

**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, 2006 AND 2005

UTILITIES COMMISSIONERS

Kevin J. Para, Chairman

Richard Spangler, Vice-Chairman
Walter Allen III, Secretary-Treasurer
Jeanne K. Diesen, Commissioner
William E. Hall, Commissioner

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

Robert J. Rodi

DIRECTOR OF FINANCE

Laurie Klinkenberg



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September 30, 2006 and 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

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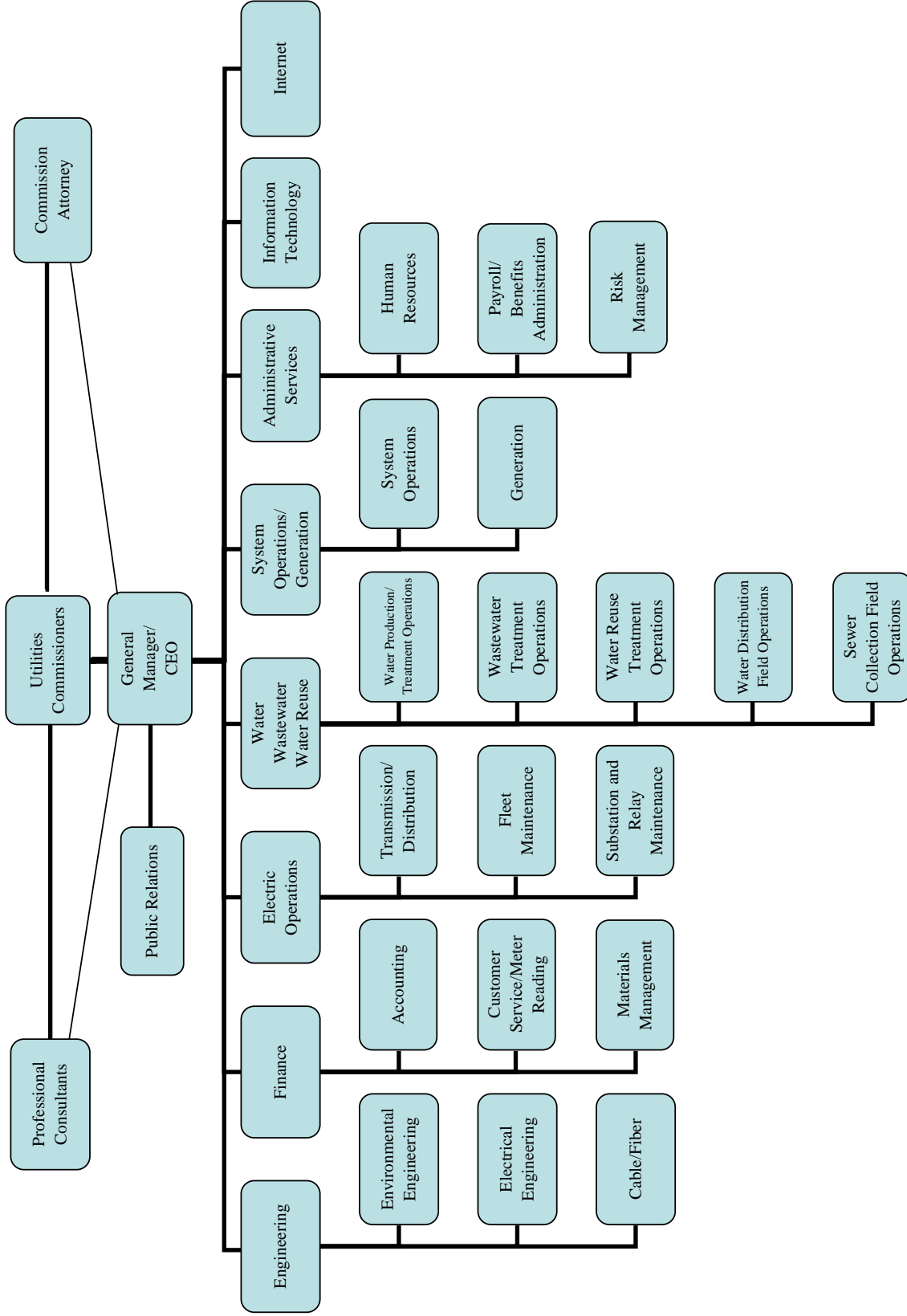
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ORGANIZATION CHART



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





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CERTIFICATE OF ACHIEVEMENT

FOR THE YEAR ENDED SEPTEMBER 30, 2005

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, 2005.

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.



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CERTIFICATE OF ACHIEVEMENT

For The Year Ended September 30, 2005

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, 2005

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.



A handwritten signature in black ink, appearing to read "Thomas J. Blain".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director



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LETTER OF TRANSMITTAL



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**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**

December 18, 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, 2006 and 2005, 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 (Comptroller General of the United States and 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 2005. 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 information on trends, revenue capacity, debt capacity, demographic data, and operating and capital information, generally presented on a ten-year basis.

The financial statements of the Utilities Commission are audited in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and 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 Utilities 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 Utilities 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, external debt financing, 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 Utilities Commission has identified a priority project checklist with significant system improvements contemplated as follows:

- Electric alternate feed to Fairgreen and Venetian Bay
 1. These 2 areas are served by electric service through a single feeder line.
 2. If the single power route is broken by traffic accident, fire, wind or equipment failure a large area of customers will be without power until the damage is repaired
 3. If a second power feed is constructed to those areas those customers would not need to be without power unless the second feed line is also disabled at the same time. This is a very unlikely event so reliability in those areas would be greatly increased.

- Streetscape projects for West Canal Street and Mary Street
 1. The City has determined to reconstruct and renew the streets and walks in these older areas of town.
 2. The City has asked the Utilities Commission to relocate power poles, lines, place some items underground, install architecturally attractive lighting and poles, and to modernize water, sewer, and fire protection facilities in the area to improve appearance, service, and reduce future maintenance/repair activities for utilities which could damage the new street & sidewalk work.

- Electric system - convert 13KV to 23KV for Hiles Boulevard, Oak Tree to Sand Dune, and Hillside to Ocean Walk
 1. The South Beach area primary voltage was not increased from 13KV to 23KV when the rest of the service area was changed.
 2. This area is the farthest outlying load in the service area and voltage upgrade was not economically feasible at the time.
 3. Because of this condition, power quality, service, and reliability is lower and voltage are more difficult to maintain.
 4. Voltage upgrade at this time is more critical, and more feasible than it has been in the past and will solve many service and quality issues in that area.

- Electrical system reconductor of US1
 1. Loads on this line have increased over time and continue to grow.
 2. This line will assist in the support of loads in the South Beach as service is improved there.
 3. Conductor upgrade will increase capacity of this line, extend its life and improve service quality and reliability as far as the southernmost point of the service area.

- Water - Reconstruct Smith Street and Third Avenue pump stations. Generators at Smith Street, Glencoe and Third Avenue
 1. Third Avenue tank and pump station had reached the end of its functional life a few years ago and was decommissioned.
 2. Increasing demand on the Beach area has generated the need for added flow capacity to all beach side areas.
 3. The recent water system facilities study and master plan highlighted existing fire flow shortfalls on the beach in general and the North beach in particular and identified immediate improvements needed to meet these demands.
 4. The construction a new storage tank and pump station is determined to correct these capacity limitations. This need is immediate.
 5. Smith Street Pumping Station provides water to the eastern part of the service area and all of the beach.
 6. Smith Street Pump Station is plagued by poor design, worn out equipment, functional and technological obsolescence, and inadequate capacity, detailed in Part 2 of the Water Master Facilities Plan.
 7. Complete replacement of this pump station is necessary for current and future needs of the eastern service area. This need is immediate.
 8. The UCNSB water system has zero gallons of elevated tank storage so continued water service contingency for power failure can only be met by standby on site generation at critical facilities, including the wells, treatment plant, and all pumping stations. This immediate need is detailed in the Part 2 of the Water Facilities Master Plan.

- Water system low pressure transmission main.
 1. The Smith Street Pump Station needs a pipeline direct from the treatment plant to avoid the need to draw water from the distribution system and pump directly back into distribution, pumping circular, ineffectively and wasting much energy.
 2. This pipeline is an immediate need, as described in more detail in the Water Master Facilities Plan, Parts 1 and 2.

- Reconfigure Water Treatment Plant and rehabilitation of Slaker System, Lime Silo and controls/instrumentation.
 1. The Water Treatment Plant was constructed in the 1960's and uses power and control equipment that is functionally obsolete and technologically incapable of adequately, effectively or efficiently controlling and monitoring the complex system of wells, treatment processes, pumping, storage tanks, and security required of the present system and the new improvement described above and in the Facilities Plan. This is an immediate need.
 2. The Lime Silo and controls/monitoring/instrumentation is failing from age, corrosion, and obsolescence and must be refurbished and upgraded to keep the water treatment plant in operation for the medium to long term. This is an immediate need described in detail in Part 2 of the Water Facilities Master Plan.

- Wastewater Intracoastal forcemain.
 1. All wastewater from the barrier island part of the service area is pumped to the mainland and the treatment plant by Lift Station #1, through an existing combination of 12" and 14" pipe as far as Lift Station #10 where it is repumped.
 2. The existing pipe is undersized, exposed at the bottom of the Indian River/Intracoastal waterway, and has been damaged in the past by boat anchorage and storm action.
 3. A new pipeline is needed, adequately sized for current and future flow, to save pumping energy, prevent failure from corrosion, deep enough to avoid damage by boats and storms. This need is immediate and is described in detail in the recent Wastewater Facilities Master Plan.

- Multiple lift station upgrades and repairs due to deteriorating wastewater system.
 1. Of the nearly 100 lift stations in the wastewater system, many are decades old, worn out, under capacity, or with obsolete or failing equipment. These stations require immediate and long term replacement or rehabilitation to continue in service, and meet regulatory requirements

- Improvements to the dechlorination facility and influent structures.
 1. New regulatory requirements require the monitoring for DCBM of dichlorobromomethane – a chlorination byproduct in the water, wastewater and reclaimed water systems. In order to continually and reliably meet the effluent discharge limitations these improvements must be made to the wastewater treatment plant. This parameter is the subject of an active Consent Order by FDEP, and a revised NPDES permit and new MCL limits.

- Install a 1 MG reuse tank.
 1. The Utilities Commission is completing a series of improvements to the wastewater treatment plant to improve it's treatment process and increase the capacity rating from 6.0 to 7.0 MGD. A Florida regulatory requirement forces construction of an additional 1.0 million gallons of substandard reuse water storage to supplement the existing 6.0 MG to maintain storage equal to the 24 hour rated capacity of the plant. This is an immediate need, and a necessary part of an ongoing 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 Utilities Commission had undergone a comprehensive rate study that was accepted March 2006 resulting in rate changes that were 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.

MAJOR ACCOMPLISHMENTS

During fiscal year 2006, the Utilities Commission accomplished the following:

- Developed and published formal strategic initiatives detailing vision, strategic plan, strategies, objectives, tactics, and goals.
- Completed the Communications Division's exit from prepaid cell phones (June 2006), telephone service (August and September 2006), and cable business (October 2006).
- Implemented information systems back-up storage and effective firewall.
- Completed water consumptive use permit (CUP) application with increase to 8.33 MGD in 2012.
- Developed and implemented ERU Developer's Agreement Addendum to aid in paying for external infrastructure for new developments.
- Initiated alternate water source and energy production concept.
- Completed reuse pond construction and obtained operating permits which will provide about 15 million gallons of reuse when the pond is full.

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 Utilities 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 Utilities 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 Utilities 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 and the City Commission of the City of New Smyrna Beach. No supplemental appropriations were made in 2006.

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

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|-----------------|------------------|-----------------|
| Revenue and Receipts: | | | |
| Electric system | \$ 36,679 | 46,262 | 9,583 |
| Water system..... | 6,622 | 6,637 | 15 |
| Wastewater system..... | 6,776 | 7,211 | 435 |
| Communications system | 10,960 | 5,556 | (5,404) |
| Capital contributions | <u>2,286</u> | <u>7,522</u> | <u>5,236</u> |
| | <u>63,323</u> | <u>73,188</u> | <u>9,865</u> |
| Operating Expenses: | | | |
| Purchased power and fuel | 18,230 | 24,855 | 6,625 |
| Other production | 13,196 | 10,042 | (3,154) |
| Transmission, distribution, sewage collection and treatment..... | 4,005 | 5,187 | 1,182 |
| Customer accounting | 1,147 | 2,202 | 1,055 |
| Administrative and general | 8,689 | 7,948 | (741) |
| Required payments to City..... | 3,620 | 3,665 | 45 |
| Nuclear generation facility decommissioning..... | <u>142</u> | <u>233</u> | <u>91</u> |
| | <u>49,029</u> | <u>54,132</u> | <u>5,103</u> |
| Net revenue and receipts..... | 14,294 | 19,056 | 4,762 |
| Operating transfers (net) | <u>(14,294)</u> | <u>(13,653)</u> | <u>641</u> |
| Budgeted net cash receipts..... | <u>\$ 0</u> | 5,403 | <u>5,403</u> |
| Reconciliation of budget to change in net assets: | | | |
| Principal portion of sinking fund transfers..... | | 5,306 | |
| Internal funds transfers (net) | | 5,622 | |
| Depreciation and amortization | | (5,909) | |
| Other | | <u>(10)</u> | |
| Change in net assets..... | | <u>\$ 10,412</u> | |

The Utilities 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 2006, the Utilities Commission’s actual revenues were more than anticipated amounts by \$9.9 million. This was due primarily to increased electric sales to recover increased costs of energy and increased capital contributions from developers. Actual transmission and distribution expenses were higher than anticipated due to rising operating expenses and 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, 2006, the Utilities Commission served 24,174 electric customers, 22,765 water customers, 18,243 wastewater customers, 570 reclaimed water customers, and 2,130 Internet dial-up, DSL, and broadband customers. 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, 2006, 2005 and 2004 totaled \$1,024,376, \$690,497 and \$281,003, respectively. The Utilities Commission's cash and investments, including accrued interest and dividends receivable, on hand at September 30, 2006, 2005 and 2004, totaled \$26.0 million, \$25.9 million and \$22.2 million, respectively. The individual components are as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|----------------------|-------------------|-------------------|
| Current assets: | | | |
| Operating cash and cash equivalents | \$ 153,235 | 112,850 | 1,892,948 |
| Investments..... | <u>1,010,000</u> | <u>1,000,000</u> | <u>0</u> |
| | <u>1,163,235</u> | <u>1,112,850</u> | <u>1,892,948</u> |
| Restricted assets: | | | |
| Revenue certificate covenant funds | 13,657,353 | 12,669,367 | 10,029,357 |
| R&R service capacity fee funds..... | 6,293,735 | 7,462,106 | 5,892,423 |
| Customer deposits | 1,817,759 | 1,776,948 | 1,682,978 |
| CR-3 decommissioning fund | <u>3,118,284</u> | <u>2,885,737</u> | <u>2,707,137</u> |
| | <u>24,887,131</u> | <u>24,794,158</u> | <u>20,310,895</u> |
| Total cash and investments | \$ <u>26,050,366</u> | <u>25,907,008</u> | <u>22,203,843</u> |

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 Utilities Commission, or by the State of Florida in accordance with the applicable provisions of the Act. All of the Utilities 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, 2006, is as follows:

| | <u>Average Yield</u> |
|-----------------|--------------------------|
| October | 3.66% |
| November | 3.84% |
| December..... | 4.04% |
| January..... | 4.16% |
| February..... | 4.32% |
| March..... | 4.49% |
| April | 4.66% |
| May..... | 4.80% |
| June..... | 4.90% |
| July | 5.10% |
| August | 5.17% |
| September | 5.17% |

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

To the Chairman and Members
of the Utilities Commission
December 18, 2006
Page 9

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, 2005. We are also quite proud of the fact that we have been awarded with this Certificate for the twenty-sixth consecutive year.

In order to be awarded a Certificate of Achievement, the Utilities 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

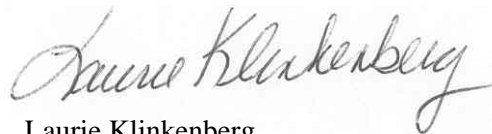
The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

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



Laurie Klinkenberg
Director of Finance



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FINANCIAL SECTION

THIS SECTION IS COMPOSED OF THE FOLLOWING:

INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS

SUPPLEMENTAL FINANCIAL INFORMATION



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INDEPENDENT AUDITORS' REPORT



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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 Utilities Commission, City of New Smyrna Beach, Florida, a component unit of City of New Smyrna Beach, Florida, as of and for the fiscal years ended September 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of Utilities Commission, City of New Smyrna Beach, Florida'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 Utilities Commission, City of New Smyrna Beach, Florida, as of September 30, 2006 and 2005, 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 December 18, 2006, on our consideration of Utilities Commission, City of New Smyrna Beach, Florida'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.

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida
Page 2 of 2

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 is presented for purposes of additional analysis and is 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 Milliken & Co., P.A.

December 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS



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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, 2006. 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 2006 at 383.2 million kWh sales compared to 371.2 million kWh sales in 2005, a 3.2% increase, due to growth in the number of customers served. Sales revenue generated by the Electric System increased from \$36.1 million in 2005 to \$44.3 million in 2006.
- The volume of treated potable water sold in 2006 increased by 12.3%. The volume of wastewater treated in 2006 increased by 6.9%. The volume of reclaimed water treated in 2006 increased by 27.7%. These increases came as a result of growth in the number of customers served and due to unusually dry weather experienced during the fiscal year. Sales revenue generated by the Water System increased from \$5.7 million in 2005 to \$6.3 million in 2006. Sales revenue generated by the Wastewater System for wastewater and reclaimed water services increased from \$6.4 million in 2005 to \$7.2 million in 2006.
- In 2006, the Communications System experienced an operating loss of approximately \$2.9 million. Some of the factors contributing to the loss incurred in fiscal year 2006 include: (1) continued increased costs to provide telephone services, (2) continued increase in the amount of uncollectible customer accounts receivable, and (3) continued failure to collect additional revenue sources related to network access charges. Faced with unprofitable operations related to telephone sales and other business challenges, the Utilities Commission decided to discontinue providing telephone services effective August 1, 2006.
- The Utilities Commission's assets exceeded its liabilities (*net assets*) at the end of September 30, 2006 by more than \$83.3 million. Of this amount, approximately \$11.2 million was unrestricted and available to be used to meet the Commission's ongoing obligations to its customers and creditors. Of the remaining \$72.1 million, approximately \$65.2 million was invested in utility plant assets and assets held for future use, while the remainder was restricted for utility plant expansion (\$6.3 million) and debt service (\$539,839).
- During the year, the Utilities Commission's net assets increased by \$10.4 million. Of this amount, approximately \$5.9 million came from developer donated in-ground assets reported in capital contributions. Net assets totaled \$83.3 million in 2006 compared to approximately \$72.9 million at the end of 2005.
- During 2006, the Utilities Commission's operating revenue increased by approximately \$5.0 million to \$64.0 million, which was 8.5% more than last years operating revenue of \$59.0 million. The Utilities Commission's operating expenses increased by \$2.3 million to \$59.7 million, which was 4.0% more than last year's \$57.4 million. The net increase in operating expenses was from an increase of \$6.2 million in the Electric System's fuel and purchased power costs, while most of the other operating expenses decreased.

- Capital contributions received by the Utilities Commission increased from \$3.4 million in 2005 to \$7.5 million in 2006. The majority of the increase amounting to approximately \$5.9 million came from developer donated in-ground assets, attributed to residential home development expansion.
- The Commission's long-term debt decreased to \$64.6 million in 2006, which is down \$5.2 million over last year's \$69.8 million, primarily due to scheduled principal payments. There was no new debt issued in fiscal year 2006.

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 September 30, (\$000's)

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|------------------|----------------|----------------|
| Current and other assets | \$ 42,860 | 39,649 | 33,686 |
| Capital assets: | | | |
| Productive assets in service (net) | 112,215 | 109,055 | 107,023 |
| Held for future use | 7,467 | 7,467 | 8,704 |
| Construction in progress | <u>6,439</u> | <u>3,167</u> | <u>5,801</u> |
| Total assets | <u>168,981</u> | <u>159,338</u> | <u>155,214</u> |
| Long-term debt outstanding | 64,603 | 69,837 | 75,101 |
| Other liabilities | <u>21,046</u> | <u>16,581</u> | <u>11,889</u> |
| Total liabilities | <u>85,649</u> | <u>86,418</u> | <u>86,990</u> |
| Net assets: | | | |
| Invested in plant, net of related debt | 65,216 | 56,511 | 48,625 |
| Restricted | 6,834 | 7,996 | 11,230 |
| Unrestricted | <u>11,282</u> | <u>8,413</u> | <u>8,369</u> |
| Total net assets | <u>\$ 83,332</u> | <u>72,920</u> | <u>68,224</u> |

The Utilities Commission's net assets increased \$10.4 million to \$83.3 million in 2006, which is up from \$72.9 million in 2005 and \$68.2 million in 2004. The most significant changes in net asset position in 2006 were from amounts invested in utility plant, net of related debt, which increased \$8.7 million, use of

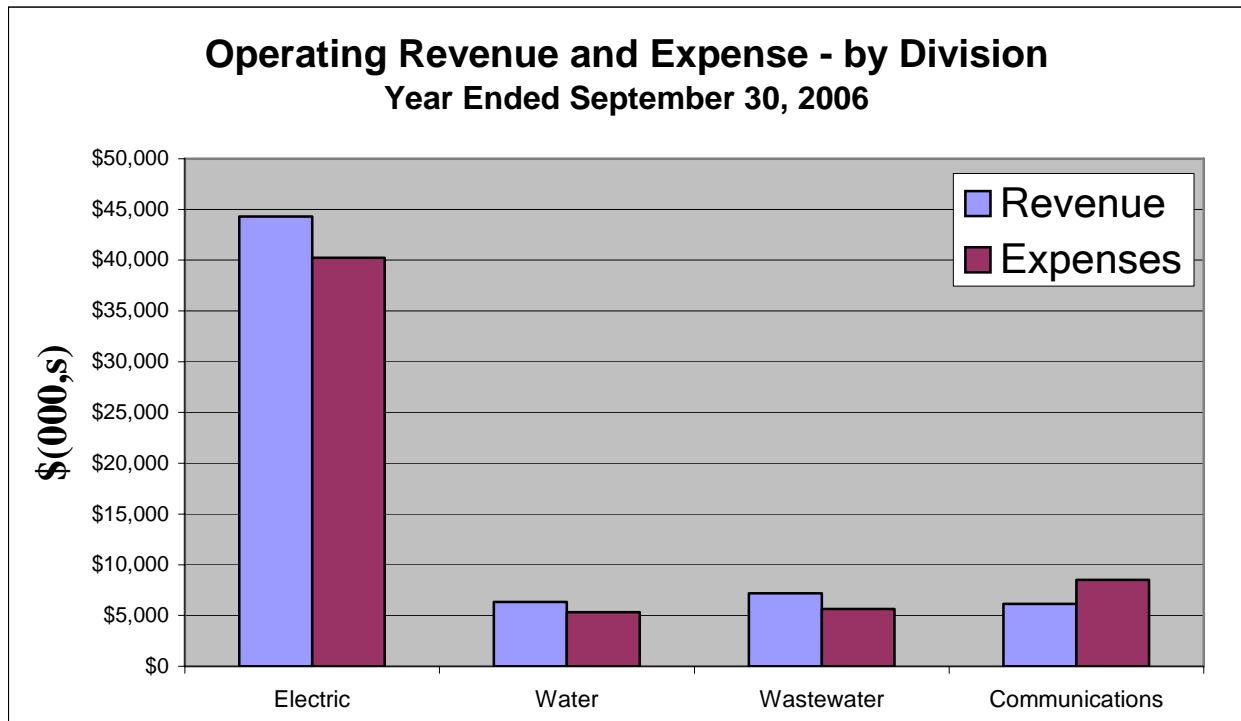
restricted renewal and replacement funds, which decreased \$1.2 million, and from an increase in unrestricted net assets of \$2.9 million. The increase in unrestricted net assets was attributable to increases in operating income from the core utilities; electric, water, and wastewater services. In 2005, the most significant changes in net assets came from an increase of \$7.1 million in amounts invested in utility plant, and from use of restricted renewal and replacement funds, which decreased \$3.2 million.

