Solutions, LLC) for the purpose of providing customer internet services in May 2005. Furthermore, we also found evidence that indicates the former Director of Communications collaborated with two other employees in the Communications Department to assist in the development of various company jingles, logos, advertisements, and a corporate introductory letter. One of the communications employees was named as the Vice-President of the organization, but has since removed his affiliation. Evidence shows that some of the work on this venture was conducted during Commission business hours. During this time, the former Director of Communications wrote two letters of resignation that were stored on his computer. These letters were never shared with management or with the Commission. The terms of a recent settlement agreement preclude either party to discuss the nature of the termination and settlement with this former employee. However, these findings are, nonetheless, a strong indicator that this individual (as the Director of this operating division) was not closely managing and/or monitoring his own Department's employees, and further directed them to work on personal projects while employed at the Commission's workplace. These actions were certainly not in the best interest of the Commission.

j. During our investigations, we also obtained evidence that documents in April 2005, the former Director of Communications, without authorization, instructed the former IT Director to write-off previously identified customer uncollectible accounts by deleting those customer accounts with unpaid balances over 90 days old from the *CommWorx* system to "add to the general 'awesomeness' of this month." As was previously represented to you in our separate interim report dated April 7, 2006, the former Director of Communications took similar action in reporting to the Commission on various occasions of the Division's financial recovery which, to the contrary, never took place. Not only do these actions appear to intentionally mislead the Commission in its understanding of the affairs of the Division, it is totally improper for department heads to approve the "write-off" of any customer accounts without first obtaining the General Manager's and Commission's approval to do so.

These actions of the former IT Director and former Director of Communications appear to have been designed to reduce the appearance of the number of customer accounts with delinquent balances. Customer account balances outstanding for more than 90 days (from credit sales to telephone service customers accounted for in the *CommWorx* system), is the primary criteria used by the Finance Department to establish estimated losses and the related provision for uncollectible accounts, all of which directly impact the bottom line of the Communications Division's results of operations.

We found additional internal email and evidence that the former IT Director had continued to write-off or delete customer accounts from the *CommWorx* system in the months of May and June 2005 for amounts equivalent to the provision for uncollectible accounts that were recorded in the prior fiscal year. In an August 2005 meeting that we attended with the former IT Director and a former employee in the Finance Department, we became aware of the intent to "write-off" accounts. However, at the time we did not have knowledge that these actions had already been taken as early as April 2005. In our meeting, we informed these individuals that no such actions should take place until such time that all accounts have been properly identified and reconciled to the listing of accounts submitted to the Commission's contracted collection agency, followed by a report to the current General Manager providing more information on the results of the collection efforts. We also informed these individuals that no such actions can take place until formal approval from upper management and the Commission was provided.

Upon inquiry, we found that previously "written-off" accounts were actually restored to the database, so that reports produced for the year-end audit would properly reflect the total amount of outstanding customer accounts receivable. We could not tell at what time this restoration took place, and whether it came as a result of our conversation on the matter. We believe that these practices were quite deceptive, and we had concerns that similar actions may be taking place in other financial areas. Regardless, we performed analytical procedures to account for sales reported for the year. Based on the fiscal year-end aging report, we found that the Director of Finance had properly accounted for an additional provision for uncollectible accounts. This is the proper method, conforming to generally accepted accounting principles, for the accounting of uncollectible accounts.

What was particularly concerning to us in finding evidence of interdepartmental cooperation in manipulating database files and financial representations was that it was indicated to us that the General Manager at the time (Turano) was aware of these matters. However, we have not been able to conclusively verify this matter. We found internal email correspondence directed from, and to, the General Manager (Turano) on the subject of bad debt write offs, particularly as it related to questions arising on the impact that these bad debts would have on various communications services taxes. This indicates that upper management was aware to some extent of these matters and yet we could find no evidence that management at the time directed staff to refrain from automating any bad debt write-off routine in the *CommWorx* system.

We believe these actions demonstrate how prior management contributed to the financial demise of the Communications division.