**Condensed Statements of Revenues,
Expenses, and Changes in Net Assets
Year Ended September 30,
(\$000's)**

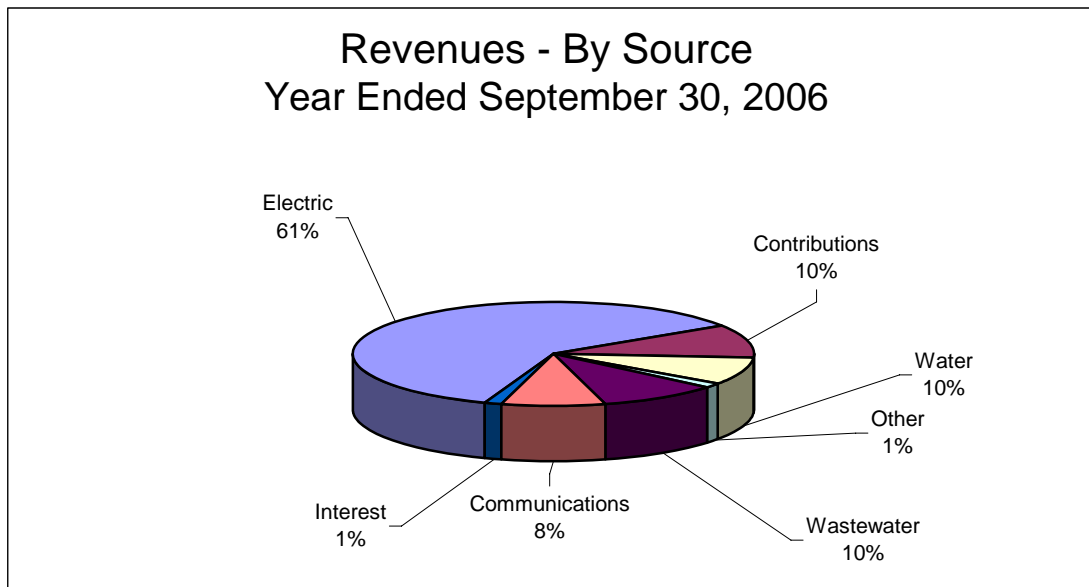
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|------------------|---------------|---------------|
| Revenues: | | | |
| Charges for services: | | | |
| Electric system..... | \$ 44,286 | 36,102 | 33,168 |
| Water system..... | 6,346 | 5,728 | 5,235 |
| Wastewater system..... | 7,168 | 6,380 | 6,025 |
| Communications system..... | <u>6,150</u> | <u>10,757</u> | <u>10,185</u> |
| Total charges for services..... | 63,950 | 58,967 | 54,613 |
| Interest earnings..... | 1,024 | 691 | 281 |
| Gain on asset disposals..... | 0 | 1,107 | 311 |
| Other..... | <u>902</u> | <u>1,082</u> | <u>1,125</u> |
| Total revenues..... | <u>65,876</u> | <u>61,847</u> | <u>56,330</u> |
| Expenses: | | | |
| Division operating expenses: | | | |
| Electric system..... | 40,221 | 33,020 | 30,185 |
| Water system..... | 5,326 | 4,690 | 4,399 |
| Wastewater system..... | 5,647 | 5,252 | 4,992 |
| Communications system..... | <u>8,496</u> | <u>14,419</u> | <u>13,760</u> |
| Total division operating expenses..... | 59,690 | 57,381 | 53,336 |
| Interest and debt expense..... | 3,076 | 3,097 | 3,101 |
| Loss on disposal of assets..... | 10 | 0 | 0 |
| Other..... | <u>210</u> | <u>102</u> | <u>228</u> |
| Total expenses..... | <u>62,986</u> | <u>60,580</u> | <u>56,665</u> |
| Income (loss) before contributions..... | 2,890 | 1,267 | (335) |
| Capital contributions..... | 7,522 | 3,428 | 1,854 |
| Transfers..... | <u>0</u> | <u>0</u> | <u>(163)</u> |
| Increase (decrease) in net assets..... | <u>\$ 10,412</u> | <u>4,695</u> | <u>1,356</u> |

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 experienced difficulty in providing communications services under its own Competitive Local Exchange Carrier license since its beginning in August 2003. Significant losses were incurred in each of the past three years. In 2006, communications system losses totaled \$2.9 million. The factors contributing to this loss are mentioned in the Financial Highlights section above. In 2005, losses totaling \$3.8 million from Communications System activities were incurred. The Commission dedicated substantial financial resources in 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.

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

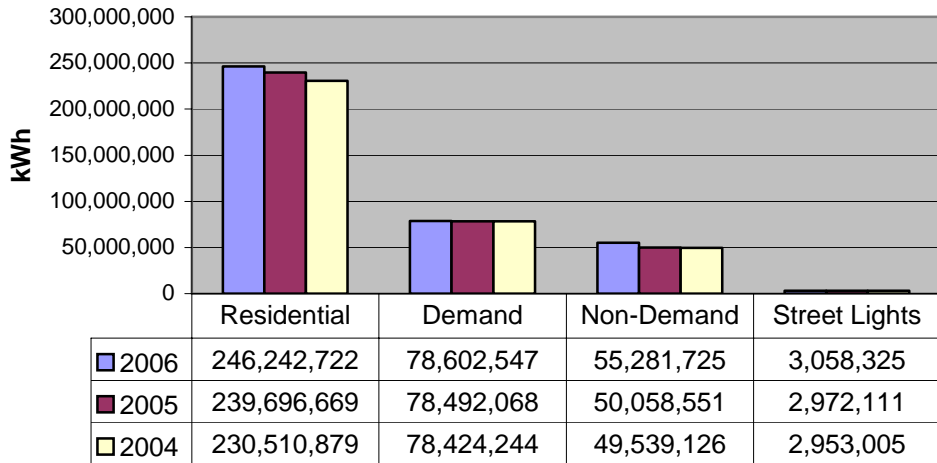


The following is a summary of the composition of 2006 utility system revenues by source:



During 2006, the overall demand for electricity increased. Total electric kWh sales increased from 371.2 million kWh sales in 2005 to 383.2 million kWh sales in 2006. In 2005, the demand for electricity had increased from 361.4 million kWh sales in 2004 to 371.2 million kWh sales in 2005. These increases were from growth in the number of customers served. The number of electric customers increased by 2.9% in 2006 to 24,174, compared to an increase of 1.7% in 2005 of 23,489, as compared to 23,090 in 2004. 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.

Electric kWh Sales Years Ended September 30, 2006, 2005 and 2004



| | Residential | Demand | Non-Demand | Street Lights |
|------|-------------|------------|------------|---------------|
| 2006 | 246,242,722 | 78,602,547 | 55,281,725 | 3,058,325 |
| 2005 | 239,696,669 | 78,492,068 | 50,058,551 | 2,972,111 |
| 2004 | 230,510,879 | 78,424,244 | 49,539,126 | 2,953,005 |

kWh Sold by Service Type

The actual number of customers increased in all divisions with the exception of a sharp decline in the communications system as a result of the Commission ceasing telephone sales operations. The water system experienced an increase in the number of customers served. The volume of potable water sold during 2006 increased 12.3% to 1,674 MG compared to a decrease in 2005 of 3.3% to 1,490 MG, as compared to 1,539 MG in 2004. The wastewater system experienced a 6.9% increase in 2006 to 934 MG compared to a 0.1% increase of 874 MG in the volume of wastewater treated in 2005, as compared to 873 MG treated in 2004. The volume of reclaimed water sold during 2006 increased 27.6% to 361 MG, compared to a 2005 increase of 7.6% with sales of 283 MG, as compared to 263 MG sold in 2004.

Rising costs to produce electric system revenues resulted in a fuel adjustment being made in 2005 that was factored into billings November 1, 2005 and remained in effect through September 30, 2006. In 2006 the Communications System telephone service sales declined with the Commission having officially terminated all telephone sales operations by year-end. The actual number of residential and commercial utility customers increased during 2006 in all operating divisions, except Telecommunications, as follows:

| Utility Operating Division | 2006 Customers | 2005 Customers | 2004 Customers |
|----------------------------------|-------------------|-------------------|-------------------|
| Electric system..... | 24,174 | 23,489 | 22,922 |
| Water system..... | 22,765 | 21,905 | 20,980 |
| Wastewater system..... | 18,243 | 17,601 | 17,062 |
| Reclaimed water system | 570 | 501 | 462 |
| Communications – Internet..... | 2,130 | 913 | 7,065 |
| Communications – Telephone | 0 | 11,813 | 16,671 |

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 2006, the Utilities Commission's investment in capital assets amounted to \$126.1 million, which is stated net of \$82.7 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 reclaimed water distribution facilities, and
- Machinery and equipment.

In 2005, the total increase in the Commission's investment in capital assets was \$9.0 million, compared to \$5.0 million invested in 2005, and \$4.9 million invested in 2004. Major capital asset additions made in 2006 included the following:

- New water and wastewater services transmission and distributions mains totaling \$6.7 million, of which \$5.7 million came from developer donated assets, and
- Line transformers, poles and fixtures, new street lighting, overhead conversions and underground extensions of electric transmission and distribution services, including nuclear plant additions, amounting to \$1.2 million

Utility Plant, Net of Accumulated Depreciation September 30, (\$000's)

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-------------------|----------------|----------------|
| Land and land rights..... | \$ 3,272 | 3,272 | 3,265 |
| Structures and improvements..... | 20,922 | 20,695 | 20,268 |
| Production and treatment plant | 45,584 | 45,085 | 44,921 |
| Transmission, distribution, and collection and treatment plant | 111,458 | 104,349 | 100,971 |
| Other general plant and equipment | <u>13,525</u> | <u>12,447</u> | <u>9,139</u> |
| | 194,761 | 185,848 | 178,564 |
| Accumulated depreciation | (79,612) | (74,130) | (68,992) |
| Allowance for decommissioning | <u>(3,118)</u> | <u>(2,886)</u> | <u>(2,707)</u> |
| | 112,031 | 108,832 | 106,865 |
| Construction in progress | 6,439 | 3,167 | 5,801 |
| Plant held for future use..... | 7,467 | 7,467 | 8,704 |
| Nuclear fuel, net of amortization | <u>184</u> | <u>223</u> | <u>158</u> |
| Utility plant, net | <u>\$ 126,121</u> | <u>119,689</u> | <u>121,528</u> |

Additional information regarding the Commission's capital assets can be found in Note 5 in the notes to the financial statements.

Long-Term Debt and Debt Administration

The 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:

| Debt Service Coverage Ratio | | | |
|--|--------------------|--------------------|--------------------|
| Year Ended September 30, | | | |
| (\$000's, except ratios) | | | |
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Operating revenues | \$ 63,950 | 58,967 | 54,613 |
| Interest and other income | 1,926 | 1,772 | 1,406 |
| Capacity and other fees | <u>1,578</u> | <u>3,429</u> | <u>1,855</u> |
| Revenues per certificate resolution | 67,454 | 64,168 | 57,874 |
| Cost of Operation and Maintenance, net of depreciation and required payments to City of New Smyrna Beach | <u>50,466</u> | <u>48,779</u> | <u>45,063</u> |
| Net revenues per certificate resolution | <u>16,988</u> | <u>15,389</u> | <u>12,811</u> |
| Annual debt service requirement | \$ <u>8,144</u> | <u>7,394</u> | <u>7,426</u> |
| Debt service coverage ratio (times) | <u><u>2.09</u></u> | <u><u>2.08</u></u> | <u><u>1.73</u></u> |

As of September 30, 2006, the Utilities Commission had outstanding \$38,395,000 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:

| | <u>Moody's</u> | <u>Standard & Poor's</u> | <u>Fitch's</u> |
|--|----------------|------------------------------|----------------|
| 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 \$13,536,553 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 \$18,471,000, 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, 2006. 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 \$64.6 million in long-term debt outstanding, which was down \$5.2 million over the prior year's \$69.8 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 were 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 \$40 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 3.1% at the end of September 2006, which is lower than the 3.4% rate experienced one year earlier. These estimates compare favorably to the state's 3.4% and 3.7% unemployment rates at September 2006 and 2005, respectively. Statewide, Florida's unemployment rate has continued to be below the national average.
- Inflationary trends for Volusia County continue to compare favorably with those trends experienced at the state and national levels.

Other factors influencing the Commission's 2007 operating budget includes continued growth in all divisions, with the exception of the communications division, which no longer offers telephone services, and consists solely of Internet services. A summary of the enacted 2007 budget follows:

**FY 2007 Operating Budget
With Comparison to FY 2006 Actual
\$(000's)**

| | 2007 <u>Budget</u> | 2006 <u>Actual</u> | Dollar <u>Change</u> |
|---------------------------------------|-----------------------|-----------------------|-------------------------|
| Revenue and Receipts: | | | |
| Electric system | \$ 41,025 | 46,262 | (5,237) |
| Water system | 6,863 | 6,637 | 226 |
| Wastewater system | 7,543 | 7,211 | 332 |
| Communications /Internet system | 305 | 5,556 | (5,251) |
| Capital contributions | 4,077 | 7,522 | (3,445) |
| CDD Infrastructure fees | <u>3,934</u> | <u>0</u> | <u>3,934</u> |
| | <u>63,747</u> | <u>73,188</u> | <u>(9,441)</u> |
| Operating Expenses: | | | |
| Purchased power and fuel..... | 22,017 | 24,855 | (2,838) |
| Operation and maintenance | 21,376 | 25,612 | (4,236) |
| Required payments to City | <u>3,285</u> | <u>3,665</u> | <u>(380)</u> |
| | <u>46,678</u> | <u>54,132</u> | <u>(7,454)</u> |
| Net revenue and receipts | 17,069 | 19,056 | (1,987) |
| Debt issuance | 15,000 | 0 | 15,000 |
| Debt service | (5,298) | (8,031) | 2,733 |
| Operating transfers (net) | <u>(26,771)</u> | <u>(5,621)</u> | <u>(21,150)</u> |
| Budgeted net cash receipts..... | \$ <u>0</u> | <u>5,404</u> | <u>(5,404)</u> |

The Utilities Commission's adopted increased rates for all of its services in response to recommendations made from the comprehensive Costs of Service Analysis and Rate Study prepared for the electric, water, and wastewater utilities. The rate increases were deemed necessary for us to recover all of the costs associated with providing these services. In its November 20, 2006 meeting, the Utilities Commission promptly increased the fuel and purchased power cost adjustment clause billing factor, effective with the first billing cycle in December 2006, which increased the adjustment from \$31.20 per 1,000 kWh to \$45.29 per 1,000 kWh to cover the increased amount of under-recovered fuel and purchased power costs that have accumulated since January 1, 2004.

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, 2006 and 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 |
|---|-----------------------|---------------------|
| Assets: | | |
| Utility Plant: | | |
| Electric utility plant in service..... | \$ 82,674,321 | 81,540,759 |
| Water utility plant in service..... | 42,755,093 | 39,626,370 |
| Wastewater and water reuse utility plant in service..... | 58,174,902 | 54,204,163 |
| Communications services plant in service..... | 2,762,871 | 2,762,871 |
| General utility plant in service..... | <u>8,392,652</u> | <u>7,713,901</u> |
| | 194,759,839 | 185,848,064 |
| Less: accumulated depreciation and amortization..... | <u>(82,729,947)</u> | <u>(77,016,083)</u> |
| | 112,029,892 | 108,831,981 |
| Construction work in progress..... | 6,439,359 | 3,166,792 |
| Plant held for future use..... | 7,467,493 | 7,467,493 |
| Nuclear fuel, net of amortization..... | <u>184,459</u> | <u>222,869</u> |
| | 126,121,203 | 119,689,135 |
| Total utility plant, net..... | <u>126,121,203</u> | <u>119,689,135</u> |
| Current Assets: | | |
| Investments..... | 1,010,000 | 1,000,000 |
| Accrued interest and dividends..... | 153,235 | 112,850 |
| Restricted assets: | | |
| Cash and cash equivalents..... | 22,850,394 | 21,787,820 |
| Investments..... | 2,000,000 | 3,000,000 |
| Accrued interest and dividends..... | 36,737 | 6,338 |
| Accounts receivable, net of allowance for doubtful accounts (\$4,448,432 - 2006 and \$3,569,296 - 2005)..... | 3,786,676 | 3,556,062 |
| Unbilled accounts receivable..... | 8,018,315 | 5,238,215 |
| Notes receivable..... | 2,134,800 | 2,267,577 |
| Inventories..... | 2,368,199 | 1,949,346 |
| Prepaid expenses and other assets..... | <u>106,142</u> | <u>243,424</u> |
| | 42,464,498 | 39,161,632 |
| Total current assets..... | <u>42,464,498</u> | <u>39,161,632</u> |
| Other Noncurrent Assets: | | |
| Unamortized debt expense..... | <u>395,428</u> | <u>487,291</u> |
| | 168,981,129 | 159,338,058 |
| Total assets..... | <u>\$ 168,981,129</u> | <u>159,338,058</u> |

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

Statement 1

| | 2006 | 2005 |
|--|-----------------------|--------------------|
| Net Assets: | | |
| Invested in utility plant, net of related debt..... | \$ 65,216,366 | 56,511,156 |
| Restricted for debt service..... | 539,839 | 539,839 |
| Restricted for renewal and replacement..... | 6,293,735 | 7,455,768 |
| Unrestricted..... | <u>11,282,197</u> | <u>8,413,020</u> |
| Total net assets..... | <u>83,332,137</u> | <u>72,919,783</u> |
| Liabilities: | | |
| Long-Term Debt: | | |
| Revenue certificates payable (net)..... | 34,393,838 | 37,629,837 |
| Notes payable (net)..... | <u>30,209,339</u> | <u>32,207,552</u> |
| Total long-term debt..... | <u>64,603,177</u> | <u>69,837,389</u> |
| Current Liabilities: | | |
| Bank overdraft-unrestricted cash and cash equivalents..... | 6,939,920 | 2,648,474 |
| Accounts payable..... | 3,645,387 | 3,663,125 |
| Accrued liabilities..... | 710,670 | 509,463 |
| Accrued interest payable..... | 735,807 | 781,723 |
| Revenue certificates payable - current..... | 3,210,000 | 3,120,000 |
| Notes payable - current..... | 1,798,214 | 1,730,697 |
| Customers' deposits..... | 1,817,759 | 1,776,948 |
| Due to other governments..... | <u>1,767,457</u> | <u>1,895,100</u> |
| Total current liabilities..... | <u>20,625,214</u> | <u>16,125,530</u> |
| Other Noncurrent Liabilities: | | |
| Deferred compensated absences..... | <u>420,601</u> | <u>455,356</u> |
| Total liabilities..... | <u>85,648,992</u> | <u>86,418,275</u> |
| Total liabilities and net assets..... | <u>\$ 168,981,129</u> | <u>159,338,058</u> |

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

Statement 2

For the Fiscal Years Ended September 30, 2006 and 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| | 2006 | 2005 |
|--|----------------------|-------------------|
| Operating Revenue: | | |
| Sales..... | \$ 63,246,281 | 58,243,276 |
| Other revenue..... | <u>704,082</u> | <u>724,127</u> |
| Total operating revenue..... | <u>63,950,363</u> | <u>58,967,403</u> |
| Operating Expenses: | | |
| Purchased power and fuel expenses..... | 24,854,589 | 18,615,982 |
| Other production expenses..... | 10,042,297 | 13,946,939 |
| Transmission, distribution, and sewage collection and treatment..... | 5,187,372 | 4,788,033 |
| Customer accounting..... | 2,202,317 | 2,536,210 |
| Administrative and general..... | 7,947,091 | 8,713,250 |
| Required payments to the City of New Smyrna Beach..... | 3,665,315 | 3,328,647 |
| Depreciation and decommissioning..... | <u>5,790,996</u> | <u>5,451,571</u> |
| Total operating expenses..... | <u>59,689,977</u> | <u>57,380,632</u> |
| Operating income..... | <u>4,260,386</u> | <u>1,586,771</u> |
| Nonoperating Revenue (Expense): | | |
| Interest earnings..... | 1,024,376 | 690,497 |
| Other income..... | 901,493 | 1,081,808 |
| Interest and debt expense..... | (3,075,803) | (3,097,313) |
| Other expenses..... | (210,748) | (102,333) |
| Gain (loss) on disposal of assets..... | <u>(9,814)</u> | <u>1,107,426</u> |
| Total nonoperating (expense)..... | <u>(1,370,496)</u> | <u>(319,915)</u> |
| Income (loss) before contributions and transfers..... | 2,889,890 | 1,266,856 |
| Capital contributions..... | <u>7,522,464</u> | <u>3,428,529</u> |
| Total contributions and transfers..... | <u>7,522,464</u> | <u>3,428,529</u> |
| Change in net assets..... | 10,412,354 | 4,695,385 |
| Net assets, beginning of year..... | <u>72,919,783</u> | <u>68,224,398</u> |
| Net assets, end of year..... | <u>\$ 83,332,137</u> | <u>72,919,783</u> |