These findings, in addition to other comments communicated in this management letter, clearly indicate that the prior management of the Commission's personnel and resources appears to have been deficient. The majority of employees we met with were hard working, and dedicated to doing the best they could with very little practical assistance and oversight from management. Unfortunately, we have been able to conclude that prior management had no significant working knowledge of the telecom business, the Commission was not fully informed of the actions taken by the former general manager, and sound business practices (similar to those used in operating the Commission's other utility systems) were either ignored and/or abandoned by prior management in the operation of the Communications Division. Prior management was so obsessed with continued growth in this new business, that the lack of attention to what was developed became uncontrollable. The attention towards the welfare of one sales agent vendor (VStar) went far beyond the normal practices of conducting business with other outside, independent vendors. Also, the continued tampering with the *CommWorx* database by the former IT Director (with the active or tacit consent of the former Director of Communications) and the lack of reliable backup files available, contributed to obscuring the evidence of previous actions taken by two former general managers. These issues substantially contributed to the amount of questioned costs being incurred by this division, specifically as they relate to the VStar coded customer accounts.

In conclusion there were many contributing factors to the financial failure of the Communications division, but poor management was by far the largest and most disastrous.

Recommendation: We recommend that steps should be taken to ensure that no new business ventures are initiated until a comprehensive business plan has been developed and approved by the Commission. As important as it is for management to closely manage Commission personnel, it is just as important for the Commission to monitor management's actions more closely and to keep management within the boundaries of authority granted by the Commission and in conformity with established management policies and procedures.

This Page Intentionally Left Blank.

UTILITIES COMMISSION
CITY OF NEW SMYRNA BEACH, FLORIDA
200 Canal Street
New Smyrna Beach, Florida 32168
386-427-1361

Mailing Address:
Post Office Box 100
New Smyrna Beach, Florida 32170

September 7, 2006

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida

RE: Management's Response to Comments Included in Comprehensive Annual Financial Report, September 30, 2005 and 2004

We have no knowledge of any additional information regarding the topical matters addressed through our responses contained herein affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others, with the exception of those matters previously communicated to Brent Millikan & Company, as Utilities Commission auditors and special forensic investigators, and addressed in your separate report on audit matters dated June 5, 2006 and post year-end matters dated August 1, 2006.

Prior Year Matters

1. Management Conduct

The Commission has taken steps to remove prior management and employees, who may have contributed to the findings reported in the prior fiscal year audit and believes that, with the exception of possibly pursuing civil action against former selective management and employees, the matter has been resolved. Legal counsel is currently reviewing and evaluating possible civil actions.

2. Marketing Expenses

The Commission previously ceased doing business with questionable vendors. The Commission has requested legal counsel regarding recovery of these related and questionable expenditures. The Commission has ceased telephone and cable T.V. operations.

3. CommWorx System Limitations and Errors

We have begun compiling outstanding uncollected accounts receivable information from CommWorx and have contracted with MAF Collections, who have begun collections. Negotiations have begun with Exceleron to discuss the ability to apply payments and we are exploring possible options in the event negotiations with Exceleron transition to impasse. The Commission has ceased telephone and cable T.V. operations.

Prior Year Matters (cont.)

4. Monitoring for Fraud

The Commission acknowledges management's responsibility to prevent, deter and detect fraud and will be establishing a more formal antifraud system to address the findings communicated and consistent with recognized counter measures. A position of Controller/Budget Coordinator has been presented in the U.C.'s 2007 Budget request in support of this effort.

5. Computer System General and Application Controls

A formal evaluation and corrective action plan is in process.

6. Communications System Operations

Finance has now assumed these new responsibilities/duties to properly record transactions in an effort to better manage the exiting of telecom. Please refer to number 3 above regarding our collection efforts.

Current Year Matters

1. Report on Audit Matters Dated June 5, 2006

The Commission has taken action to remove prior management and employees who contributed to these matters. We believe the situation has been resolved. For whatever reason, the State investigatory agencies chose not to proceed with prosecuting selective employees, and the Commission is considering civil actions against those that contributed to our losses. Legal counsel is currently reviewing the matter

2. Accounting/Finance – Uniform Accounting Policies and Procedures Manual

The Finance Department currently has notes regarding procedures. An initiative has begun to compile this information into a manual which will be an on-going, fluid project with an anticipated completion occurring over the next three fiscal years.

3. Accounting/Finance – Crystal River Nuclear Plant No. 3 Decommissioning Costs

We have discussed the possibility of changing our level of funding, but have agreed to maintain the same level of $115,493 at the present time, given our experience of great variation from year to year and noting that "life extension" of the unit is underway and may yet impact the funding.

Current Year Matters (cont.)