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

STATEMENTS OF CASH FLOWS**Statement 3**

For the Fiscal Years Ended September 30, 2006 and 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 |
|--|----------------------|--------------------|
| Cash Flows From Operating Activities: | | |
| Cash received from customers..... | \$ 62,014,730 | 58,921,137 |
| Cash paid to suppliers..... | (41,916,819) | (37,995,126) |
| Cash paid to employees..... | (8,672,303) | (9,202,478) |
| Other receipts (payments)..... | <u>(3,667,038)</u> | <u>(2,450,725)</u> |
| Net cash provided by operating activities..... | <u>7,758,570</u> | <u>9,272,808</u> |
| Cash Flows From Capital and Related Financing Activities: | | |
| Debt reduction outlays..... | (5,335,697) | (4,866,002) |
| Advanced refunding of debt..... | - | (98,724) |
| Capital contributions..... | 1,577,701 | 3,428,529 |
| Proceeds from sale of property and equipment..... | 28,895 | 474,584 |
| Acquisition and construction of capital assets..... | (6,431,078) | (5,013,904) |
| Interest paid..... | <u>(2,770,855)</u> | <u>(2,837,789)</u> |
| Net cash (used in) capital and related financing activities..... | <u>(12,931,034)</u> | <u>(8,913,306)</u> |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale and maturities of investment securities..... | 5,020,000 | 21,300 |
| Acquisition of investment securities..... | (4,030,000) | (2,000,000) |
| Interest received..... | <u>953,592</u> | <u>597,172</u> |
| Net cash (used in) investing activities..... | <u>1,943,592</u> | <u>(1,381,528)</u> |
| Net (decrease) in cash and cash equivalents..... | (3,228,872) | (1,022,026) |
| Cash and cash equivalents, beginning of year..... | <u>19,139,346</u> | <u>20,161,372</u> |
| Cash and cash equivalents, end of year..... | <u>\$ 15,910,474</u> | <u>19,139,346</u> |
| Reconciliation to Balance Sheet: | | |
| Cash and cash equivalents..... | \$ - | - |
| Bank overdraft - unrestricted cash and cash equivalents..... | (6,939,920) | (2,648,474) |
| Restricted cash and cash equivalents..... | <u>22,850,394</u> | <u>21,787,820</u> |
| Total cash and cash equivalents..... | <u>\$ 15,910,474</u> | <u>19,139,346</u> |

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, 2006 and 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 |
|---|---------------------|------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income..... | \$ 4,260,386 | 1,586,771 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation, decommissioning, and nuclear fuel amortization..... | 5,905,065 | 5,596,553 |
| Provision for losses on receivables..... | 1,380,559 | 1,078,834 |
| Decrease (increase) in operating assets: | | |
| Accounts and notes receivable..... | (1,478,396) | 124,175 |
| Unbilled accounts receivable..... | (2,780,100) | (1,346,219) |
| Inventories..... | (418,853) | (158,873) |
| Prepaid expenses..... | 137,282 | (196,571) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable..... | (17,738) | 877,923 |
| Due to other governments..... | (127,643) | 980,255 |
| Customer deposits..... | 40,811 | 93,970 |
| Accrued liabilities..... | 201,207 | (319,500) |
| Deferred liabilities..... | (34,755) | (23,985) |
| Other income..... | 901,493 | 1,081,808 |
| Other expense..... | (210,748) | (102,333) |
| Net cash provided by operating activities..... | <u>\$ 7,758,570</u> | <u>9,272,808</u> |

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

NOTES TO THE FINANCIAL STATEMENTS



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NOTES TO THE FINANCIAL STATEMENTS

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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, 2006 and 2005. 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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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 \$1,000 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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)
September 30, 2006 And 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

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:

| | <u>Years</u> |
|--|--------------|
| 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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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 year end.

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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

As of September 30, 2006, the Commission had the following deposits and investments:

| Deposits | Carrying Amount | Bank Balance |
|-------------------------------------|---------------------|---------------------|
| Insured (FDIC)..... | \$ 2,924,945 | \$ 2,133,711 |
| Uninsured and uncollateralized..... | 15,948 | 15,948 |
| Cash funds..... | <u>11,931</u> | <u>11,931</u> |
| Total deposits..... | \$ <u>2,952,824</u> | \$ <u>2,161,590</u> |

| Investments | Carrying Value | Fair Value | Maturities | Credit Rating |
|---|----------------------|-------------------|------------------|---------------|
| Federal Home Loan Bank, Unsecured Bond | \$ 1,000,000 | 993,440 | 2/23/2007 | AAA |
| FNMA Bonds..... | 2,010,000 | 1,995,573 | 3/14/2007 | AAA |
| Repurchase agreements..... | <u>12,957,650</u> | <u>12,957,650</u> | 3 months or less | N/A |
| Total investments..... | \$ <u>15,967,650</u> | <u>15,946,663</u> | | |

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,

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

- 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, 2006 the Commission's investments in the Federal Home Loan Bank Unsecured Bond and FNMA 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 in 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

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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, 2006, the carrying amount of the Utilities Commission's deposits, including money market funds held with financial institutions, was \$2,952,824 and the September 30, 2006, bank balances totaled \$2,161,590 of which \$105,323 was covered by federal depository insurance, \$2,819,622 was secured in accordance with the statutory provisions of the Act, and \$15,948 was held in unsecured, uncollateralized money market mutual funds. Included in the carrying amount of Utilities Commission deposits is \$11,931 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, 2006 the Commission has custodial credit risk exposure of \$12,957,650 for investments in repurchase agreements and \$3,010,000 for one investment in a Federal Home Loan Bank Unsecured Bond and two investments 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, 2006 and 2005 are as follows:

| | September 30, | |
|--|----------------------|-------------------|
| | 2006 | 2005 |
| Revenue certificate covenant funds: | | |
| Debt service and related funds: | | |
| Principal and interest funds | \$ 5,588,270 | 5,276,531 |
| Debt service reserve funds..... | <u>539,839</u> | <u>539,839</u> |
| | 6,128,109 | 5,816,370 |
| Renewal and replacement funds..... | <u>7,529,244</u> | <u>6,852,997</u> |
| Total revenue certificate covenant funds..... | 13,657,353 | 12,669,367 |
| Nuclear generation facility decommissioning funds..... | 3,118,284 | 2,885,737 |
| Renewal and replacement service capacity fee funds | 6,293,735 | 7,462,106 |
| Developer infrastructure escrow | 57,130 | -- |
| Customer deposits | <u>1,760,629</u> | <u>1,776,948</u> |
| Total restricted assets | <u>\$ 24,887,131</u> | <u>24,794,158</u> |

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | September 30, | |
|-------------------------------------|----------------------|-------------------|
| | 2006 | 2005 |
| Total restricted assets consist of: | | |
| Cash and cash equivalents | \$ 22,850,394 | 21,787,820 |
| Investments, at cost | 2,000,000 | 3,000,000 |
| Accrued interest receivable | <u>36,737</u> | <u>6,338</u> |
| Total restricted funds | <u>\$ 24,887,131</u> | <u>24,794,158</u> |

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..... | \$ 8,235,108 | 6,881,354 |
| Reserve for uncollectible accounts | <u>(4,448,432)</u> | <u>(2,186,358)</u> |
| Total accounts receivable, net | <u>\$ 3,786,676</u> | <u>4,694,996</u> |

As of September 30, 2006 all accounts receivables from credit telephone service sales have been deemed by management to be uncollectible.

NOTE 5 – UTILITY PLANT

A summary of utility plant at September 30, 2006 and 2005 is as follows:

| | Electric | Water | Wastewater and Water Reuse | Common | Communications | Total September 30, 2006 |
|--|----------------------|-------------------|-------------------------------|------------------|------------------|--------------------------------|
| Land and land rights | \$ 1,679,978 | 483,946 | 364,167 | 743,588 | -- | 3,271,679 |
| Structures and improvements | 2,641,365 | 5,323,752 | 9,975,009 | 2,646,816 | 334,916 | 20,921,858 |
| Production and treatment plant..... | 24,905,740 | 6,754,029 | 13,924,382 | -- | -- | 45,584,151 |
| Transmission, distribution, and collection and treatment plant..... | 50,837,118 | 28,814,725 | 31,805,678 | -- | -- | 111,457,521 |
| Other general plant and equipment..... | <u>2,610,120</u> | <u>1,378,641</u> | <u>2,105,666</u> | <u>5,002,248</u> | <u>2,427,955</u> | <u>13,524,630</u> |
| | 82,674,321 | 42,755,093 | 58,174,902 | 8,392,652 | 2,762,871 | 194,759,839 |
| Accumulated depreciation | (43,466,474) | (15,037,051) | (16,204,708) | (4,682,604) | (220,826) | (79,611,663) |
| Allowance for decommissioning | <u>(3,118,284)</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>(3,118,284)</u> |
| | 36,089,563 | 27,718,042 | 41,970,194 | 3,710,048 | 2,542,045 | 112,029,892 |
| Construction in progress | 2,993,379 | 1,434,821 | 1,420,374 | 590,785 | -- | 6,439,359 |
| Plant held for future use..... | 7,467,493 | -- | -- | -- | -- | 7,467,493 |
| Nuclear fuel, net of amortization | <u>184,459</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>184,459</u> |
| Utility plant, net | <u>\$ 46,734,894</u> | <u>29,152,863</u> | <u>43,390,568</u> | <u>4,300,833</u> | <u>2,542,045</u> | <u>126,121,203</u> |

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 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 | <u>2,341,393</u> | <u>1,298,562</u> | <u>1,942,784</u> | <u>4,436,635</u> | <u>2,427,955</u> | <u>12,447,329</u> |
| | 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 | <u>(2,885,737)</u> | -- | -- | -- | -- | <u>(2,885,737)</u> |
| | 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 | <u>222,869</u> | -- | -- | -- | -- | <u>222,869</u> |
| Utility plant, net | <u>\$ 46,371,488</u> | <u>26,135,931</u> | <u>40,481,871</u> | <u>3,408,962</u> | <u>3,290,883</u> | <u>119,689,135</u> |

Depreciation expense totaled \$5,558,449 and \$5,272,971 for 2006 and 2005, respectively. There were no capitalized interest costs associated with expansion and improvements made to utility plant for the fiscal years ended September 30, 2006 and 2005.

A summary of capital assets activity for the year ended September 30, 2006 is as follows:

| | Beginning of Year | Acquisitions | Disposals | End of Year |
|---|-----------------------|--------------------|--------------------|---------------------|
| Capital assets, not being depreciated: | | | | |
| Land and land rights | \$ 3,271,679 | -- | -- | 3,271,679 |
| Construction in progress | 3,166,792 | 6,511,107 | (3,238,540) | 6,439,359 |
| Plant held for future use | 7,467,493 | -- | -- | 7,467,493 |
| Nuclear fuel, net of amortization | <u>222,869</u> | <u>75,659</u> | <u>(114,069)</u> | <u>184,459</u> |
| Total capital assets, not being depreciated | <u>14,128,833</u> | <u>6,586,766</u> | <u>(3,352,609)</u> | <u>17,362,990</u> |
| Capital assets, being depreciated: | | | | |
| Structures and improvements | 20,694,690 | 227,168 | -- | 20,921,858 |
| Production and treatment plant | 45,085,005 | 499,146 | -- | 45,584,151 |
| Transmission, distribution, and collection and treatment plant | 104,349,361 | 7,196,002 | (87,842) | 111,457,521 |
| Other general plant and equipment | <u>12,447,329</u> | <u>1,105,309</u> | <u>(28,008)</u> | <u>13,524,630</u> |
| | <u>182,576,385</u> | <u>9,027,625</u> | <u>(115,850)</u> | <u>191,488,160</u> |
| Less accumulated depreciation for: | | | | |
| Structures and improvements | (6,844,260) | (469,532) | -- | (7,313,792) |
| Production and treatment plant | (16,485,565) | (1,401,071) | -- | (17,886,636) |
| Transmission, distribution, and collection and treatment plant | (43,566,941) | (2,866,209) | 49,122 | (46,384,028) |
| Other general plant and equipment | <u>(7,233,580)</u> | <u>(821,637)</u> | <u>28,010</u> | <u>(8,027,207)</u> |
| Total accumulated depreciation | <u>(74,130,346)</u> | <u>(5,558,449)</u> | <u>77,132</u> | <u>(79,611,663)</u> |
| Allowance for decommissioning | <u>(2,885,737)</u> | <u>(232,547)</u> | -- | <u>(3,118,284)</u> |
| Total capital assets, being depreciated, net | <u>105,560,302</u> | <u>3,236,629</u> | <u>(38,718)</u> | <u>108,758,213</u> |
| Total capital assets, net | <u>\$ 119,689,135</u> | <u>9,823,395</u> | <u>(3,391,327)</u> | <u>126,121,203</u> |

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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 \$232,547 and \$178,600 for the years ended September 30, 2006 and 2005, respectively. Accumulated decommissioning costs, which are included in accumulated depreciation, were \$3,118,284 and \$2,885,737 at September 30, 2006 and 2005, 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, 2006 and 2005:

| | September 30, | |
|---|---------------------|---------------------|
| | 2006 | 2005 |
| Invested in utility plant, net of related debt: | | |
| Net utility plant..... | \$ 126,121,203 | 119,689,135 |
| Add: Funds restricted for debt service | 5,588,270 | 8,624,370 |
| Funds restricted for future decommissioning costs..... | 3,118,284 | 2,885,737 |
| Less: Revenue certificates payable (net) | (37,603,839) | (40,749,837) |
| Notes payable (net) | <u>(32,007,552)</u> | <u>(33,938,249)</u> |
| | <u>65,216,366</u> | <u>56,511,156</u> |
| Restricted for debt service: | | |
| Funds restricted for debt service reserve purposes..... | <u>539,839</u> | <u>539,839</u> |

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)
 September 30, 2006 And 2005
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
 New Smyrna Beach, Florida

| | September 30, | |
|--|----------------------|----------------------|
| | 2006 | 2005 |
| Restricted for renewal and replacement: | | |
| Funds legally restricted for renewal and replacement | \$ 6,293,735 | 7,474,371 |
| Less: Accounts payable from restricted funds..... | <u> --</u> | <u> (18,603)</u> |
| | <u>6,293,735</u> | <u>7,455,768</u> |
| Total net assets invested and restricted | 72,049,940 | 64,506,763 |
| Unrestricted net assets | <u>11,282,197</u> | <u>8,413,020</u> |
| Total net assets | \$ <u>83,332,137</u> | <u>72,919,783</u> |

Pursuant to Resolution No. 28-78, Section 16 D (8), as amended, the Commission established a Renewal and Replacement Fund that requires mandatory monthly contributions of not less than 8% of the gross revenues derived from sale of services from the combined utility system for the second preceding years, after deducting from the gross revenues a sum equal to 100% of the fuel and purchased power expenses incurred by the Electric system in the second preceding fiscal year. The moneys in the Renewal and Replacement Fund can be used to pay the cost of extensions or improvements to the combined utility system, emergency repairs to the combined system, and if necessary, for operating expenses. If not needed for these purposes, the moneys in the Renewal and Replacement Fund may also be used for any lawful purpose.

The principles under GASB Statement No. 34, as amended, are followed by the Commission in accounting for restricted net assets. Based on this criteria restricted net assets of the Commission are those net assets where limitations on the use of such assets are externally imposed, for example, by creditors (bond covenants), contributors (developer agreements), or the laws and regulations of other governments. Because the Renewal and Replacement Fund can be used for operating expenses and for any lawful purpose, as deemed necessary by the Commission, it is excluded from the determination of restricted net assets as reported above.

The Renewal and Replacement Fund is distinguished from the Restricted Renewal and Replacement Fund, which is a separately established fund to invest service capacity fees received from developers that are legally restricted pursuant to the developer agreements for extensions, improvements, and expansion of water, wastewater, and reclaimed water utility plant assets.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)
September 30, 2006 And 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
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NOTE 8 – LONG-TERM DEBT

A summary of long-term debt outstanding at September 30, 2006 and 2005 is as follows:

| | September 30, | |
|--|--------------------|--------------------|
| | 2006 | 2005 |
| 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 2002 2.75% to 5.00% due serially to 2017..... | 33,520,000 | 36,360,000 |
| Utilities System Refunding Revenue Certificates, Series 2004A 2.895% due serially to 2011 | <u>2,345,000</u> | <u>2,910,000</u> |
| Total utilities revenue certificates outstanding..... | <u>38,395,000</u> | <u>41,800,000</u> |
| Less current maturities: | | |
| Series 1993 Certificates..... | -- | -- |
| Series 2002 Certificates..... | (2,920,000) | (2,840,000) |
| Series 2004A Certificates..... | <u>(290,000)</u> | <u>(280,000)</u> |
| | <u>(3,210,000)</u> | <u>(3,120,000)</u> |
| Long-term certificate debt..... | 35,185,000 | 38,680,000 |
| Plus: unamortized debt premium | 409,365 | 546,201 |
| Less: deferred amount on advance refunding..... | (1,146,116) | (1,537,603) |
| unamortized debt discount | <u>(54,411)</u> | <u>(58,761)</u> |
| Net long-term certificate debt | <u>34,393,838</u> | <u>37,629,837</u> |
| 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..... | 13,536,553 | 14,366,249 |
| \$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 | 9,700,000 | 10,165,000 |

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)
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UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
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| | September 30, | |
|--|----------------------|--------------------|
| | 2006 | 2005 |
| \$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..... | \$ 2,418,000 | 2,529,000 |
| \$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..... | <u>6,353,000</u> | <u>6,878,000</u> |
| Total notes payable | <u>32,007,553</u> | <u>33,938,249</u> |
| Less current maturities: | | |
| State Revolving Fund Loan..... | (856,214) | (829,697) |
| FMPA Pooled loans | <u>(942,000)</u> | <u>(901,000)</u> |
| | <u>(1,798,214)</u> | <u>(1,730,697)</u> |
| Long-term portion of note payable | <u>30,209,339</u> | <u>32,207,552</u> |
| Total long-term debt, net..... | \$ <u>64,603,177</u> | <u>69,837,389</u> |

A summary of borrowings and debt service activity for the year ended September 30, 2006 is as follows:

| | Beginning of Year | Borrowings | Maturities / Redemptions | End of Year |
|--------------------------------------|----------------------|------------|-----------------------------|-------------------|
| Utilities revenue certificates | \$ 41,800,000 | -- | (3,405,000) | 38,395,000 |
| Notes payable | <u>33,938,249</u> | -- | <u>(1,930,696)</u> | <u>32,007,553</u> |
| Total outstanding debt | \$ <u>75,738,249</u> | -- | <u>(5,335,696)</u> | <u>70,402,553</u> |

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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

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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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

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UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

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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 September 30, | Revenue Certificates | | Note Payable SRF Loan | | Notes Payable FMFA | | Totals | |
|--|-------------------------|-----------|--------------------------|-----------|-----------------------|-----------|------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007..... | \$ 3,210,000 | 1,518,136 | 856,214 | 422,504 | 825,000 | 717,822 | 4,891,214 | 2,658,462 |
| 2008..... | \$ 3,600,000 | 1,412,466 | 883,578 | 395,140 | 987,000 | 675,318 | 5,470,578 | 2,482,924 |
| 2009..... | \$ 3,700,000 | 1,300,573 | 911,816 | 366,903 | 1,034,000 | 630,385 | 5,645,816 | 2,297,861 |
| 2010..... | \$ 3,820,000 | 1,179,077 | 940,956 | 337,762 | 1,096,000 | 583,128 | 5,856,956 | 2,099,967 |
| 2011..... | \$ 3,745,000 | 1,046,312 | 971,031 | 307,687 | 1,148,000 | 533,582 | 5,864,031 | 1,887,581 |
| 2012-2016..... | \$ 15,445,000 | 2,569,785 | 5,340,997 | 1,052,596 | 6,741,000 | 1,950,025 | 27,526,997 | 5,572,406 |
| 2017-2021..... | \$ 4,875,000 | 483,137 | 3,631,960 | 204,192 | 6,640,000 | 567,665 | 15,146,960 | 1,254,994 |

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, 2006 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 \$420,601 and \$455,359 as of September 30, 2006 and 2005, 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, 2006 are as follows:

| | Beginning of Year | Additions | Deletions | End of Year |
|---------------------------------------|----------------------|----------------|------------------|----------------|
| Due and payable within one year | \$ 455,359 | 95,742 | (130,500) | 420,601 |
| Deferred portion | <u>455,359</u> | <u>95,742</u> | <u>(130,500)</u> | <u>420,601</u> |
| Total compensated absences..... | \$ <u>910,718</u> | <u>191,484</u> | <u>(261,000)</u> | <u>841,202</u> |

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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, 2006 and 2005 totaled \$3,665,315 and \$3,328,647, respectively. The balances due to the City at September 30, 2006 and 2005, totaled \$699,096 and \$685,372, 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, 2006, 2005, and 2004, as follows: \$326,802, \$315,848, and \$300,766, 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, 2006 | 9.85% |
| Plan year beginning June 30, 2005 | 7.83% |
| Plan year beginning June 30, 2003 (unchanged in 2004) | 7.39% |

There were no employee contributions made during these years.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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 \$337,595, \$306,742, and \$186,250, for the years ended September 30, 2006, 2005, and 2004, respectively. There were no employee contributions made during these years.

Pursuant to a contract of employment the Utilities Commission offers its current General Manager/Chief Executive Officer participation in the Utilities Commission of New Smyrna Beach Retirement Plan, the same defined contribution plan administered by the Principal Mutual Life Insurance Company. Employer contributions to the plan are 16% of the CEO's gross salary. The CEO may make supplemental contributions to plan to the extent permitted by law. Employer contributions to the plan for the year ended September 30, 2006 were \$24,807. There were no employee contributions made during the year.

NOTE 13 – DEFERRED EMPLOYEE BENEFITS

A. IRC Section 401(k) Plan

The Utilities Commission had previously offered its former 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 were administered by the International City Managers Association Retirement Corporation. For the years ended September 30, 2006, 2005 and 2004, the Utilities Commission's covered payroll was \$ -0-, \$85,122 and \$148,148 respectively. For the years ended September 30, 2006, 2005 and 2004, employer contributions were \$ -0-, \$29,419 and \$21,437, respectively. For the years ended September 30, 2006, 2005 and 2004, employee contributions to the plan were \$ -0-, \$8,947 and \$17,149, 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. Annual contributions, determined by the participant, may not exceed the lesser of \$15,000 or 100% of gross annual compensation for plan years beginning in 2006. 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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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 | \$ 44,285,794 | 6,345,854 | 7,168,485 | 6,150,230 | 63,950,363 |
| Depreciation/decommissioning | 3,017,152 | 1,073,632 | 1,589,799 | 110,413 | 5,790,996 |
| Required payments to City | 2,490,845 | 388,093 | 404,297 | 382,080 | 3,665,315 |
| Operating income (loss) | 4,064,742 | 1,020,165 | 1,521,060 | (2,345,581) | 4,260,386 |
| Income (loss) before contributions and transfers | 4,460,473 | 737,994 | 631,386 | (2,939,963) | 2,889,890 |
| Capital contributions | 56,712 | 3,131,514 | 4,334,238 | -- | 7,522,464 |
| Change in net assets..... | 4,517,185 | 3,869,508 | 4,965,624 | (2,939,963) | 10,412,354 |
| Utility plant acquisitions..... | 1,645,449 | 3,305,413 | 4,076,753 | -- | 9,027,615 |
| Utility plant retirements..... | 104,647 | 4,201 | 7,002 | -- | 115,850 |
| Revenue certificates payable | 20,750,938 | 11,854,547 | 9,194,515 | -- | 41,800,000 |
| Notes payable | 16,053,000 | 1,063,920 | 14,890,632 | -- | 32,007,552 |
| Net assets..... | 37,421,244 | 28,565,012 | 27,102,324 | (9,756,443) | 83,332,137 |
| Total assets | 78,791,192 | 37,750,828 | 49,479,003 | 2,960,105 | 168,981,129 |

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

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

September 30, 2006 And 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

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 \$4.1 million annually.

As of September 30, 2006, the Utilities Commission had additional unrecognized construction contract commitments of approximately \$4.6 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, 2006

With Comparative Actual Amounts for the Fiscal Year Ended September 30, 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | Electric | Water |
|--|----------------------|-------------------|
| Operating Revenue: | | |
| Sales..... | \$ 43,926,115 | 6,126,093 |
| Other revenues..... | <u>359,679</u> | <u>219,761</u> |
| Total operating revenue..... | <u>44,285,794</u> | <u>6,345,854</u> |
| Operating Expenses: | | |
| Purchased power and fuel expenses..... | 24,854,589 | - |
| Other production expenses..... | 4,432,793 | 1,587,444 |
| Transmission, distribution, and sewage collection and treatment..... | 2,242,885 | 667,497 |
| Customer accounting..... | 384,102 | 196,207 |
| Administrative and general..... | 2,798,686 | 1,412,816 |
| Required payments to City of New Smyrna Beach..... | 2,490,845 | 388,093 |
| Depreciation and decommissioning..... | <u>3,017,152</u> | <u>1,073,632</u> |
| Total operating expenses..... | <u>40,221,052</u> | <u>5,325,689</u> |
| Operating income..... | <u>4,064,742</u> | <u>1,020,165</u> |
| Nonoperating Revenue (Expenses): | | |
| Interest earnings..... | 1,332,946 | 212,107 |
| Other income..... | 686,923 | 91,615 |
| Interest and debt expense..... | (1,556,646) | (581,096) |
| Other expenses..... | (43,675) | (12,227) |
| Gain (loss) on disposal of assets..... | <u>(23,817)</u> | <u>7,430</u> |
| Total nonoperating revenue (expenses)..... | <u>395,731</u> | <u>(282,171)</u> |
| Income (loss) before contributions and transfers..... | <u>4,460,473</u> | <u>737,994</u> |
| Capital contributions..... | <u>56,712</u> | <u>3,131,514</u> |
| Change in net assets..... | 4,517,185 | 3,869,508 |
| Net assets, beginning of year..... | <u>32,904,059</u> | <u>24,695,504</u> |
| Net assets, end of year..... | <u>\$ 37,421,244</u> | <u>28,565,012</u> |

Schedule 1

| Wastewater | Communications | Totals | |
|-------------------|--------------------|--------------------|-------------------|
| | | 2006 | 2005 |
| 7,092,911 | 6,101,162 | 63,246,281 | 58,243,276 |
| <u>75,574</u> | <u>49,068</u> | <u>704,082</u> | <u>724,127</u> |
| <u>7,168,485</u> | <u>6,150,230</u> | <u>63,950,363</u> | <u>58,967,403</u> |
| - | - | 24,854,589 | 18,615,982 |
| - | 4,022,060 | 10,042,297 | 13,946,939 |
| 2,276,990 | - | 5,187,372 | 4,788,033 |
| 176,113 | 1,445,895 | 2,202,317 | 2,536,210 |
| 1,200,226 | 2,535,363 | 7,947,091 | 8,713,250 |
| 404,297 | 382,080 | 3,665,315 | 3,328,647 |
| <u>1,589,799</u> | <u>110,413</u> | <u>5,790,996</u> | <u>5,451,571</u> |
| <u>5,647,425</u> | <u>8,495,811</u> | <u>59,689,977</u> | <u>57,380,632</u> |
| <u>1,521,060</u> | <u>(2,345,581)</u> | <u>4,260,386</u> | <u>1,586,771</u> |
| (12,032) | (508,645) | 1,024,376 | 690,497 |
| 58,366 | 64,589 | 901,493 | 1,081,808 |
| (938,061) | - | (3,075,803) | (3,097,313) |
| (4,520) | (150,326) | (210,748) | (102,333) |
| <u>6,573</u> | <u>-</u> | <u>(9,814)</u> | <u>1,107,426</u> |
| <u>(889,674)</u> | <u>(594,382)</u> | <u>(1,370,496)</u> | <u>(319,915)</u> |
| <u>631,386</u> | <u>(2,939,963)</u> | <u>2,889,890</u> | <u>1,266,856</u> |
| <u>4,334,238</u> | <u>-</u> | <u>7,522,464</u> | <u>3,428,529</u> |
| 4,965,624 | (2,939,963) | 10,412,354 | 4,695,385 |
| <u>22,136,700</u> | <u>(6,816,480)</u> | <u>72,919,783</u> | <u>68,224,398</u> |
| <u>27,102,324</u> | <u>(9,756,443)</u> | <u>83,332,137</u> | <u>72,919,783</u> |

**SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS -
 BUDGET AND ACTUAL - ELECTRIC SYSTEM (NON-GAAP BUDGETARY BASIS)**
 For the Fiscal Year Ended September 30, 2006
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
 New Smyrna Beach, Florida

Schedule 2

| | Final Budget | Actual | Variance |
|--|--------------------|---------------------|--------------------|
| Revenue and Receipts: | | | |
| Direct Sales: | | | |
| Electric sales..... | \$ 35,905,082 | 43,926,115 | 8,021,033 |
| Other revenues..... | 460,400 | 359,679 | (100,721) |
| Nonoperating revenue (expenses): | | | |
| Interest earnings..... | 125,000 | 1,332,946 | 1,207,946 |
| Other revenues (expenses)..... | 189,000 | 643,248 | 454,248 |
| Capital contributions..... | - | 56,712 | 56,712 |
| | <u>36,679,482</u> | <u>46,318,700</u> | <u>9,639,218</u> |
| Operating Expenses: | | | |
| Purchased power and fuel expenses..... | 18,230,277 | 24,854,589 | (6,624,312) |
| Power production..... | 4,846,570 | 4,432,793 | 413,777 |
| Transmission and distribution..... | 1,645,987 | 2,242,885 | (596,898) |
| Customer accounting..... | 398,537 | 384,102 | 14,435 |
| Administrative and general..... | 2,597,217 | 2,798,686 | (201,469) |
| Required payments to the City of New Smyrna Beach..... | 2,175,485 | 2,490,845 | (315,360) |
| Decommissioning expense..... | 142,389 | 232,547 | (90,158) |
| | <u>30,036,462</u> | <u>37,436,447</u> | <u>(7,399,985)</u> |
| Net revenue and receipts..... | <u>6,643,020</u> | <u>8,882,253</u> | <u>2,239,233</u> |
| Operating Transfers In (Out): | | | |
| Sinking Fund - 1993 Certificates..... | (67,412) | (67,412) | - |
| Sinking Fund - 2002 Certificates..... | (2,123,294) | (2,123,582) | (288) |
| Sinking Fund - 2004A Certificates..... | (305,757) | (324,897) | (19,140) |
| Debt Reduction Fund - required contribution..... | (120,786) | (120,786) | - |
| Sinking Fund - FMPA Pooled Loans..... | (1,581,176) | (1,425,789) | 155,387 |
| Renewal and Replacement Funds..... | (2,444,595) | (2,294,891) | 149,704 |
| | <u>(6,643,020)</u> | <u>(6,357,357)</u> | <u>285,663</u> |
| Budgeted net cash receipts..... | <u>\$ -</u> | <u>2,524,896</u> | <u>2,524,896</u> |
| Reconciliation of Net Cash Receipts to Net Income (GAAP): | | | |
| Principal portion of required Sinking Fund transfers..... | | 2,546,627 | |
| Net transfers to Renewal and Replacement Fund..... | | 2,294,891 | |
| Net transfers to Debt Reduction Fund..... | | 120,786 | |
| Gain (loss) on disposal of property and equipment..... | | (23,817) | |
| Depreciation..... | | (2,784,605) | |
| Amortization of debt expense and loss on refunding..... | | <u>(161,593)</u> | |
| Change in net assets..... | | <u>\$ 4,517,185</u> | |

**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, 2006

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | Final Budget | Actual | Variance |
|--|--------------------|---------------------|------------------|
| Revenue and Receipts: | | | |
| Direct Sales: | | | |
| Water sales..... | \$ 6,283,557 | 6,126,093 | (157,464) |
| Other revenues..... | 231,000 | 219,761 | (11,239) |
| Nonoperating revenue (expenses): | | | |
| Interest earnings..... | 50,000 | 212,107 | 162,107 |
| Other revenues (expenses)..... | 57,000 | 79,388 | 22,388 |
| Capital contributions..... | <u>1,178,375</u> | <u>3,131,514</u> | <u>1,953,139</u> |
| | <u>7,799,932</u> | <u>9,768,863</u> | <u>1,968,931</u> |
| Operating Expenses: | | | |
| Water production..... | 1,308,027 | 1,587,444 | (279,417) |
| Transmission and distribution..... | 482,948 | 667,497 | (184,549) |
| Customer accounting..... | 250,181 | 196,207 | 53,974 |
| Administrative and general..... | 1,454,746 | 1,412,816 | 41,930 |
| Required payments to the City of New Smyrna Beach..... | <u>387,813</u> | <u>388,093</u> | <u>(280)</u> |
| | <u>3,883,715</u> | <u>4,252,057</u> | <u>(368,342)</u> |
| Net revenue and receipts..... | <u>3,916,217</u> | <u>5,516,806</u> | <u>1,600,589</u> |
| Operating Transfers In (Out): | | | |
| Sinking Fund - 1993 Certificates..... | (43,592) | (43,592) | - |
| Sinking Fund - 2002 Certificates..... | (1,182,654) | (1,182,851) | (197) |
| Sinking Fund - 2004A Certificates..... | (209,237) | (222,334) | (13,097) |
| Debt Reduction Fund - required contribution..... | (67,277) | (67,277) | - |
| Sinking Fund - FMPA Pooled Loans..... | (98,914) | (90,541) | 8,373 |
| Renewal and Replacement Funds - required contribution.... | (1,136,168) | (1,136,172) | (4) |
| Renewal and Replacement Funds - restricted contribution... | <u>(1,178,375)</u> | <u>(811,261)</u> | <u>367,114</u> |
| | <u>(3,916,217)</u> | <u>(3,554,028)</u> | <u>362,189</u> |
| Budgeted net cash receipts..... | <u>\$ -</u> | <u>1,962,778</u> | <u>1,962,778</u> |
| Reconciliation of Net Cash Receipts to Net Income (GAAP): | | | |
| Principal portion of required Sinking Fund transfers..... | | 1,051,235 | |
| Net transfers to Renewal and Replacement Fund..... | | 1,947,433 | |
| Net transfers to Debt Reduction Fund..... | | 67,277 | |
| Gain (loss) on disposal of property and equipment..... | | 7,430 | |
| Depreciation..... | | (1,073,632) | |
| Amortization of debt expense and loss on refunding..... | | <u>(93,013)</u> | |
| Change in net assets..... | | <u>\$ 3,869,508</u> | |

**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, 2006

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | Final Budget | Actual | Variance |
|--|--------------------|---------------------|------------------|
| Revenue and Receipts: | | | |
| Direct Sales: | | | |
| Wastewater sales..... | \$ 6,644,220 | 7,092,911 | 448,691 |
| Other revenues..... | 75,100 | 75,574 | 474 |
| Nonoperating revenue (expenses): | | | |
| Interest earnings..... | 35,000 | (12,032) | (47,032) |
| Other revenues (expenses)..... | 22,000 | 53,846 | 31,846 |
| Capital contributions..... | <u>1,108,125</u> | <u>4,334,238</u> | <u>3,226,113</u> |
| | <u>7,884,445</u> | <u>11,544,537</u> | <u>3,660,092</u> |
| Operating Expenses: | | | |
| Collection and treatment system..... | 1,876,521 | 2,276,990 | (400,469) |
| Customer accounting..... | 213,746 | 176,113 | 37,633 |
| Administrative and general..... | 1,219,529 | 1,200,226 | 19,303 |
| Required payments to the City of New Smyrna Beach..... | <u>399,019</u> | <u>404,297</u> | <u>(5,278)</u> |
| | <u>3,708,815</u> | <u>4,057,626</u> | <u>(348,811)</u> |
| Net revenue and receipts..... | <u>4,175,630</u> | <u>7,486,911</u> | <u>3,311,281</u> |
| Operating Transfers In (Out): | | | |
| Sinking Fund - 1993 Certificates..... | (15,496) | (15,496) | - |
| Sinking Fund - 2002 Certificates..... | (977,477) | (977,600) | (123) |
| Sinking Fund - 2004A Certificates..... | (130,200) | (138,350) | (8,150) |
| Debt Reduction Fund - required contribution..... | (55,605) | (55,605) | - |
| Sinking Fund - FMPA Pooled Loans..... | (125,891) | (115,234) | 10,657 |
| Sinking Fund - State Revolving Fund Loan..... | (1,278,718) | (1,303,152) | (24,434) |
| Renewal and Replacement Funds - required contribution.... | (484,118) | (484,117) | 1 |
| Renewal and Replacement Funds - restricted contribution... | <u>(1,108,125)</u> | <u>(651,710)</u> | <u>456,415</u> |
| | <u>(4,175,630)</u> | <u>(3,741,264)</u> | <u>434,366</u> |
| Budgeted net cash receipts..... | <u>\$ -</u> | <u>3,745,647</u> | <u>3,745,647</u> |
| Reconciliation of Net Cash Receipts to Net Income (GAAP): | | | |
| Principal portion of required Sinking Fund transfers..... | | 1,708,028 | |
| Net transfers to Renewal and Replacement Fund..... | | 1,135,827 | |
| Net transfers to Debt Reduction Fund..... | | 55,605 | |
| Gain (loss) on disposal of property and equipment..... | | 6,573 | |
| Depreciation..... | | (1,589,799) | |
| Amortization of debt expense and loss on refunding..... | | <u>(96,257)</u> | |
| Change in net assets..... | | <u>\$ 4,965,624</u> | |

SCHEDULE OF REVENUE, RECEIPTS, EXPENSES AND DISBURSEMENTS - Schedule 5
BUDGET AND ACTUAL - COMMUNICATIONS SYSTEM (NON-GAAP BUDGETARY BASIS)
For the Fiscal Year Ended September 30, 2006
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| | Final Budget | Actual | Variance |
|--|-------------------|-----------------------|--------------------|
| Revenue and Receipts: | | | |
| Direct Sales: | | | |
| Internet sales..... | \$ 950,300 | 377,477 | (572,823) |
| Telephone sales..... | 9,930,000 | 5,723,685 | (4,206,315) |
| Other revenues..... | 79,200 | 49,068 | (30,132) |
| Nonoperating revenue (expenses): | | | |
| Other revenues (expenses)..... | - | (594,382) | (594,382) |
| | <u>10,959,500</u> | <u>5,555,848</u> | <u>(5,403,652)</u> |
| Operating Expenses: | | | |
| Production expenses..... | 7,041,000 | 4,022,060 | 3,018,940 |
| Customer accounting..... | 284,326 | 1,445,895 | (1,161,569) |
| Administrative and general..... | 3,417,234 | 2,535,363 | 881,871 |
| Required payments to the City of New Smyrna Beach..... | <u>657,570</u> | <u>382,080</u> | <u>275,490</u> |
| | <u>11,400,130</u> | <u>8,385,398</u> | <u>3,014,732</u> |
| Net revenue and receipts..... | <u>(440,630)</u> | <u>(2,829,550)</u> | <u>(2,388,920)</u> |
| Operating Transfers In (Out): | | | |
| Rate Stabilization Fund..... | <u>440,630</u> | - | (440,630) |
| | <u>440,630</u> | - | (440,630) |
| Budgeted net cash receipts..... | <u>\$ -</u> | (2,829,550) | <u>(2,829,550)</u> |
| Reconciliation of Net Cash Receipts to Net Income (GAAP): | | | |
| Depreciation..... | | <u>(110,413)</u> | |
| Change in net assets..... | | <u>\$ (2,939,963)</u> | |

**SCHEDULE OF OPERATING EXPENSES-
ELECTRIC SYSTEM**

Schedule 6

For the Fiscal Years Ended September 30, 2006 and 2005
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
 New Smyrna Beach, Florida

| | 2006 | 2005 |
|---|----------------------|-------------------|
| Operating Expenses: | | |
| Purchased power and fuel: | | |
| Nuclear fuel | \$ 695,116 | 602,484 |
| Diesel fuel | 61,111 | 75,023 |
| Purchased power | <u>24,098,362</u> | <u>17,938,475</u> |
| | <u>24,854,589</u> | <u>18,615,982</u> |
| Power production: | | |
| Nuclear power generation | 3,600,648 | 3,743,979 |
| Diesel power generation | 272,684 | 256,814 |
| System control and load dispatching | <u>559,461</u> | <u>488,872</u> |
| | <u>4,432,793</u> | <u>4,489,665</u> |
| Transmission and distribution | 2,242,885 | 2,026,026 |
| Customer accounting | 384,102 | 382,405 |
| Administrative and general | 2,798,686 | 2,521,562 |
| Required payments to the City of New Smyrna Beach | 2,490,845 | 2,087,723 |
| Depreciation and decommissioning | <u>3,017,152</u> | <u>2,896,653</u> |
| Total operating expenses | <u>\$ 40,221,052</u> | <u>33,020,016</u> |

**SCHEDULE OF OPERATING EXPENSES-
WATER SYSTEM**

Schedule 7

For the Fiscal Years Ended September 30, 2006 and 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| | 2006 | 2005 |
|--|---------------------|------------------|
| Operating Expenses: | | |
| Water production: | | |
| Source of supply..... | \$ 579,566 | 482,067 |
| Water treatment..... | <u>1,007,878</u> | <u>877,687</u> |
| | <u>1,587,444</u> | <u>1,359,754</u> |
| Transmission and distribution..... | 667,497 | 635,541 |
| Customer accounting..... | 196,207 | 142,171 |
| Administrative and general..... | 1,412,816 | 1,222,904 |
| Required payments to the City of New Smyrna Beach..... | 388,093 | 350,742 |
| Depreciation and decommissioning..... | <u>1,073,632</u> | <u>978,583</u> |
| Total operating expenses..... | <u>\$ 5,325,689</u> | <u>4,689,695</u> |

**SCHEDULE OF OPERATING EXPENSES-
WASTEWATER SYSTEM**

Schedule 8

For the Fiscal Years Ended September 30, 2006 and 2005
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| | 2006 | 2005 |
|--|---------------------|------------------|
| Operating Expenses: | | |
| Collection and treatment system: | | |
| Collection expenses..... | \$ 355,857 | 261,476 |
| Pumping expenses..... | 426,590 | 385,275 |
| Treatment and disposal..... | <u>1,494,543</u> | <u>1,356,320</u> |
| | <u>2,276,990</u> | <u>2,003,071</u> |
| Customer accounting..... | 176,113 | 151,001 |
| Administrative and general..... | 1,200,226 | 1,056,851 |
| Required payments to the City of New Smyrna Beach..... | 404,297 | 341,550 |
| Depreciation and decommissioning..... | <u>1,589,799</u> | <u>1,439,757</u> |
| Total operating expenses..... | <u>\$ 5,647,425</u> | <u>4,992,230</u> |