4. Accounting/Finance – Capital Assets Module – Depreciation Record

As soon as the Commission can implement Great Plains 9.0, we will be better equipped to monitor and account for this function through the Fixed Assets Module as well as the new Project Module. We are currently examining the replacement of our stand-alone billing system which is a threshold condition to affect an upgrade to Great Plains 9.0.

5. Accounting/Finance – Capital Assets – Venetian Bay Costs Reimbursed by Developer

Finance has begun a re-review with Engineering of all work order files to identify project costs related to the first phase of Venetian Bay, which are to be paid by the developer. Appropriate actions may be taken as based upon these findings.

6. Accounting/Finance – Capital Assets – Head End Building/Venetian Bay Work Orders

Finance has budgeted an additional position for FY 2007 with responsibilities, among others, to address capital projects, to improve controls over expenditures, and to monitor our capitalization policy. It is expected the Great Plains 9.0 Fixed Assets module, when implemented, will also assist in asset tagging and improved controls over the assets.

7. Accounting/Finance – Internal Auditor

Noted, refer to answer number 4 in Prior Year Matters.

8. Accounting/Finance – Employee Reimbursements – Cable (Road Runner) Internet Fees

This practice was originally initiated for IT personnel who are "on-call" evenings and weekends. This practice anticipates and allows remote diagnoses and corrections for applications or network issues through the VPN. The IT organization is currently implementing a new organizational structure and procedures. Upon completion of the reorganization, this practice will be revisited.

9. Communications – Carrier Access Billing (CAB) Discrepancies

Finance has been overseeing CAB's for this fiscal year, and we have contracted with an outside consulting firm to aid in collections and negotiations regarding outstanding balances. The Commission has exited the telephone business.

Current Year Matters (cont.)

10. Communications – ILEC Charges – Breakdown in Accounting Procedures

The Finance Department has now assumed the responsibility of monitoring and payment of the Communications invoices. The Commission has exited the telephone business.

11. Communications – ILEC Bill Auditing Procedures

Noted, the Commission has exited the telephone business.

12. Communications – Exceleron CommWorx System Flaws

Noted, the Commission has exited the telephone business and legal counsel has been sought.

13. Communications – CommWorx Reporting Discrepancies and Reconciliation Procedures

Noted, refer to answer number 12.

14. Communications – BellSouth Calling Name and Number Database Queries

Noted, the Commission has exited the telephone business.

15. Communications – Long Distance Rates, Profit Margin and Cost Analysis

Noted, consultant review continues and the Commission has exited the telephone business.

16. Communications – Tax Collection Liability/Opportunity for Refunds

Noted, the Finance Department is working with the appropriate parties and has requested that copies of all prior and currently filed documents be provided to us. We have already initiated the process of seeking tax refunds through the Florida Department of Revenue and have discussed the procedures for filing in other states with our consultant.

17. Information Technology – Organization and Management

IT has been reorganized into two units consisting of Applications Development and Systems/Networking. This allows us to separate powers from those making changes and those responsible for protecting production systems. In all cases, at least two personnel are assigned to be the backup to the other so that IT can effectively function when personnel are unavailable due to sickness, vacations, etc. Backup training of resources is underway.

Current Year Matters (cont.)

18. Information Technology – Storage Management

A backup and recovery process has been commissioned and provides for on-site backup of all UC data. On a weekly basis, information is cycled off-site through a 3rd party vendor and stored in their climate-controlled environment. This process also includes monthly off-site storage of that data. A recovery process has also been commissioned to periodically test the ability to restore this information.

IT has defined a disaster recovery plan that calls for establishing a duplicated data center that contains all critical systems and applications. This data center has a dual use in that it can also serve as a fault-over resource, if we lose our primary servers presently located at Canal Street.

Lastly, IT is defining a Document Management plan that will address the archival and retrieval of email, data files and scanned documents used for record retention.

19. Information Technology – Move-to-Production Process

IT has initiated a development, test and production process to test changes before moving any updates onto our production systems. All necessary equipment is currently on order.

20. Information Technology – Software/Hardware Inventory Control and IT Infrastructure

Equipment and software will be ordered that will allow us to create labels, bar code/scan inventory and equipment and store that information into a database for later retrieval. Initial equipment that will be inventoried includes computers, monitors, telephones and cell phones. IT is working with Purchasing so that this same equipment can be used for application with other fixed assets.

All system and network schematics have been created as a part of the network analysis completed by a network consultant.