**SCHEDULE OF OPERATING EXPENSES-
COMMUNICATIONS SYSTEM**

Schedule 9

For the Fiscal Years Ended September 30, 2006 and 2005
 UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
 New Smyrna Beach, Florida

| | 2006 | 2005 |
|--|---------------------|-------------------|
| Operating Expenses: | | |
| Other production expenses: | | |
| Payments to internet service provider..... | \$ 168,117 | 283,616 |
| Payments to telephone service providers..... | <u>3,853,943</u> | <u>7,813,904</u> |
| | <u>4,022,060</u> | <u>8,097,520</u> |
| Customer accounting..... | 1,445,895 | 1,863,972 |
| Administrative and general..... | 2,535,363 | 3,815,224 |
| Required payments to the City of New Smyrna Beach..... | 382,080 | 532,086 |
| Depreciation and decommissioning..... | <u>110,413</u> | <u>110,413</u> |
| Total operating expenses..... | <u>\$ 8,495,811</u> | <u>14,419,215</u> |

SCHEDULE OF INTEREST EARNINGS**Schedule 10**

For the Fiscal Years Ended September 30, 2006 and 2005

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 |
|--|---------------------|------------------|
| Interest Earnings By Source: | | |
| From Investments: | | |
| Sinking funds..... | \$ 92,817 | 61,239 |
| Renewal and replacement funds..... | 385,379 | 275,174 |
| Customers' deposits..... | 82,337 | 44,012 |
| CR3 nuclear decommissioning funds..... | 117,054 | 63,107 |
| Other..... | <u>346,789</u> | <u>246,965</u> |
| Total interest earnings..... | <u>\$ 1,024,376</u> | <u>690,497</u> |
| Interest Earnings By System: | | |
| Electric system..... | \$ 1,332,946 | 628,156 |
| Water system..... | 212,107 | 136,761 |
| Wastewater system..... | (12,032) | 37,558 |
| Communications system..... | <u>(508,645)</u> | <u>(111,978)</u> |
| Total interest earnings..... | <u>\$ 1,024,376</u> | <u>690,497</u> |

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

For the Fiscal Year Ended September 30, 2006

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| Payment Date | 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 -- | | |
|--------------|---|--------------|--------------------|---|--------------|--------------------|--|------------|--------------------|--|--------------|--------------------|
| | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | Total Requirements |
| 10/01/2006 | \$ - | \$ 63,250 | \$ 63,250 | \$ 2,920,000 | \$ 681,712 | \$ 3,601,712 | \$ - | \$ - | \$ 38,069 | \$ 2,920,000 | \$ 783,031 | \$ 3,703,031 |
| 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 | 4,030,907 | 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 | 4,072,218 | 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 | 4,123,940 | 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 | 326,496 | 4,626,496 | - | - | - | 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 | 4,996,246 |
| 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 | \$ 1,645,500 | \$ 4,175,500 | \$ 33,520,000 | \$ 7,673,060 | \$ 41,193,060 | \$ 2,345,000 | \$ 190,926 | \$ 2,535,926 | \$ 38,395,000 | \$ 9,509,486 | \$ 47,904,486 |

**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY -
FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION STATE REVOLVING FUND LOAN**

For the Fiscal Year Ended September 30, 2006

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| Payment Date | Wastewater Treatment Plan Project CS 120 4260060 | | | | | | | | | | Total Debt Service Requirements | |
|--------------|---|---------------------|---------------------|---|-------------------|---------------------|---|---------------------|---------------------|----------------------|---------------------------------|----------------------|
| | State Revolving Fund Loan (3.220%) Original Loan | | | State Revolving Fund Loan (3.180%) Amendment 1 | | | State Revolving Fund Loan (3.110%) Amendment 2 | | | to Maturity | | Total Requirements |
| | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | |
| 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 |
| | <u>\$ 6,622,549</u> | <u>\$ 1,534,929</u> | <u>\$ 8,157,478</u> | <u>\$ 1,380,922</u> | <u>\$ 315,838</u> | <u>\$ 1,696,760</u> | <u>\$ 5,533,081</u> | <u>\$ 1,236,017</u> | <u>\$ 6,769,098</u> | <u>\$ 13,536,552</u> | <u>\$ 3,086,784</u> | <u>\$ 16,623,336</u> |

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

Note Payable - Florida Municipal Power Agency

For the Fiscal Year Ended September 30, 2006

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

Schedule 13

| Payment Period | 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 -- | | |
|----------------|---|---------------------|----------------------|---|-------------------|---------------------|---|---------------------|---------------------|--|---------------------|----------------------|
| | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | Total Requirements | Principal Amount | Interest | Total Requirements |
| 09/30/2007 | 485,000 | 376,320 | 861,320 | - | 101,556 | 101,556 | 340,000 | 239,946 | 579,946 | 825,000 | 717,822 | 1,542,822 |
| 09/30/2008 | 510,000 | 354,375 | 864,375 | 117,000 | 96,642 | 213,642 | 360,000 | 224,301 | 584,301 | 987,000 | 675,318 | 1,662,318 |
| 09/30/2009 | 535,000 | 331,275 | 866,275 | 124,000 | 91,434 | 215,434 | 375,000 | 207,676 | 582,676 | 1,034,000 | 630,385 | 1,664,385 |
| 09/30/2010 | 565,000 | 307,020 | 872,020 | 131,000 | 85,932 | 216,932 | 400,000 | 190,176 | 590,176 | 1,096,000 | 583,128 | 1,679,128 |
| 09/30/2011 | 590,000 | 281,610 | 871,610 | 138,000 | 80,136 | 218,136 | 420,000 | 171,836 | 591,836 | 1,148,000 | 533,582 | 1,681,582 |
| 09/30/2012 | 620,000 | 254,835 | 874,835 | 146,000 | 74,004 | 220,004 | 440,000 | 152,481 | 592,481 | 1,206,000 | 481,320 | 1,687,320 |
| 09/30/2013 | 655,000 | 226,590 | 881,590 | 155,000 | 67,494 | 222,494 | 465,000 | 132,076 | 597,076 | 1,275,000 | 426,160 | 1,701,160 |
| 09/30/2014 | 690,000 | 196,770 | 886,770 | 164,000 | 60,606 | 224,606 | 490,000 | 110,621 | 600,621 | 1,344,000 | 367,997 | 1,711,997 |
| 09/30/2015 | 730,000 | 166,770 | 896,770 | 173,000 | 60,606 | 233,606 | 515,000 | 110,621 | 625,621 | 1,418,000 | 367,997 | 1,785,997 |
| 09/30/2016 | 770,000 | 165,270 | 935,270 | 183,000 | 53,340 | 236,340 | 545,000 | 87,941 | 632,941 | 1,498,000 | 306,551 | 1,804,551 |
| 09/30/2017 | 815,000 | 131,985 | 946,985 | 194,000 | 45,654 | 239,654 | 575,000 | 64,001 | 639,001 | 1,584,000 | 241,640 | 1,825,640 |
| 09/30/2018 | 860,000 | 96,810 | 956,810 | 205,000 | 37,506 | 242,506 | 600,000 | 38,976 | 638,976 | 1,665,000 | 173,292 | 1,838,292 |
| 09/30/2019 | 910,000 | 59,640 | 969,640 | 216,000 | 28,896 | 244,896 | 635,000 | 12,551 | 647,551 | 1,761,000 | 101,087 | 1,862,087 |
| 09/30/2020 | 965,000 | 20,265 | 985,265 | 229,000 | 19,824 | 248,824 | 193,000 | 1,351 | 194,351 | 1,387,000 | 41,440 | 1,428,440 |
| 09/30/2021 | - | - | - | 243,000 | 10,206 | 253,206 | - | - | - | 243,000 | 10,206 | 253,206 |
| | <u>\$ 9,700,000</u> | <u>\$ 2,999,535</u> | <u>\$ 12,699,535</u> | <u>\$ 2,418,000</u> | <u>\$ 913,836</u> | <u>\$ 3,331,836</u> | <u>\$ 6,353,000</u> | <u>\$ 1,744,554</u> | <u>\$ 8,097,554</u> | <u>\$ 18,471,000</u> | <u>\$ 5,657,925</u> | <u>\$ 24,128,925</u> |



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STATISTICAL SECTION

This part of Utilities Commission, City of New Smyrna Beach, Florida's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commission's overall financial health.

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| <i>These tables contain information to help the reader assess the Commission's most significant revenue sources, consumptive user fees.</i> | |
| Debt Capacity | 80-82 |
| <i>These tables present information to help the reader assess the affordability of the Commission's current levels of outstanding debt and its ability to issue additional debt in the future.</i> | |
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| <i>These tables offer demographic and economic indicators to help the reader understand the environment within which the Commission's financial activities take place.</i> | |
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Sources: *Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The Utilities Commission implemented GASB Statement No. 34 in 2001.*

**NET ASSETS BY COMPONENT,
LAST TEN FISCAL YEARS**

Year Ending September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Invested in capital assets, net of related debt..... | \$ 65,216,366 | \$ 56,511,156 | \$ 48,625,159 | \$ 43,970,077 |
| Restricted for debt service..... | 539,839 | 539,839 | 539,839 | 539,839 |
| Restricted for renewal and replacement..... | 6,293,735 | 7,455,768 | 10,690,203 | 10,953,401 |
| Unrestricted..... | <u>11,282,197</u> | <u>8,413,020</u> | <u>8,369,197</u> | <u>11,404,708</u> |
| Total net assets..... | <u>\$ 83,332,137</u> | <u>\$ 72,919,783</u> | <u>\$ 68,224,398</u> | <u>\$ 66,868,025</u> |

Table 1

| Fiscal Year | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 39,241,910 | \$ 35,711,172 | \$ 31,100,384 | \$ 33,274,975 | \$ 30,381,933 | \$ 26,286,329 |
| 539,839 | 560,100 | 539,839 | 543,788 | - | 5,333,056 |
| 9,736,744 | 11,488,378 | 12,648,988 | 4,071,752 | 4,276,527 | 2,155,323 |
| <u>9,695,283</u> | <u>8,144,046</u> | <u>7,509,509</u> | <u>13,928,858</u> | <u>12,235,068</u> | <u>9,723,283</u> |
| <u>\$ 59,213,776</u> | <u>\$ 55,903,696</u> | <u>\$ 51,798,720</u> | <u>\$ 51,819,373</u> | <u>\$ 46,893,528</u> | <u>\$ 43,497,991</u> |

**CHANGES IN NET ASSETS,
LAST TEN FISCAL YEARS**

Year Ending September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|---|----------------------|---------------------|---------------------|---------------------|
| Operating Revenue: | | | | |
| Sales..... | \$ 63,246,281 | \$ 58,243,276 | \$ 53,918,028 | \$ 45,758,867 |
| Other revenue..... | <u>704,082</u> | <u>724,127</u> | <u>695,454</u> | <u>588,199</u> |
| Total operating revenue..... | <u>63,950,363</u> | <u>58,967,403</u> | <u>54,613,482</u> | <u>46,347,066</u> |
| Operating Expenses: | | | | |
| Purchased power and fuel expenses..... | 24,854,589 | 18,615,982 | 16,082,797 | 16,569,259 |
| Other production expenses..... | 10,042,297 | 13,946,939 | 10,745,373 | 6,431,093 |
| Transmission, distribution, and sewage collection and treatment..... | 5,187,372 | 4,788,033 | 4,686,910 | 3,751,847 |
| Customer accounting..... | 2,202,317 | 2,536,210 | 6,764,647 | 996,421 |
| Administrative and general..... | 7,947,091 | 8,713,250 | 6,643,995 | 4,302,892 |
| Required payments to the City..... | 3,665,315 | 3,328,647 | 3,262,587 | 2,706,427 |
| Depreciation and decommissioning..... | <u>5,790,996</u> | <u>5,451,571</u> | <u>5,149,600</u> | <u>5,049,264</u> |
| Total operating expenses..... | <u>59,689,977</u> | <u>57,380,632</u> | <u>53,335,909</u> | <u>39,807,203</u> |
| Operating income..... | <u>4,260,386</u> | <u>1,586,771</u> | <u>1,277,573</u> | <u>6,539,863</u> |
| Nonoperating Revenue (Expense): | | | | |
| Interest earnings..... | 1,024,376 | 690,497 | 281,003 | 358,454 |
| Other income..... | 901,493 | 1,081,808 | 1,125,069 | 336,526 |
| Interest and debt expense..... | (3,075,803) | (3,097,313) | (3,101,348) | (3,355,193) |
| Other expenses..... | (210,748) | (102,333) | (227,937) | (690,017) |
| Gain (loss) on disposal of assets..... | (9,814) | 1,107,426 | 310,665 | (9,541) |
| Loss on abandonment of wastewater treatment plant..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total nonoperating revenue (expense)..... | <u>(1,370,496)</u> | <u>(319,915)</u> | <u>(1,612,548)</u> | <u>(3,359,771)</u> |
| Income (loss) before contributions and transfers..... | <u>2,889,890</u> | <u>1,266,856</u> | <u>(334,975)</u> | <u>3,180,092</u> |
| Capital contributions..... | 7,522,464 | 3,428,529 | 1,854,598 | 4,474,157 |
| Residual transfer to the City..... | <u>-</u> | <u>-</u> | <u>(163,250)</u> | <u>-</u> |
| Total contributions and transfers..... | <u>7,522,464</u> | <u>3,428,529</u> | <u>1,691,348</u> | <u>4,474,157</u> |
| Change in net assets..... | <u>\$ 10,412,354</u> | <u>\$ 4,695,385</u> | <u>\$ 1,356,373</u> | <u>\$ 7,654,249</u> |

Notes: In 2003, the Commission officially established the Communications System Division to account for internet and telephone related services to its customers within and outside the City. The first full year of operations of telephone sales under its own CLEC license occurred in 2004. The Commission ceased providing telephone services effective in September 2006.

Table 2

| Fiscal Year | | | | | |
|---------------------|---------------------|--------------------|---------------------|---------------------|---------------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 39,966,040 | \$ 42,177,716 | \$ 40,960,150 | \$ 32,143,555 | \$ 32,570,727 | \$ 32,525,896 |
| <u>646,185</u> | <u>537,671</u> | <u>459,757</u> | <u>408,626</u> | <u>343,054</u> | <u>321,576</u> |
| <u>40,612,225</u> | <u>42,715,387</u> | <u>41,419,907</u> | <u>32,552,181</u> | <u>32,913,781</u> | <u>32,847,472</u> |
| 13,652,608 | 16,385,996 | 17,525,068 | 16,005,319 | 16,652,829 | 16,469,270 |
| 6,038,839 | 5,844,715 | 5,445,855 | - | - | - |
| 3,782,641 | 3,348,147 | 3,140,325 | 2,731,438 | 2,657,672 | 2,624,394 |
| 821,128 | 745,380 | 818,320 | 721,860 | 660,678 | 726,214 |
| 3,385,868 | 3,519,275 | 3,227,988 | 3,169,521 | 3,406,001 | 3,312,462 |
| 2,509,729 | 2,625,008 | 2,214,486 | 2,016,471 | 2,018,552 | 1,949,594 |
| <u>4,899,416</u> | <u>4,581,217</u> | <u>3,875,830</u> | <u>3,694,652</u> | <u>3,692,111</u> | <u>3,632,710</u> |
| <u>35,090,229</u> | <u>37,049,738</u> | <u>36,247,872</u> | <u>28,339,261</u> | <u>29,087,843</u> | <u>28,714,644</u> |
| <u>5,521,996</u> | <u>5,665,649</u> | <u>5,172,035</u> | <u>4,212,920</u> | <u>3,825,938</u> | <u>4,132,828</u> |
| 461,153 | 905,244 | 1,114,573 | 1,006,728 | 1,082,325 | 898,260 |
| 433,355 | 440,007 | 356,616 | 286,029 | 353,946 | 199,327 |
| (3,952,841) | (3,976,825) | (3,877,542) | (3,353,913) | (3,422,072) | (3,462,756) |
| (56,064) | (15,466) | (61,620) | (11,328) | (40,092) | (39,840) |
| (58,114) | (99,267) | (45,269) | (87,446) | (159,547) | (101,788) |
| - | - | (3,452,645) | - | - | - |
| <u>(3,172,511)</u> | <u>(2,746,307)</u> | <u>(5,965,887)</u> | <u>(2,159,930)</u> | <u>(2,185,440)</u> | <u>(2,506,797)</u> |
| <u>2,349,485</u> | <u>2,919,342</u> | <u>(793,852)</u> | <u>2,052,990</u> | <u>1,640,498</u> | <u>1,626,031</u> |
| 960,595 | 1,185,634 | 773,199 | 2,872,855 | 1,755,039 | 1,875,616 |
| - | - | - | - | - | - |
| <u>960,595</u> | <u>1,185,634</u> | <u>773,199</u> | <u>2,872,855</u> | <u>1,755,039</u> | <u>1,875,616</u> |
| <u>\$ 3,310,080</u> | <u>\$ 4,104,976</u> | <u>\$ (20,653)</u> | <u>\$ 4,925,845</u> | <u>\$ 3,395,537</u> | <u>\$ 3,501,647</u> |

In 2001, the Commission began accounting for other production expenses separate from purchased power and fuel expenses in its electric system. Other electric production expenses include nuclear power generation, diesel power generation, and system control load dispatch expenses. Water production expenses include source of supply and treatment expenses. Communications division expenses include payments to internet and telephone providers.

**OPERATING REVENUES BY UTILITY SYSTEM,
LAST TEN FISCAL YEARS**

Year Ending September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|---|----------------------|----------------------|----------------------|----------------------|
| Electric: | | | | |
| Sales..... | \$ 43,926,115 | \$ 35,811,162 | \$ 32,893,546 | \$ 32,743,047 |
| Other revenue..... | <u>359,679</u> | <u>291,429</u> | <u>274,800</u> | <u>244,605</u> |
| Total electric operating revenue..... | <u>44,285,794</u> | <u>36,102,591</u> | <u>33,168,346</u> | <u>32,987,652</u> |
| Water: | | | | |
| Sales..... | 6,126,093 | 5,493,378 | 5,022,495 | 4,927,877 |
| Other revenue..... | <u>219,761</u> | <u>234,461</u> | <u>212,057</u> | <u>195,143</u> |
| Total water operating revenue..... | <u>6,345,854</u> | <u>5,727,839</u> | <u>5,234,552</u> | <u>5,123,020</u> |
| Wastewater: | | | | |
| Sales..... | 7,092,911 | 6,294,451 | 5,937,940 | 5,543,949 |
| Other revenue..... | <u>75,574</u> | <u>85,191</u> | <u>87,340</u> | <u>110,588</u> |
| Total wastewater operating revenue..... | <u>7,168,485</u> | <u>6,379,642</u> | <u>6,025,280</u> | <u>5,654,537</u> |
| Communications: | | | | |
| Sales..... | 6,101,162 | 10,644,285 | 10,064,047 | 2,543,994 |
| Other revenue..... | <u>49,068</u> | <u>113,046</u> | <u>121,257</u> | <u>37,863</u> |
| Total communications operating revenue..... | <u>6,150,230</u> | <u>10,757,331</u> | <u>10,185,304</u> | <u>2,581,857</u> |
| Total operating revenues..... | <u>\$ 63,950,363</u> | <u>\$ 58,967,403</u> | <u>\$ 54,613,482</u> | <u>\$ 46,347,066</u> |

Notes: In fiscal year 2003 the Utilities Commission officially established the Communications System division to account for internet and telephone related services to its customers and to customers outside the Commission's immediate customer base. The first full year of operations for telephone sales under its own CLEC license occurred in fiscal year 2004. The Commission ceased providing telephone services effective in September 2006.

Other revenue includes connection charges, penalties, and miscellaneous revenue.

Table 3

| Fiscal Year | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 29,668,517 | \$ 32,839,422 | \$ 31,733,864 | \$ 23,831,914 | \$ 24,508,133 | \$ 24,700,939 |
| <u>328,487</u> | <u>275,258</u> | <u>233,878</u> | <u>234,532</u> | <u>190,892</u> | <u>200,286</u> |
| <u>29,997,004</u> | <u>33,114,680</u> | <u>31,967,742</u> | <u>24,066,446</u> | <u>24,699,025</u> | <u>24,901,225</u> |
| 4,768,459 | 4,551,228 | 4,416,112 | 4,428,064 | 4,244,450 | 4,084,496 |
| <u>214,767</u> | <u>185,769</u> | <u>159,987</u> | <u>124,646</u> | <u>121,284</u> | <u>103,252</u> |
| <u>4,983,226</u> | <u>4,736,997</u> | <u>4,576,099</u> | <u>4,552,710</u> | <u>4,365,734</u> | <u>4,187,748</u> |
| 5,529,064 | 4,787,066 | 4,810,174 | 3,883,577 | 3,818,144 | 3,740,461 |
| <u>102,931</u> | <u>76,644</u> | <u>65,892</u> | <u>49,448</u> | <u>30,878</u> | <u>18,038</u> |
| <u>5,631,995</u> | <u>4,863,710</u> | <u>4,876,066</u> | <u>3,933,025</u> | <u>3,849,022</u> | <u>3,758,499</u> |
| - | - | - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ 40,612,225</u> | <u>\$ 42,715,387</u> | <u>\$ 41,419,907</u> | <u>\$ 32,552,181</u> | <u>\$ 32,913,781</u> | <u>\$ 32,847,472</u> |

**OPERATING EXPENSES BY UTILITY SYSTEM,
LAST TEN FISCAL YEARS**

Year Ending September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|--|-------------------|-------------------|-------------------|-------------------|
| Electric: | | | | |
| Purchased power and fuel expenses..... | \$ 24,854,589 | \$ 18,615,982 | \$ 16,082,797 | \$ 16,569,259 |
| Other production expenses..... | 4,432,793 | 4,489,665 | 4,164,312 | 4,035,211 |
| Transmission and distribution..... | 2,242,885 | 2,026,026 | 2,160,952 | 1,486,640 |
| Customer accounting..... | 384,102 | 382,405 | 403,381 | 387,282 |
| Administrative and general..... | 2,798,686 | 2,521,562 | 2,587,728 | 2,140,755 |
| Required payments to City of New Smyrna Beach... | 2,490,845 | 2,087,723 | 2,006,630 | 1,920,119 |
| Depreciation and decommissioning..... | <u>3,017,152</u> | <u>2,896,653</u> | <u>2,779,602</u> | <u>2,773,920</u> |
| Total electric operating expenses..... | <u>40,221,052</u> | <u>33,020,016</u> | <u>30,185,402</u> | <u>29,313,186</u> |
| Water: | | | | |
| Other production expenses..... | 1,587,444 | 1,359,754 | 1,281,799 | 1,118,865 |
| Transmission and distribution..... | 667,497 | 635,541 | 522,887 | 451,335 |
| Customer accounting..... | 196,207 | 142,171 | 165,246 | 171,455 |
| Administrative and general..... | 1,412,816 | 1,222,904 | 1,173,213 | 1,052,938 |
| Required payments to City of New Smyrna Beach... | 388,093 | 350,742 | 324,781 | 319,812 |
| Depreciation..... | <u>1,073,632</u> | <u>978,583</u> | <u>930,241</u> | <u>885,034</u> |
| Total water operating expenses..... | <u>5,325,689</u> | <u>4,689,695</u> | <u>4,398,167</u> | <u>3,999,439</u> |
| Wastewater: | | | | |
| Transmission and distribution..... | 2,276,990 | 2,126,466 | 2,003,071 | 1,813,872 |
| Customer accounting..... | 176,113 | 147,662 | 151,001 | 155,287 |
| Administrative and general..... | 1,200,226 | 1,153,560 | 1,056,851 | 922,121 |
| Required payments to City of New Smyrna Beach... | 404,297 | 358,096 | 341,550 | 320,858 |
| Depreciation..... | <u>1,589,799</u> | <u>1,465,922</u> | <u>1,439,757</u> | <u>1,390,310</u> |
| Total wastewater operating expenses..... | <u>5,647,425</u> | <u>5,251,706</u> | <u>4,992,230</u> | <u>4,602,448</u> |
| Communications: | | | | |
| Other production expenses..... | 4,022,060 | 8,097,520 | 5,299,262 | 1,277,017 |
| Customer accounting..... | 1,445,895 | 1,863,972 | 6,045,019 | 282,397 |
| Administrative and general..... | 2,535,363 | 3,815,224 | 1,826,203 | 187,078 |
| Required payments to City of New Smyrna Beach... | 382,080 | 532,086 | 589,626 | 145,638 |
| Depreciation..... | <u>110,413</u> | <u>110,413</u> | <u>-</u> | <u>-</u> |
| Total communications operating expenses..... | <u>8,495,811</u> | <u>14,419,215</u> | <u>13,760,110</u> | <u>1,892,130</u> |

Table 4

| Fiscal Year | | | | | |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 13,652,608 | \$ 16,385,996 | \$ 21,979,607 | \$ 15,109,769 | \$ 15,770,212 | \$ 15,624,349 |
| 4,907,957 | 4,810,363 | - | - | - | - |
| 1,423,256 | 1,287,820 | 1,230,798 | 1,136,881 | 1,098,201 | 1,092,371 |
| 445,467 | 407,539 | 449,764 | 373,494 | 350,154 | 442,180 |
| 1,714,629 | 1,901,354 | 1,683,087 | 1,634,589 | 1,689,612 | 1,871,849 |
| 1,891,212 | 2,047,697 | 1,646,439 | 1,507,252 | 1,529,710 | 1,479,852 |
| <u>2,741,739</u> | <u>2,479,970</u> | <u>2,152,056</u> | <u>2,078,377</u> | <u>2,072,103</u> | <u>2,051,502</u> |
| <u>26,776,868</u> | <u>29,320,739</u> | <u>29,141,751</u> | <u>21,840,362</u> | <u>22,509,992</u> | <u>22,562,103</u> |
| 1,130,882 | 1,034,352 | 991,316 | 895,550 | 882,617 | 844,921 |
| 495,611 | 454,633 | 450,456 | 411,252 | 407,097 | 410,340 |
| 197,827 | 177,757 | 190,922 | 180,766 | 162,871 | 174,080 |
| 864,307 | 809,936 | 790,096 | 752,050 | 899,135 | 799,984 |
| 301,359 | 298,783 | 286,807 | 287,382 | 271,315 | 258,520 |
| <u>832,380</u> | <u>792,520</u> | <u>756,493</u> | <u>737,964</u> | <u>741,129</u> | <u>730,188</u> |
| <u>3,822,366</u> | <u>3,567,981</u> | <u>3,466,090</u> | <u>3,264,964</u> | <u>3,364,164</u> | <u>3,218,033</u> |
| 1,863,774 | 1,605,694 | 1,459,071 | 1,183,305 | 1,152,374 | 1,121,683 |
| 177,834 | 160,084 | 177,634 | 167,600 | 147,653 | 109,954 |
| 806,932 | 807,985 | 754,805 | 782,882 | 817,254 | 640,629 |
| 317,158 | 278,528 | 281,240 | 221,837 | 217,527 | 211,222 |
| <u>1,325,297</u> | <u>1,308,727</u> | <u>967,281</u> | <u>878,311</u> | <u>878,879</u> | <u>851,020</u> |
| <u>4,490,995</u> | <u>4,161,018</u> | <u>3,640,031</u> | <u>3,233,935</u> | <u>3,213,687</u> | <u>2,934,508</u> |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |

**OPERATING EXPENSES BY UTILITY SYSTEM,
LAST TEN FISCAL YEARS**

Year Ending September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|--|----------------------|----------------------|----------------------|----------------------|
| (Continued) | | | | |
| Totals-Combined Systems: | | | | |
| Purchased power and fuel expenses..... | \$ 24,854,589 | \$ 18,615,982 | \$ 16,082,797 | \$ 16,569,259 |
| Other production expenses..... | 10,042,297 | 13,946,939 | 10,745,373 | 6,431,093 |
| Transmission and distribution..... | 5,187,372 | 4,788,033 | 4,686,910 | 3,751,847 |
| Customer accounting..... | 2,202,317 | 2,536,210 | 6,764,647 | 996,421 |
| Administrative and general..... | 7,947,091 | 8,713,250 | 6,643,995 | 4,302,892 |
| Required payments to City of New Smyrna Beach... | 3,665,315 | 3,328,647 | 3,262,587 | 2,706,427 |
| Depreciation and decommissioning..... | <u>5,790,996</u> | <u>5,451,571</u> | <u>5,149,600</u> | <u>5,049,264</u> |
| Total operating expenses..... | <u>\$ 59,689,977</u> | <u>\$ 57,380,632</u> | <u>\$ 53,335,909</u> | <u>\$ 39,807,203</u> |

Notes: In fiscal year 2003, the Commission officially established the Communications System division to account for internet and telephone related services to its customers and to customers outside the Commission's immediate customer base. The first full year of operations for telephone sales under its own CLEC license occurred in fiscal year 2004. The Commission ceased providing telephone services effective in September 2006.

In fiscal year 2001, the Commission began accounting for other production expenses separate from purchased power and fuel expenses in the electric system. Other production expenses in the electric system include nuclear power generation, diesel power generation, and system control load dispatch expenses.

Other production expenses in the water system include source of supply and water treatment expenses. Other production expenses in the communications system include payments to internet and telephone providers.

Table 4

| Fiscal Year | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 13,652,608 | \$ 16,385,996 | \$ 21,979,607 | \$ 15,109,769 | \$ 15,770,212 | \$ 15,624,349 |
| 6,038,839 | 5,844,715 | 991,316 | 895,550 | 882,617 | 844,921 |
| 3,782,641 | 3,348,147 | 3,140,325 | 2,731,438 | 2,657,672 | 2,624,394 |
| 821,128 | 745,380 | 818,320 | 721,860 | 660,678 | 726,214 |
| 3,385,868 | 3,519,275 | 3,227,988 | 3,169,521 | 3,406,001 | 3,312,462 |
| 2,509,729 | 2,625,008 | 2,214,486 | 2,016,471 | 2,018,552 | 1,949,594 |
| <u>4,899,416</u> | <u>4,581,217</u> | <u>3,875,830</u> | <u>3,694,652</u> | <u>3,692,111</u> | <u>3,632,710</u> |
| <u>\$ 35,090,229</u> | <u>\$ 37,049,738</u> | <u>\$ 36,247,872</u> | <u>\$ 28,339,261</u> | <u>\$ 29,087,843</u> | <u>\$ 28,714,644</u> |

**NONOPERATING REVENUE AND EXPENSES,
LAST TEN FISCAL YEARS**

Year Ending September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|---|---------------------------|-------------------------|---------------------------|---------------------------|
| Interest earnings..... | \$ 1,024,376 | \$ 690,497 | \$ 281,003 | \$ 358,454 |
| Other income..... | 901,493 | 1,081,808 | 1,125,069 | 336,526 |
| Interest and debt expense..... | (3,075,803) | (3,097,313) | (3,101,348) | (3,355,193) |
| Other expenses..... | (210,748) | (102,333) | (227,937) | (690,017) |
| Gain (loss) on disposal of assets..... | (9,814) | 1,107,426 | 310,665 | (9,541) |
| Loss on abandonment of wastewater treatment plant..... | - | - | - | - |
| Total nonoperating revenue (expense)..... | <u>\$ (1,370,496)</u> | <u>\$ (319,915)</u> | <u>\$ (1,612,548)</u> | <u>\$ (3,359,771)</u> |

Note: Interest and debt expenses are reported net of capitalized amounts.

Table 5

| Fiscal Year | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 461,153 | \$ 905,244 | \$ 1,114,573 | \$ 1,006,728 | \$ 1,082,325 | \$ 898,260 |
| 433,355 | 440,007 | 356,616 | 286,029 | 353,946 | 199,327 |
| (3,952,841) | (3,976,825) | (3,877,542) | (3,353,913) | (3,422,072) | (3,462,756) |
| (56,064) | (15,466) | (61,620) | (11,328) | (40,092) | (39,840) |
| (58,114) | (99,267) | (45,269) | (87,446) | (159,547) | (101,788) |
| - | - | (3,452,645) | - | - | - |
| <u>\$ (3,172,511)</u> | <u>\$ (2,746,307)</u> | <u>\$ (5,965,887)</u> | <u>\$ (2,159,930)</u> | <u>\$ (2,185,440)</u> | <u>\$ (2,506,797)</u> |

**UTILITY SYSTEM OPERATIONS ANALYSIS,
LAST TEN FISCAL YEARS**

September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|---|-------------|-------------|-------------|-------------|
| Electric System: | | | | |
| Net energy load requirements (kWh)..... | 402,421,129 | 396,805,566 | 385,510,397 | 386,385,433 |
| Total Consumption/Sales (kWh)..... | 383,185,319 | 371,219,399 | 361,426,028 | 370,242,195 |
| Total Direct Rate-Electric:⁽¹⁾ | | | | |
| Customer charge..... | \$ 6.75 | \$ 6.75 | \$ 6.75 | \$ 6.75 |
| Energy charge..... | \$ 0.076454 | \$ 0.071730 | \$ 0.071730 | \$ 0.071730 |
| Water System: | | | | |
| Gallons of water pumped from water plant (KGs)..... | 1,735,327 | 1,616,605 | 1,660,316 | 1,743,832 |
| Gallons of water consumed (KGs)..... | 1,673,828 | 1,489,905 | 1,538,925 | 1,471,435 |
| Total Direct Rate-Water:⁽²⁾ | | | | |
| Base facility charge..... | \$ 11.65 | \$ 11.65 | \$ 11.65 | \$ 11.65 |
| Gallage charge per 1,000 gallons..... | \$ 1.62 | \$ 1.90 | \$ 1.75 | \$ 1.75 |
| Wastewater System: | | | | |
| Wastewater: | | | | |
| Gallons of wastewater treated (KGs)..... | 1,203,830 | 1,262,520 | 1,369,390 | 1,339,026 |
| Gallons of wastewater sold (KGs)..... | 934,437 | 873,874 | 873,105 | 871,680 |
| Total Direct Rate-Wastewater:⁽³⁾ | | | | |
| Base facility charge..... | \$ 16.62 | \$ 16.62 | \$ 16.62 | \$ 16.62 |
| Gallage charge per 1,000 gallons..... | \$ 3.63 | \$ 2.83 | \$ 2.53 | \$ 2.53 |
| Reclaimed Water: | | | | |
| Gallons of reclaimed water pumped from wastewater treatment plant (KGs)..... | 872,810 | 816,750 | 770,080 | 800,083 |
| Gallons of reclaimed water sold (KGs)..... | 360,942 | 282,769 | 262,818 | 349,117 |
| Total Direct Rate-Reclaimed water:⁽⁴⁾ | | | | |
| Minimum monthly charge..... | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 |
| Gallage charge per 1,000 gallons..... | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ - |

Notes: Water, wastewater and reclaimed water amounts are presented in 1,000 gallon (KG) units.

⁽¹⁾Rate for customer charge shown for electric system is an average for single phase and three phase service for residential customers. See Table 7 for rate schedule applicable to electric customers.

⁽²⁾Rate shown for water system is for residential single family 5/8" meter size. The gallage charge is an average of the monthly rate block rates. See Table 8 for rate schedule applicable to water customers.

⁽³⁾Rate shown for wastewater system is for residential single family 5/8" meter size. See Table 9 for rate schedule applicable to wastewater customers.

⁽⁴⁾Rate shown for reclaimed water is for primary tier 3/4" meter size. See Table 9 for rate schedule applicable to reclaimed water customers.

Table 6

| Fiscal Year | | | | | |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| 367,175,437 | 361,158,839 | 360,759,259 | 355,599,074 | 352,623,208 | 325,229,158 |
| 342,753,470 | 344,819,905 | 340,631,525 | 340,606,215 | 333,518,604 | 305,573,318 |
| \$ 6.75 | \$ 6.75 | \$ 6.75 | \$ 6.75 | \$ 6.75 | \$ 6.75 |
| \$ 0.071730 | \$ 0.071730 | \$ 0.069170 | \$ 0.069170 | \$ 0.069170 | \$ 0.069170 |
| 1,718,618 | 1,658,415 | 1,762,930 | 1,667,354 | n/a | n/a |
| 1,402,576 | 1,498,145 | 1,579,828 | n/a | n/a | n/a |
| \$ 11.65 | \$ 11.65 | \$ 11.65 | \$ 11.65 | \$ 11.65 | \$ 11.65 |
| \$ 1.75 | \$ 1.75 | \$ 1.33 | \$ 1.33 | \$ 1.33 | \$ 1.33 |
| 1,422,280 | 1,307,300 | 1,203,430 | 1,083,480 | n/a | n/a |
| 862,022 | 891,140 | 933,490 | n/a | n/a | n/a |
| \$ 16.62 | \$ 16.62 | \$ 16.62 | \$ 11.90 | \$ 11.90 | \$ 11.90 |
| \$ 2.53 | \$ 2.18 | \$ 1.55 | \$ 1.55 | \$ 1.55 | \$ 1.55 |
| 1,108,070 | 968,060 | 610,870 | 673,403 | n/a | n/a |
| 264,685 | 761,966 | 580,550 | | | |
| \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

**UTILITY RATE SCHEDULE - ELECTRIC SERVICE,
LAST TEN FISCAL YEARS**

September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| Total Direct Monthly Rate | 2006 | 2005 | 2004 | 2003 |
|---|-------------|-------------|-------------|-------------|
| Residential: | | | | |
| Customer charge: | | | | |
| Single phase service..... | \$ 5.65 | \$ 5.65 | \$ 5.65 | \$ 5.65 |
| Three phase service..... | \$ 7.85 | \$ 7.85 | \$ 7.85 | \$ 7.85 |
| Energy charge: | | | | |
| All per kWh per month, plus fuel and purchased power cost adjustment..... | \$ 0.076454 | \$ 0.071730 | \$ 0.071730 | \$ 0.071730 |
| General Service - Non-Demand:⁽¹⁾ | | | | |
| Customer charge: | | | | |
| Single phase service..... | \$ 6.05 | \$ 6.05 | \$ 6.05 | \$ 6.05 |
| Three phase service..... | \$ 8.85 | \$ 8.85 | \$ 8.85 | \$ 8.85 |
| Energy charge: | | | | |
| All per kWh per month, plus fuel and purchased power cost adjustment..... | \$ 0.074504 | \$ 0.073330 | \$ 0.073330 | \$ 0.073330 |
| General Service - Demand:⁽²⁾ | | | | |
| Customer charge..... | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 |
| Demand charge - all kWh of billing demand..... | \$ 6.75 | \$ 5.50 | \$ 5.50 | \$ 5.50 |
| Energy charge: | | | | |
| All per kWh per month, plus fuel and purchased power cost adjustment..... | \$ 0.065040 | \$ 0.055460 | \$ 0.055460 | \$ 0.055460 |
| General Service - Large Demand:⁽³⁾ | | | | |
| Customer charge..... | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 |
| Demand charge - all kWh of billing demand..... | \$ 6.50 | \$ 5.50 | \$ 5.50 | \$ 5.50 |
| Energy charge: | | | | |
| All per kWh per month, plus fuel and purchased power cost adjustment..... | \$ 0.060040 | \$ 0.055460 | \$ 0.055460 | \$ 0.055460 |
| General Service - Demand Time of Use:⁽⁴⁾ | | | | |
| Customer charge..... | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 |
| Demand charge - per kW of excess demand..... | \$ 22.00 | \$ 22.00 | \$ 22.00 | \$ 22.00 |
| Energy charge: | | | | |
| All per kWh per month, plus fuel and purchased power cost adjustment..... | \$ 0.065040 | \$ 0.055460 | \$ 0.055460 | \$ 0.055460 |
| Fuel and Purchased Power Cost Adjustment⁽⁵⁾ | | | | |
| Clause Monthly Billing Factor (per 1,000 kWh) | \$ 31.20 | \$ 17.18 | \$ 17.18 | \$ 12.89 |

- Notes: ⁽¹⁾Non-Demand electric rate schedule reserved for non-residential customers with an annual measured peak demand of less than 50kW.
⁽²⁾Demand electric rate schedule reserved for non-residential customers with an annual measured peak demand of 50kW up to 250kW.
⁽³⁾Large Demand electric rate schedule reserved for non-residential customers with an annual measured peak demand of 250kW or greater.
⁽⁴⁾Demand Time of Use electric rate schedule reserved for non-residential customers with an annual measured peak demand of 50kW or greater. Service under this schedule is limited to customers who shift their capacity requirements from on-peak periods to off-peak periods and enter into an agreement with the Commission to do so.

Table 7

| Fiscal Year | | | | | |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 5.65 | \$ 5.65 | \$ 5.65 | \$ 5.65 | \$ 5.65 | \$ 5.65 |
| \$ 7.85 | \$ 7.85 | \$ 7.85 | \$ 7.85 | \$ 7.85 | \$ 7.85 |
| \$ 0.071730 | \$ 0.071730 | \$ 0.069170 | \$ 0.069170 | \$ 0.069170 | \$ 0.069170 |
| \$ 6.05 | \$ 6.05 | \$ 6.05 | \$ 6.05 | \$ 6.05 | \$ 6.05 |
| \$ 8.85 | \$ 8.85 | \$ 8.85 | \$ 8.85 | \$ 8.85 | \$ 8.85 |
| \$ 0.073330 | \$ 0.073330 | \$ 0.070670 | \$ 0.070670 | \$ 0.070670 | \$ 0.074390 |
| \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 |
| \$ 5.50 | \$ 5.50 | \$ 5.50 | \$ 5.50 | \$ 5.50 | \$ 5.80 |
| \$ 0.055460 | \$ 0.055460 | \$ 0.053930 | \$ 0.053930 | \$ 0.053930 | \$ 0.056770 |
| \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 |
| \$ 5.50 | \$ 5.50 | \$ 5.50 | \$ 5.50 | \$ 5.50 | \$ 5.80 |
| \$ 0.055460 | \$ 0.055460 | \$ 0.053930 | \$ 0.053930 | \$ 0.053930 | \$ 0.056770 |
| \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 | \$ 33.50 |
| \$ 22.00 | \$ 22.00 | \$ 22.00 | \$ 22.00 | \$ 22.00 | \$ 22.00 |
| \$ 0.055460 | \$ 0.055460 | \$ 0.053930 | \$ 0.053930 | \$ 0.053930 | \$ 0.056770 |
| \$ 8.82 | \$ 28.47 | \$ 13.91 | \$ - | \$ 4.35 | \$ 4.35 |

⁽⁵⁾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 in the clause allows the FPPCAC to be modified if significant circumstances arise during the twelve month billing cycle.

⁽⁶⁾Increases in electric rates do not require approval by the Florida Public Service Commission; however, the Commission voluntarily files tariff sheets with the Florida Public Service Commission whenever there are rate increases, which are kept on file in the Bureau of Certification, Economics & Tariffs Section of the Division of Economic Regulation.