IT is working with HR to develop a checklist of equipment that IT will secure upon the termination of any employee. HR is creating the termination process which contains, in part, the notification to IT that an employee has been terminated.

21. Information Technology – Common Desktop Image

Desktop images are currently being defined for standard users, power users, system administrators and development personnel. These images will be used to install images for new employees or when computers are upgraded. These images will also include defined roles for our business users when roles-based security is available in Great Plains 9.0.

Current Year Matters (cont.)

22. Information Technology – Naming Standards

IT is using a senior network consultant to conduct a detailed audit of our system and network environment. The recommendations of this analysis call for 30, 60 and 90 day increments to address all concerns. The naming standards are going to be addressed within 60 days.

23. Information Technology – Records Retention and Logging Issues

IT has turned on SQL Server audit trails which will track all user access to Great Plains or the Cogsdale Utility Billing application.

File server auditing has been turned on with additional shadow copying invoked.

Network and System access change auditing will be implemented in the 60 day network plan.

Application access and logging will be more tightly controlled when roles-based security is implemented with Great Plains 9.0.

System, network, files and folder access will be redefined in the 30-day network plan.

Websense will be implemented in the 30-day network plan.

Electronic mail retention is being addressed, long-term, in the document management project that is currently being defined.

In the short term, IT will be implementing a product called "Sherpa" that will allow IT to archive email. This tool will allow IT to respond to requests for email more quickly than our current methods, which have been dysfunctional.

24. Information Technology – Electronic Communications Policy

A first draft email policy has been created and disseminated to the UC staff.

Websense will monitor all web access. Access and downloading can be controlled with this product. As stated above, Websense will be implemented in the 30 day network plan.

The Nextel contract now calls for a breakdown of cell phone usage by Director. Directors will monitor and control usage.

Instant messaging will be monitored by Websense. IT is responsible for finding and deploying an IM solution for valid intra-company needs.

Current Year Matters (cont.)

25. Information Technology – Password Policy

A new password process is currently in effect.

26. Information Technology – Security Policy

IT has not formally addressed policy creation at this time. A series of department procedures and policies will be created within 60 days.

27. Information Technology – Security Issues

A. Software Inventory

IT is using the Belmanage software package to track software installed on user desktops. Standard application protocols are currently defined and any inappropriate software will be brought to the attention of the Director in charge of that area and the software will be deleted.

B. E-mail Security

The Exchange server access rights for administrators are being assigned to the Network Consultant and Help Desk technician. All other access rights have been terminated.

C. Malicious Software

Malicious software has been removed and will be further controlled by Belmanage and Websense.

D. Vulnerability Scan

Vulnerability scan was performed. Virus protection is current.

E. Encryption

Encryption is not currently being used. IT is evaluating this capability in reference to its compatibility with our public nature. The intrusion concern originated from personnel within, who previously had unrestricted access rights. Permissions are now formally controlled and unrestricted, broad access has been eliminated.

F. Remote Administration and Backdoors

Third party intrusion was conducted on the UC systems and network. The findings of the attack are addressed in the 30/60 day network plan.

G. Firewall

The Sonic Wall firewall is currently in place and includes logging.

H. Intrusion Detection

Intrusion detection has not been deployed. IT will evaluate the need for this level of security going forward.

I. Providing Internet Service

The Canopy router will be separated from the company internet router in the 60 day network plan.

J. Wireless Networks

There is no current wireless router device beyond our commercial offerings. Any future need for a wireless access will be assessed for security risks before being deployed.

Current Year Matters (cont.)

28. General – New Accounting Pronouncements

Noted, these are under evaluation and information requests have been issued.

Post Year-End Matters

1. Accounting/Finance – Improperly Designated Access to SQL Database

SQL Analyzer and other database update tools have been eliminated from users' desktops.

IT has turned on the SQL audit trail to track all database access.

IT has changed the "SA" password so that finance users cannot access all system functions.

Although upgrading the U.C.'s Great Plains system will address some of our current functional finance issues, a current review of Cogsdale, as an application, indicates deficiencies in security, internal data integrity and database consistency. To date, Cogsdale has not been able to remedy a number of concerns and a replacement for the Cogsdale system is currently under review by IT.

2. Communications – Management Issues

Duly noted, and many preventive changes have been implemented to address controllable events.

Robert J. Rodi

Robert J. Rodi
General Manager/CEO

RJR/ds