**UTILITY RATE SCHEDULE - WATER SERVICE,
LAST TEN FISCAL YEARS**

September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| Total Direct Monthly Rate | 2006 | 2005 | 2004 | 2003 |
|--|-------------|-----------|-----------|-----------|
| Residential: | | | | |
| Single Family: | | | | |
| Base facility charge: | | | | |
| Meter Size (Inches): | | | | |
| 5/8"..... | \$ 11.65 | \$ 11.65 | \$ 11.65 | \$ 11.65 |
| 1"..... | \$ 29.13 | \$ 26.30 | \$ 26.30 | \$ 26.30 |
| 1 1/2"..... | \$ 58.25 | \$ 50.65 | \$ 50.65 | \$ 50.65 |
| 2"..... | \$ 93.20 | \$ 79.90 | \$ 79.90 | \$ 79.90 |
| 3"..... | \$ 174.75 | \$ 157.90 | \$ 157.90 | \$ 157.90 |
| 4"..... | \$ 291.25 | \$ 245.65 | \$ 245.65 | \$ 245.65 |
| 6"..... | \$ 582.50 | \$ 489.40 | \$ 489.40 | \$ 489.40 |
| 8"..... | \$ 932.00 | \$ 781.90 | \$ 781.90 | \$ 781.90 |
| 10"..... | \$ 1,339.75 | \$ - | \$ - | \$ - |
| Gallorage charge per 1,000 Gallons: ⁽¹⁾ | | | | |
| Block 1..... | \$ 0.93 | \$ 1.10 | \$ 1.00 | \$ 1.00 |
| Block 2..... | \$ 1.24 | \$ 1.20 | \$ 1.10 | \$ 1.10 |
| Block 3..... | \$ 1.96 | \$ 2.40 | \$ 2.20 | \$ 2.20 |
| Block 4..... | \$ 2.33 | \$ 2.90 | \$ 2.70 | \$ 2.70 |
| Multi-Family: | | | | |
| Base facility charge: | | | | |
| Each Unit..... | \$ 11.65 | \$ 9.75 | \$ 9.75 | \$ 9.75 |
| Master Meter..... | \$ 11.65 | \$ 1.90 | \$ 1.90 | \$ 1.90 |
| Gallorage charge per 1,000 Gallons: | | | | |
| Each Unit..... | \$ - | \$ - | \$ - | \$ - |
| Master Meter..... | \$ 1.10 | \$ 1.15 | \$ 1.05 | \$ 1.05 |
| Non-Residential: | | | | |
| Base facility charge: | | | | |
| Meter Size (Inches): | | | | |
| 5/8"..... | \$ 11.65 | \$ 11.65 | \$ 11.65 | \$ 11.65 |
| 1"..... | \$ 29.13 | \$ 26.30 | \$ 26.30 | \$ 26.30 |
| 1 1/2"..... | \$ 58.25 | \$ 50.65 | \$ 50.65 | \$ 50.65 |
| 2"..... | \$ 93.20 | \$ 79.90 | \$ 79.90 | \$ 79.90 |
| 3"..... | \$ 174.75 | \$ 157.90 | \$ 157.90 | \$ 157.90 |
| 4"..... | \$ 291.25 | \$ 245.65 | \$ 245.65 | \$ 245.65 |
| 6"..... | \$ 582.50 | \$ 489.40 | \$ 489.40 | \$ 489.40 |
| 8"..... | \$ 932.00 | \$ 781.90 | \$ 781.90 | \$ 781.90 |
| 10"..... | \$ 1,339.75 | \$ - | \$ - | \$ - |
| Gallorage charge per 1,000 Gallons: ⁽²⁾ | | | | |
| Block 1..... | \$ 1.54 | \$ 1.15 | \$ 1.05 | \$ 1.05 |
| Block 2..... | \$ 2.05 | \$ 1.35 | \$ 1.25 | \$ 1.25 |
| Block 3..... | \$ - | \$ 1.85 | \$ 1.70 | \$ 1.70 |

Table 8

| Fiscal Year | | 2002 | | 2001 | | 2000 | | 1999 | | 1998 | | 1997 | |
|-------------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|
| \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 |
| \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 |
| \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 |
| \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 |
| \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 |
| \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 |
| \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 |
| \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 1.00 | \$ | 1.00 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 |
| \$ | 1.10 | \$ | 1.10 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 |
| \$ | 2.20 | \$ | 2.20 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 |
| \$ | 2.70 | \$ | 2.70 | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 9.75 | \$ | 9.75 | \$ | 9.75 | \$ | 9.75 | \$ | 9.75 | \$ | 9.75 | \$ | 9.75 |
| \$ | 1.90 | \$ | 1.90 | \$ | 1.90 | \$ | 1.90 | \$ | 1.90 | \$ | 1.90 | \$ | 1.90 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 |
| \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 |
| \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 |
| \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 |
| \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 |
| \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 |
| \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 |
| \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 |
| \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 |
| \$ | 1.25 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 |
| \$ | 1.70 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 |

**UTILITY RATE SCHEDULE - WATER SERVICE,
LAST TEN FISCAL YEARS**

September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| Total Direct Monthly Rate | 2006 | 2005 | 2004 | 2003 |
|--|-------------|-----------|-----------|-----------|
| Irrigation Service: | | | | |
| Base facility charge: | | | | |
| Meter Size (Inches): | | | | |
| 5/8"..... | \$ 11.65 | \$ 11.65 | \$ 11.65 | \$ 11.65 |
| 1"..... | \$ 29.13 | \$ 26.30 | \$ 26.30 | \$ 26.30 |
| 1 1/2"..... | \$ 58.25 | \$ 50.65 | \$ 50.65 | \$ 50.65 |
| 2"..... | \$ 93.20 | \$ 79.90 | \$ 79.90 | \$ 79.90 |
| 3"..... | \$ 174.75 | \$ 157.90 | \$ 157.90 | \$ 157.90 |
| 4"..... | \$ 291.25 | \$ 245.65 | \$ 245.65 | \$ 245.65 |
| 6"..... | \$ 582.50 | \$ 489.40 | \$ 489.40 | \$ 489.40 |
| 8"..... | \$ 932.00 | \$ 781.90 | \$ 781.90 | \$ 781.90 |
| 10"..... | \$ 1,339.75 | \$ - | \$ - | \$ - |
| Gallorage charge per 1,000 Gallons: ⁽¹⁾ | | | | |
| Block 1..... | \$ 1.37 | \$ 1.10 | \$ 1.00 | \$ 1.00 |
| Block 2..... | \$ 1.83 | \$ 1.20 | \$ 1.10 | \$ 1.10 |
| Block 3..... | \$ 2.88 | \$ 2.40 | \$ 2.20 | \$ 2.20 |
| Block 4..... | \$ 3.43 | \$ 2.90 | \$ - | \$ - |

Notes:

⁽¹⁾The monthly rate blocks for residential and irrigation water usage at September 30, 2006 are as follows:

| Meter Size (Inches): | Monthly Rate Blocks (Gallons) | | | |
|----------------------|-------------------------------|-----------------|-------------------|-----------------|
| | Block 1 | Block 2 | Block 3 | Block 4 |
| 5/8"..... | 0-2,999 | 3,000-5,999 | 6,000-15,000 | Above 15,000 |
| 1"..... | 0-5,999 | 6,000-13,999 | 14,000-38,000 | Above 38,000 |
| 1 1/2"..... | 0-10,999 | 11,000-25,999 | 26,000-75,000 | Above 75,000 |
| 2"..... | 0-16,999 | 17,000-40,999 | 41,000-120,000 | Above 120,000 |
| 3"..... | 0-30,999 | 31,000-75,999 | 76,000-225,000 | Above 225,000 |
| 4"..... | 0-50,999 | 51,000-125,999 | 126,000-375,000 | Above 375,000 |
| 6"..... | 0-100,999 | 101,000-250,999 | 251,000-750,000 | Above 750,000 |
| 8"..... | 0-160,999 | 170,000-400,999 | 401,000-1,200,000 | Above 1,200,000 |
| 10"..... | 0-230,999 | 231,000-575,999 | 576,000-1,725,000 | Above 1,725,000 |

⁽²⁾The monthly rate blocks for non-residential water usage at September 30, 2006, are as follows:

| Meter Size (Inches): | Monthly Rate Blocks (Gallons) | |
|----------------------|-------------------------------|---------------|
| | Block 1 | Block 2 |
| 5/8"..... | 0-7,000 | Above 7,000 |
| 1"..... | 0-18,000 | Above 18,000 |
| 1 1/2"..... | 0-35,000 | Above 35,000 |
| 2"..... | 0-56,000 | Above 56,000 |
| 3"..... | 0-105,000 | Above 105,000 |
| 4"..... | 0-175,000 | Above 175,000 |
| 6"..... | 0-350,000 | Above 350,000 |
| 8"..... | 0-560,000 | Above 560,000 |
| 10"..... | 0-805,000 | Above 805,000 |

⁽³⁾Increases in water rates do not require approval by the FPSC; however, the Commission voluntarily files tariff sheets with the FPSC whenever there are rate increases, which are kept on file in the Bureau of Certification, Economics & Tariffs Section of the Division of Economic Regulation.

Table 8

| Fiscal Year | | 2002 | | 2001 | | 2000 | | 1999 | | 1998 | | 1997 | |
|-------------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|
| \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 | \$ | 11.65 |
| \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 | \$ | 26.30 |
| \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 | \$ | 50.65 |
| \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 | \$ | 79.90 |
| \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 | \$ | 157.90 |
| \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 | \$ | 245.65 |
| \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 | \$ | 489.40 |
| \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 | \$ | 781.90 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 1.00 | \$ | 1.00 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 | \$ | 1.05 |
| \$ | 1.10 | \$ | 1.10 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 | \$ | 1.25 |
| \$ | 2.20 | \$ | 2.20 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 | \$ | 1.70 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |

**UTILITY RATE SCHEDULE - WASTEWATER AND RECLAIMED WATER SERVICES,
LAST TEN FISCAL YEARS**

September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| Total Direct Monthly Rate: | 2006 | 2005 | 2004 | 2003 |
|---|-------------|-------------|-------------|-------------|
| Residential (Single Family) and Non-residential: | | | | |
| Base facility charge: | | | | |
| Meter Size (Inches): | | | | |
| 5/8"..... | \$ 16.62 | \$ 16.62 | \$ 16.62 | \$ 16.62 |
| 1"..... | \$ 41.55 | \$ 39.35 | \$ 39.35 | \$ 39.35 |
| 1 1/2"..... | \$ 83.10 | \$ 77.10 | \$ 77.10 | \$ 77.10 |
| 2"..... | \$ 132.96 | \$ 122.46 | \$ 122.46 | \$ 122.46 |
| 3"..... | \$ 249.30 | \$ 243.42 | \$ 243.42 | \$ 243.42 |
| 4"..... | \$ 415.50 | \$ 379.50 | \$ 379.50 | \$ 379.50 |
| 6"..... | \$ 831.00 | \$ 757.50 | \$ 757.50 | \$ 757.50 |
| 8"..... | \$ 1,329.60 | \$ 1,211.10 | \$ 1,211.10 | \$ 1,211.10 |
| 10"..... | \$ 1,911.30 | \$ - | \$ - | \$ - |
| Gallage charge per 1,000 Gallons: ⁽¹⁾ | | | | |
| All meter sizes..... | \$ 3.63 | \$ - | \$ - | \$ - |
| Block 1 | \$ - | \$ 2.55 | \$ 2.30 | \$ 2.30 |
| Block 2..... | \$ - | \$ 3.10 | \$ 2.75 | \$ 2.75 |
| Multi-Family: | | | | |
| Base facility charge: | | | | |
| Each Unit..... | \$ 16.62 | \$ 15.12 | \$ 15.12 | \$ 15.12 |
| Master Meter..... | \$ 16.62 | \$ 1.50 | \$ 1.50 | \$ 1.50 |
| Gallage charge per 1,000 Gallons: | | | | |
| Each Unit..... | \$ - | \$ - | \$ - | \$ - |
| Master Meter..... | \$ 2.90 | \$ 2.60 | \$ 1.55 | \$ 1.55 |
| Reclaimed Water Rate Schedule: | | | | |
| Primary Tier Rate: | | | | |
| Minimum monthly charge: | | | | |
| Meter Size (Inches): | | | | |
| 3/4"..... | \$ 10.00 | \$ 10.00 | \$ 10.00 | \$ 10.00 |
| 1"..... | \$ 25.00 | \$ 25.00 | \$ 25.00 | \$ 25.00 |
| 1 1/2"..... | \$ 50.00 | \$ 50.00 | \$ 50.00 | \$ 50.00 |
| Major Users Meter Size (Inches): | | | | |
| 2"..... | \$ 75.00 | \$ 75.00 | \$ 75.00 | \$ - |
| 3"..... | \$ 75.00 | \$ 75.00 | \$ 75.00 | \$ - |
| 4"..... | \$ 75.00 | \$ 75.00 | \$ 75.00 | \$ - |
| 6"..... | \$ 75.00 | \$ 75.00 | \$ 75.00 | \$ - |
| Gallage charge per 1,000 Gallons: ⁽²⁾ | | | | |
| Meter Size (Inches): | | | | |
| 3/4"..... | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ - |
| 1"..... | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ - |
| 1 1/2"..... | \$ 2.00 | \$ 2.00 | \$ 2.00 | \$ - |
| Flow charge per 1,000 Gallons: | | | | |
| Major Users Meter Size (Inches): | | | | |
| 2"..... | \$ 0.15 | \$ 0.15 | \$ 0.15 | \$ 0.15 |
| 3"..... | \$ 0.15 | \$ 0.15 | \$ 0.15 | \$ 0.15 |
| 4"..... | \$ 0.15 | \$ 0.15 | \$ 0.15 | \$ 0.15 |
| 6"..... | \$ 0.15 | \$ 0.15 | \$ 0.15 | \$ 0.15 |

Table 9

| Fiscal Year | | 2002 | | 2001 | | 2000 | | 1999 | | 1998 | | 1997 | |
|-------------|----------|------|----------|------|----------|------|--------|------|--------|------|--------|------|--------|
| \$ | 16.62 | \$ | 16.62 | \$ | 16.62 | \$ | 11.90 | \$ | 11.90 | \$ | 11.90 | \$ | 11.90 |
| \$ | 39.35 | \$ | 39.35 | \$ | 39.35 | \$ | 27.55 | \$ | 27.55 | \$ | 27.55 | \$ | 27.55 |
| \$ | 77.10 | \$ | 77.10 | \$ | 77.10 | \$ | 53.50 | \$ | 53.50 | \$ | 53.50 | \$ | 53.50 |
| \$ | 122.46 | \$ | 122.46 | \$ | 122.46 | \$ | 84.70 | \$ | 84.70 | \$ | 84.70 | \$ | 84.70 |
| \$ | 243.42 | \$ | 243.42 | \$ | 243.42 | \$ | 167.90 | \$ | 167.90 | \$ | 167.90 | \$ | 167.90 |
| \$ | 379.50 | \$ | 379.50 | \$ | 379.50 | \$ | 261.50 | \$ | 261.50 | \$ | 261.50 | \$ | 261.50 |
| \$ | 757.50 | \$ | 757.50 | \$ | 757.50 | \$ | 521.50 | \$ | 521.50 | \$ | 521.50 | \$ | 521.50 |
| \$ | 1,211.10 | \$ | 1,211.10 | \$ | 1,211.10 | \$ | 833.50 | \$ | 833.50 | \$ | 833.50 | \$ | 833.50 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | - | \$ | - | \$ | 1.55 | \$ | 1.55 | \$ | 1.55 | \$ | 1.55 | \$ | 1.55 |
| \$ | 2.30 | \$ | 2.00 | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 2.75 | \$ | 2.35 | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 15.12 | \$ | 15.12 | \$ | 15.12 | \$ | 10.40 | \$ | 10.40 | \$ | 10.40 | \$ | 10.40 |
| \$ | 1.50 | \$ | 1.50 | \$ | 1.50 | \$ | 1.50 | \$ | 1.50 | \$ | 1.50 | \$ | 1.50 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 1.55 | \$ | 1.55 | \$ | 1.55 | \$ | 1.55 | \$ | 1.55 | \$ | 1.55 | \$ | 1.55 |
| \$ | 10.00 | \$ | 10.00 | \$ | 10.00 | \$ | 10.00 | \$ | 10.00 | \$ | 10.00 | \$ | 10.00 |
| \$ | 25.00 | \$ | 25.00 | \$ | 25.00 | \$ | 25.00 | \$ | 25.00 | \$ | 25.00 | \$ | 25.00 |
| \$ | 50.00 | \$ | 50.00 | \$ | 50.00 | \$ | 50.00 | \$ | 50.00 | \$ | 50.00 | \$ | 50.00 |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - |
| \$ | 0.15 | \$ | 0.15 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 |
| \$ | 0.15 | \$ | 0.15 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 |
| \$ | 0.15 | \$ | 0.15 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 |
| \$ | 0.15 | \$ | 0.15 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 | \$ | 0.10 |

**UTILITY RATE SCHEDULE - WASTEWATER AND RECLAIMED WATER SERVICES,
LAST TEN FISCAL YEARS**

September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| Total Direct Monthly Rate: | 2006 | 2005 | 2004 | 2003 |
|----------------------------|------|------|------|------|
|----------------------------|------|------|------|------|

(Continued)

Secondary Tier Rate:

| | | | | | | | | |
|--|----|-------|----|-------|----|-------|----|-------|
| A fixed rate established at a minimum rate per acre per month for major metered users whose anticipated capacity exceeds 100,000 gallons per day and which must provide a minimum of three days of wet weather storage for a minimum flow rate of 1,900 gallons/acre/day on an annual average. | \$ | 16.29 | \$ | 16.29 | \$ | 16.29 | \$ | 16.29 |
|--|----|-------|----|-------|----|-------|----|-------|

Notes: ⁽¹⁾The monthly rate blocks for wastewater services utilized from 2001 to 2005 applied to all meter sizes. Block 1 applied to gallons treated up to 2,000 per month. Block 2 applied to gallons treated above 2,000 per month.

⁽²⁾The gallonage charge for metered reclaimed water customers applies to usage over the monthly maximum allowance that is included in the minimum monthly charge, which varies depending on meter size.

⁽³⁾Increases in utility rates do not require approval by the FPSC; however, the Commission voluntarily files tariff sheets with the FPSC whenever there are rate increases, which are kept on file in the Bureau of Certification, Economics & Tariffs Section of the Division of Economic Regulation.

Table 9

| Fiscal Year | | | | | |
|-------------|----------|----------|----------|----------|----------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 16.29 | \$ 16.29 | \$ 10.80 | \$ 10.80 | \$ 10.80 | \$ 10.80 |

**NUMBER OF ELECTRIC, WATER, WASTEWATER, AND RECLAIMED WATER CUSTOMERS,
LAST TEN FISCAL YEARS**

September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|----------------------|--------|--------|--------|--------|
| Electric..... | 24,174 | 23,489 | 22,922 | 22,126 |
| Water..... | 22,765 | 21,905 | 20,980 | 20,122 |
| Wastewater..... | 18,243 | 17,601 | 17,062 | 16,485 |
| Reclaimed water..... | 570 | 501 | 462 | 417 |

Note: ⁽¹⁾Obtained from customer billing records as summarized in the Monthly Consolidated Sales Reports, as of September 30th for each fiscal year.

Table 10

| Fiscal Year | | | | | |
|-------------|--------|--------|--------|--------|--------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| 21,702 | 21,330 | 21,134 | 20,920 | 20,644 | 20,501 |
| 19,348 | 18,569 | 17,937 | 17,516 | 16,988 | 16,727 |
| 15,832 | 15,423 | 14,940 | 14,600 | 14,355 | 14,356 |
| 401 | 346 | 306 | 286 | 248 | 188 |

TEN LARGEST CUSTOMERS, CURRENT AND NINE YEARS AGO

September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

Fiscal Year Ended September 30, 2006

| Electric Customers | Kilowatt Hour Sales | | | Revenues Billed | |
|---------------------------------------|----------------------------|---------------------|------|------------------------|---------------------|
| | kWh (000's) | Percent of Total | Rank | Amount | Percent of Total |
| Bert Fish Medical Center..... | 7,551 | 1.97% | 1 | \$ 687,788 | 1.67% |
| UCNSB-Wastewater Treatment Plant..... | 4,538 | 1.18% | 2 | 412,641 | 1.00% |
| Publix Food - Store #2019100..... | 3,564 | 0.93% | 3 | 325,939 | 0.79% |
| Reddy Ice Corp..... | 3,560 | 0.93% | 4 | 327,551 | 0.79% |
| Winn Dixie - Store #2304..... | 2,961 | 0.77% | 5 | 269,982 | 0.65% |
| Publix Food - Store #2033500..... | 2,685 | 0.70% | 6 | 245,594 | 0.59% |
| Caraustar Industrial..... | 2,533 | 0.66% | 7 | 224,070 | 0.54% |
| UCNSB-Water Plant..... | 2,168 | 0.57% | 8 | 200,833 | 0.49% |
| Volusia School District..... | 2,136 | 0.56% | 9 | 204,716 | 0.50% |
| Kmart - Store #7447..... | 2,111 | 0.55% | 10 | 193,552 | 0.47% |
| Wal-Mart - Store #01-1079 | - | - | | - | - |
| Food Lion - Store #829 | - | - | | - | - |
| Totals..... | <u>33,807</u> | 8.82% | | <u>\$ 3,092,666</u> | 7.49% |

| Water/Wastewater Customers | Consumption | | | Revenues Billed | |
|---|--------------------|---------------------|------|------------------------|---------------------|
| | Gallons (000's) | Percent of Total | Rank | Amount | Percent of Total |
| Reddy Ice Corp..... | 18,393 | 1.10% | 1 | \$ 56,380 | 0.89% |
| Newport Sound Master..... | 13,632 | 0.81% | 2 | 49,253 | 0.78% |
| Bert Fish Medical Center (52231)..... | 8,893 | 0.53% | 3 | 26,715 | 0.42% |
| Volusia School District..... | 7,636 | 0.46% | 4 | 22,156 | 0.35% |
| Bert Fish Medical Center (52230)..... | 7,436 | 0.44% | 5 | 15,906 | 0.25% |
| Rinker Materials..... | 7,330 | 0.44% | 6 | 19,782 | 0.31% |
| Oceanview Nursing Home..... | 7,232 | 0.43% | 7 | 14,287 | 0.23% |
| Islander Beach Lodge..... | 5,610 | 0.34% | 8 | 14,658 | 0.23% |
| Ocmulgee Fields, Inc..... | 5,429 | 0.00% | 9 | 13,700 | 0.22% |
| Southeaster, Inc..... | 5,243 | 0.31% | 10 | 11,504 | 0.18% |
| Sea Woods Homeowners Association..... | - | - | | - | - |
| Federal Housing Authority..... | - | - | | - | - |
| Errol by the Sea Condominium Association..... | - | - | | - | - |
| The Inlet Condominium Association..... | - | - | | - | - |
| Pelican Condominium Association..... | - | - | | - | - |
| Oceanview Towers..... | - | - | | - | - |
| Totals..... | <u>86,834</u> | 4.86% | | <u>\$ 244,341</u> | 3.86% |

Note: ⁽¹⁾The ten largest water customers are also the ten largest wastewater customers. However, the information above for consumption and amounts billed represents billings for water usage only.

Table 11

Fiscal Year Ended September 30, 1997

| Kilowatt Hour Sales | | | Revenues Billed | |
|---------------------|---------------------|------|---------------------|---------------------|
| (kWh) (000's) | Percent of Total | Rank | Amount | Percent of Total |
| 7,929 | 2.59% | 1 | \$ 558,284 | 2.27% |
| 2,771 | 0.91% | 5 | 197,207 | 0.80% |
| 3,001 | 0.98% | 3 | 209,790 | 0.85% |
| 2,442 | 0.80% | 7 | 174,148 | 0.71% |
| 3,172 | 1.04% | 2 | 222,117 | 0.90% |
| 2,797 | 0.92% | 4 | 197,127 | 0.80% |
| - | | | - | |
| - | | | - | |
| 2,133 | 0.70% | 9 | 178,278 | 0.73% |
| 1,973 | 0.65% | 10 | 143,746 | 0.59% |
| 2,572 | 0.84% | 6 | 181,803 | 0.74% |
| <u>2,263</u> | 0.74% | 8 | <u>157,500</u> | 0.64% |
| <u>31,053</u> | 10.17% | | <u>\$ 2,220,000</u> | 9.03% |

| Consumption | | | Revenues Billed | |
|--------------------|---------------------|------|-------------------|---------------------|
| Gallons (000's) | Percent of Total | Rank | Amount | Percent of Total |
| - | | | \$ - | |
| - | | | - | |
| 15,511 | 1.15% | 4 | 27,549 | 0.65% |
| 20,579 | 1.52% | 1 | 41,870 | 0.99% |
| - | | | - | |
| - | | | - | |
| 9,733 | 0.72% | 8 | 16,877 | 0.40% |
| 10,302 | 0.76% | 7 | 19,766 | 0.47% |
| - | | | - | |
| - | | | - | |
| 18,905 | 1.40% | 2 | 34,332 | 0.81% |
| 16,278 | 1.20% | 3 | 38,351 | 0.91% |
| 13,843 | 1.02% | 5 | 25,476 | 0.60% |
| 12,067 | 0.89% | 6 | 17,366 | 0.41% |
| 9,380 | 0.69% | 9 | 13,158 | 0.31% |
| <u>7,696</u> | 0.57% | 10 | <u>12,812</u> | 0.30% |
| <u>134,294</u> | 9.92% | | <u>\$ 247,557</u> | 5.85% |



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**RATIOS OF OUTSTANDING DEBT BY TYPE,
LAST TEN FISCAL YEARS**

Table 12

Year Ending September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| Fiscal Year Ended September 30, | Revenue Certificates ⁽¹⁾ | Revenue Notes | State Revolving Fund | Total | | |
|---------------------------------------|--|------------------|----------------------------|---------------|------------------------------|---|
| | | | | Amount | Per Capita ⁽²⁾ | Percent of Personal Income ⁽³⁾ |
| 1997 | \$ 60,529,937 | \$ - | \$ - | \$ 60,529,937 | \$ 3,271 | 16.05% |
| 1998 | 57,268,300 | - | 8,921,581 | 66,189,881 | 3,558 | 16.71% |
| 1999 | 55,225,319 | - | 18,204,608 | 73,429,927 | 3,869 | 17.60% |
| 2000 | 53,068,892 | 14,635,747 | 18,144,866 | 85,849,505 | 4,282 | 18.36% |
| 2001 | 50,804,487 | 23,706,468 | 17,435,927 | 91,946,882 | 4,559 | 18.80% |
| 2002 | 45,754,090 | 23,052,000 | 16,704,331 | 85,510,421 | 4,152 | 16.79% |
| 2003 | 44,766,225 | 22,278,000 | 15,949,355 | 82,993,580 | 3,890 | 15.52% |
| 2004 | 43,265,547 | 20,869,000 | 15,170,251 | 79,304,798 | 3,601 | 13.79% |
| 2005 | 40,749,837 | 19,572,000 | 14,366,249 | 74,688,086 | 3,341 | 12.27% |
| 2006 | 37,603,838 | 18,471,000 | 13,536,552 | 69,611,390 | 3,044 | 10.73% |

Notes: ⁽¹⁾Revenue certificates outstanding are reported net of unamortized discounts, premiums, and deferred losses on advanced refundings.

⁽²⁾Per capita based on population for City of New Smyrna Beach, Florida reported in Table 14.

⁽³⁾Percent of Personal Income based on data obtained on Table 14.

⁽⁴⁾The Commission's bond covenants stipulate that it may issue additional debt as long as certain conditions are met. The major criterion is that the net earnings of the system must be at least 1.40 times the highest combined debt service requirement.

**PLEDGED REVENUE COVERAGE,
LAST TEN FISCAL YEARS**

Year Ending September 30,

UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|---|--------------------|--------------------|--------------------|--------------------|
| Revenues as defined by Certificate Resolution: ⁽¹⁾ | | | | |
| Operating revenues..... | \$ 63,950,363 | \$ 58,967,403 | \$ 54,613,482 | \$ 46,347,066 |
| Interest and other income..... | 1,925,869 | 1,772,305 | 1,406,072 | 694,980 |
| Capital contributions (excluding donated property)..... | 1,577,701 | 3,428,529 | 1,854,598 | 4,474,157 |
| Assessment collections..... | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>67,453,933</u> | <u>64,168,237</u> | <u>57,874,152</u> | <u>51,516,203</u> |
| Expenses as defined by Certificate Resolution: ⁽²⁾ | | | | |
| Operating expenses..... | 59,689,977 | 57,380,632 | 53,335,909 | 39,807,203 |
| Less: | | | | |
| Depreciation expense..... | (5,558,449) | (5,272,971) | (5,009,752) | (4,904,128) |
| Required payments to City..... | <u>(3,665,315)</u> | <u>(3,328,647)</u> | <u>(3,262,587)</u> | <u>(2,706,427)</u> |
| | <u>50,466,213</u> | <u>48,779,014</u> | <u>45,063,570</u> | <u>32,196,648</u> |
| Net revenues available for debt service..... | <u>16,987,720</u> | <u>15,389,223</u> | <u>12,810,582</u> | <u>19,319,555</u> |
| Annual Debt Service Requirements: ⁽³⁾ | | | | |
| Principal..... | 5,415,697 | 4,988,773 | 5,018,426 | 5,211,498 |
| Interest..... | <u>2,727,810</u> | <u>2,405,067</u> | <u>2,407,605</u> | <u>2,592,401</u> |
| | <u>8,143,507</u> | <u>7,393,840</u> | <u>7,426,031</u> | <u>7,803,899</u> |
| Coverage ratio (times)..... | <u>2.09</u> | <u>2.08</u> | <u>1.73</u> | <u>2.48</u> |

Notes:

⁽¹⁾Revenues are defined under Resolution No. 28-78, as amended, and include: gross revenues from sales of service, all income and earnings, including special assessments, connection fees, and other revenue as derived from operation of the utility systems. Revenues do not include proceeds from the sale of debt or property, grants from governmental agencies, contributions in aid of construction (other than connection fees), customer deposits, or moneys deposited into advance refunding escrow accounts.

⁽²⁾Expenses are defined under Resolution No. 28-78, as amended, as cost of "Operation and Maintenance," which includes all expenses for operating and maintaining the utility systems. Excluded from this definition are: payments in lieu of taxes paid to the City, depreciation, and extraordinary repairs or any allowance of renewals, replacements, or reserves thereof.

⁽³⁾Annual debt service requirements are for all outstanding debt that are secured by a pledge of the net revenues derived from the operation of the utility systems.

⁽⁴⁾The rate covenant established for revenue certificates requires that net revenues must equal or exceed 125% of annual debt service principal and interest requirements. The rate covenant for FMPA Pooled Loan Revenue Notes requires net revenues equal to or exceeding 110% of annual debt service principal and interest requirements. The rate covenant for the State Revolving Fund Loan requires net revenues equal to or exceeding 120% of annual debt service principal and interest requirements.

Table 13

| Fiscal Year | | | | | |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 40,612,225 | \$ 42,715,387 | \$ 41,419,907 | \$ 32,552,181 | \$ 32,913,781 | \$ 32,847,472 |
| 894,508 | 1,345,251 | 1,471,189 | 1,292,757 | 1,436,271 | 1,097,587 |
| 960,595 | 1,185,634 | 773,198 | 1,774,292 | 1,755,040 | 1,785,424 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>3,408</u> | <u>40,878</u> | <u>559</u> |
| <u>42,467,328</u> | <u>45,246,272</u> | <u>43,664,294</u> | <u>35,622,638</u> | <u>36,145,970</u> | <u>35,731,042</u> |
| 35,090,229 | 37,049,738 | 36,247,872 | 28,339,261 | 29,087,843 | 28,714,644 |
| (4,737,946) | (4,360,451) | (3,656,949) | (3,502,707) | (3,490,562) | (3,450,710) |
| <u>(2,509,729)</u> | <u>(2,625,008)</u> | <u>(2,214,486)</u> | <u>(2,016,471)</u> | <u>(2,018,552)</u> | <u>(1,949,594)</u> |
| <u>27,842,554</u> | <u>30,064,279</u> | <u>30,376,437</u> | <u>22,820,083</u> | <u>23,578,729</u> | <u>23,314,340</u> |
| <u>14,624,774</u> | <u>15,181,993</u> | <u>13,287,857</u> | <u>12,802,555</u> | <u>12,567,241</u> | <u>12,416,702</u> |
| 3,715,412 | 3,448,286 | 2,460,000 | 2,350,000 | 2,255,000 | 1,945,000 |
| <u>3,292,614</u> | <u>3,921,252</u> | <u>2,857,214</u> | <u>2,948,209</u> | <u>3,054,404</u> | <u>3,138,448</u> |
| <u>7,008,026</u> | <u>7,369,538</u> | <u>5,317,214</u> | <u>5,298,209</u> | <u>5,309,404</u> | <u>5,083,448</u> |
| <u>2.09</u> | <u>2.06</u> | <u>2.50</u> | <u>2.42</u> | <u>2.37</u> | <u>2.44</u> |



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**DEMOGRAPHIC AND ECONOMIC STATISTICS,
LAST TEN FISCAL YEARS**

Table 14

Year Ending September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smrna Beach, Florida

| Fiscal Year Ended September 30, | Population ¹ | Personal Income ² | Per Capita Personal Income ³ | Median Household Income ³ | Median HUD Income ³ | County Unemployment Rate ³ |
|--|-------------------------|---------------------------------|--|--|--------------------------------------|---|
| 1997 | 18,503 | \$ 377,220,661 | \$ 20,387 | \$ 29,843 | \$ n/a | 4.00% |
| 1998 | 18,603 | 396,113,679 | 21,293 | 31,269 | n/a | 3.30% |
| 1999 | 18,977 | 417,266,276 | 21,988 | 33,016 | 41,767 | 3.20% |
| 2000 | 20,048 | 467,659,696 | 23,327 | 35,278 | n/a | 3.50% |
| 2001 | 20,169 | 489,158,757 | 24,253 | 34,740 | n/a | 4.00% |
| 2002 | 20,595 | 509,314,350 | 24,730 | 35,010 | n/a | 5.20% |
| 2003 | 21,334 | 534,672,708 | 25,062 | 36,038 | n/a | 5.10% |
| 2004 | 22,025 | 575,248,950 | 26,118 | n/a | n/a | 4.60% |
| 2005 | 22,356 | 608,496,676 | 27,218 | n/a | n/a | 3.40% |
| 2006 | 22,870 | 648,715,785 | 28,365 | n/a | 50,300 | 3.10% |

Source: ¹ U.S. Department of Commerce, Bureau of Census, for 2000 and 2005. All other periods are estimated.

² Amount computed from population and per capita personal income statistics for Volusia County, Florida.

³ Florida Research and Economic Database. Amounts indicated are for Volusia County, Florida.

**PRINCIPAL EMPLOYERS,
CURRENT AND NINE YEARS AGO**

September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| Employer | September 30, 2006 | | |
|---|---------------------|------|----------------------------------|
| | Total Employees | Rank | Percent to Total City Employment |
| Bert Fish Medical Center..... | 730 | 1 | 9.14% |
| Publix Supermarkets (2 stores)..... | 275 | 2 | 3.44% |
| City of New Smyrna Beach..... | 260 | 3 | 3.25% |
| Wal-Mart Stores..... | 215 | 4 | 2.69% |
| Oceanview Nursing Home..... | 185 | 5 | 2.32% |
| Utilities Commission, City of New Smyrna Beach..... | 160 | 6 | 2.00% |
| New Smyrna Chevrolet Chrysler Jeep Dodge..... | 160 | 7 | 2.00% |
| Winn-Dixie Supermarkets..... | 150 | 8 | 1.88% |
| Vern's Insulation..... | 135 | 9 | 1.69% |
| Home Depot..... | <u>130</u> | 10 | 1.63% |
| Total..... | <u><u>2,400</u></u> | | 30.05% |
| Estimated Civilian Labor Force (2005 Census)..... | | | <u><u>7,988</u></u> |

Source: City of New Smyrna Beach, Florida, Community Redevelopment Agency

n/a - No known source for employment data for prior periods exists.

**FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM,
LAST TEN FISCAL YEARS**

Year Ending September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| | Full-Time | | | |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Utilities Commissioners..... | 5.0 | 5.0 | 5.0 | 5.0 |
| Executive Management | 6.0 | 2.0 | 4.0 | 2.0 |
| Finance and Accounting: | | | | |
| Accounting..... | 7.0 | 6.0 | 5.0 | 6.0 |
| Billing and collections..... | 20.8 | 17.5 | 17.3 | 16.3 |
| MIS/metering..... | - | - | - | - |
| Materials management..... | 4.0 | 4.0 | 4.0 | 4.0 |
| Information Technology..... | 6.0 | 4.0 | - | - |
| Personnel..... | 4.0 | 4.0 | 5.0 | 4.0 |
| Engineering: | | | | |
| Management..... | 3.0 | 2.0 | 2.0 | 2.0 |
| Environmental..... | 3.0 | 3.0 | 3.0 | 3.0 |
| Electrical engineering..... | 4.0 | 2.0 | 2.0 | 2.0 |
| Electric: | | | | |
| Operations..... | 13.0 | 13.0 | 11.0 | 12.0 |
| Fleet Maintenance..... | 3.0 | 3.0 | 3.0 | 3.0 |
| Transmission and distribution..... | 24.0 | 24.0 | 22.0 | 22.0 |
| Construction..... | - | - | - | - |
| Substation and relay..... | 3.0 | 3.0 | 3.0 | 3.0 |
| Water, Wastewater and Water Reuse: | | | | |
| Water production..... | 13.0 | 12.0 | 12.0 | 12.0 |
| Water distribution..... | 17.0 | 16.0 | 15.0 | 15.0 |
| Wastewater collection..... | 4.0 | 4.0 | 4.0 | 4.0 |
| Wastewater treatment..... | 16.0 | 16.0 | 17.0 | 17.0 |
| Water reuse operations..... | - | - | - | - |
| Communications: | | | | |
| Call center..... | 33.0 | 41.0 | 16.5 | 11.5 |
| Sales/marketing..... | 7.0 | 6.0 | - | - |
| Other operations..... | 22.8 | 21.0 | - | - |
| Total..... | <u>218.5</u> | <u>208.5</u> | <u>150.8</u> | <u>143.8</u> |

Notes: All managers or directors are included with their respective operating divisions.
Full-time equivalent employment is calculated by dividing total labor hours by 2,080 hours.

Table 16

Equivalent Employees at September 30,

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|--------------|--------------|--------------|--------------|--------------|--------------|
| 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| 2.0 | 2.0 | 2.0 | 3.0 | 2.0 | 2.0 |
| 7.0 | 6.0 | 6.0 | 5.0 | 5.0 | 6.0 |
| 17.3 | 17.0 | 16.3 | 15.5 | 11.0 | 10.0 |
| - | - | - | 2.0 | 9.0 | 9.0 |
| 3.8 | 3.8 | 4.8 | 5.8 | 6.0 | 6.0 |
| - | - | - | - | - | - |
| 5.0 | 3.0 | 3.0 | 3.0 | 5.0 | 3.0 |
| 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| 3.0 | 3.0 | 3.0 | 3.0 | 4.0 | 4.0 |
| 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 3.0 |
| 12.0 | 13.0 | 13.0 | 12.0 | 12.0 | 14.0 |
| 3.0 | 3.0 | 3.0 | 3.0 | 4.0 | 4.0 |
| 22.0 | 22.0 | 21.0 | 22.0 | 22.0 | 25.0 |
| 4.0 | 4.0 | 9.0 | - | - | - |
| 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 3.0 |
| 13.0 | 13.0 | 13.0 | 13.0 | 16.0 | 18.0 |
| 9.0 | 9.0 | 9.0 | 17.0 | 16.0 | 16.0 |
| 5.0 | 5.0 | 5.0 | 7.0 | 6.0 | 6.0 |
| 14.0 | 14.0 | 14.0 | 15.0 | 15.0 | 15.0 |
| 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>132.0</u> | <u>129.8</u> | <u>134.0</u> | <u>138.3</u> | <u>145.0</u> | <u>152.0</u> |

**OPERATING AND CAPITAL INDICATORS,
LAST TEN FISCAL YEARS**

Year Ending September 30,
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA
New Smyrna Beach, Florida

| | 2006 | 2005 | 2004 | 2003 |
|---|----------|----------|----------|----------|
| Electric: | | | | |
| Net energy for load (million kWh)..... | 402.421 | 396.806 | 385.510 | 386.385 |
| Retail energy sales (million kWh)..... | 383.185 | 371.219 | 361.426 | 370.242 |
| Distribution loss factor (%)..... | 4.78% | 6.45% | 6.25% | 4.18% |
| Annual peak energy demand (kW)..... | 94,000 | 91,000 | 89,000 | 100,200 |
| Peaking Power Systems Nameplate rating (kW): | | | | |
| Smith Street Generating Station (fuel oil)..... | 12,540 | 12,540 | 12,540 | 12,540 |
| Field Street Generating Station (fuel oil)..... | 53,059 | 53,059 | 53,059 | 53,059 |
| W.E. Swoope Generating Station (fuel oil)..... | 5,145 | 5,145 | 5,145 | 5,145 |
| Water: | | | | |
| Maximum daily flow (MGD)..... | 6.93 | 6.07 | 7.12 | 7.20 |
| Average daily treated flow (MGD)..... | 4.80 | 4.42 | 4.53 | 4.78 |
| Minimum daily treated flow (MGD)..... | 3.11 | 3.08 | 2.17 | 3.40 |
| Raw water pumped and treated (MG)..... | 1,735.33 | 1,616.61 | 1,660.32 | 1,743.83 |
| CUP Allowance ⁽¹⁾ | 5.58 | 5.17 | 5.63 | 5.53 |
| Storage capacity (MGD) ⁽²⁾ | 5.07 | 5.07 | 5.07 | 5.07 |
| Water mains (miles) ⁽³⁾ | 179.83 | 177.37 | 175.55 | 173.52 |
| Pumping stations ⁽²⁾ | 3 | 3 | 3 | 3 |
| Wastewater/Reclaimed Water: | | | | |
| Maximum daily flow (MGD)..... | 7.26 | 4.80 | 9.65 | 6.45 |
| Average daily treated flow (MGD)..... | 3.30 | 3.73 | 3.93 | 3.83 |
| Minimum daily treated flow (MGD)..... | 2.43 | 2.06 | 2.44 | 2.30 |
| Wastewater collected and treated (MG)..... | 1,203.83 | 1,262.52 | 1,369.39 | 1,339.03 |
| Reclaimed water treated and pumped (MG)..... | 872.81 | 816.75 | 770.08 | 800.08 |
| Collection system (miles) ⁽³⁾ | 99.02 | 98.92 | 98.82 | 98.66 |
| Number of treatment plants..... | 1 | 1 | 1 | 1 |
| Treatment capacity (MGD) ⁽⁴⁾ | 7.00 | 7.00 | 7.00 | 6.00 |
| Maximum plant capacity (MGD)..... | 14.00 | 14.00 | 14.00 | 12.00 |
| Amount treated annually (MGY)..... | 1,204 | 1,274 | 1,369 | 1,357 |
| Percent of capacity utilized (MG)..... | 47.10% | 49.90% | 53.60% | 62.00% |
| Percent of unused capacity (MG)..... | 52.90% | 50.10% | 46.40% | 38.00% |

Notes: kW = kilowatt; kWh = kilowatt hours; MG = million gallons; MGD = millions of gallons per day.

⁽¹⁾CUP allowance is provided in lieu of size of watershed (square miles drained).

⁽²⁾Third Avenue pumping station taken off-line and steel storage tank dismantled in 2000 (scheduled to be rebuilt in 2008).

⁽³⁾Miles of water/wastewater mains do not include mileage installed by developers.

⁽⁴⁾Reflects 4.0MGD North Causeway plant removed from service in 1999, inclusion of 0.25 MGD Sugar Mill treatment plant added in 2001, and re-rating of SR 44 plant to 7.0MGD in 2004.

Table 17

| Fiscal Year | | | | | |
|-------------|----------|----------|----------|----------|----------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| 367.175 | 361.159 | 360.759 | 355.599 | 352.623 | 325.229 |
| 342.753 | 344.820 | 340.632 | 340.606 | 333.519 | 305.573 |
| 6.65% | 4.52% | 5.58% | 4.22% | 5.42% | 6.04% |
| 87,900 | 91,100 | 87,300 | 85,700 | 80,200 | 82,500 |
| 12,540 | 12,540 | 12,540 | 12,540 | 12,540 | 12,540 |
| 53,059 | 53,059 | - | - | - | - |
| 5,145 | 5,145 | 5,145 | 5,145 | 5,145 | 5,145 |
| 6.62 | 5.96 | 7.06 | 6.13 | 6.62 | 5.85 |
| 4.73 | 4.54 | 4.82 | 4.57 | 4.54 | 4.28 |
| 2.16 | 2.11 | 2.77 | 2.56 | 2.88 | 2.73 |
| 1,718.62 | 1,658.42 | 1,762.93 | 1,667.35 | 1,659.00 | 1,562.00 |
| 5.44 | 4.80 | 4.73 | - | - | - |
| 5.07 | 5.07 | 5.07 | 6.07 | 6.07 | 6.07 |
| 166.51 | 164.04 | 161.00 | 157.90 | 155.18 | 151.00 |
| 3 | 3 | 3 | 4 | 4 | 4 |
| 9.77 | 9.29 | 5.72 | 7.55 | 4.23 | 4.50 |
| 3.92 | 3.81 | 3.30 | 2.97 | 2.49 | 2.46 |
| 2.40 | 1.97 | 2.25 | 1.25 | 1.94 | 1.88 |
| 1,422.28 | 1,307.30 | 1,203.43 | 1,083.48 | 909.00 | 898.00 |
| 1,108.07 | 968.06 | 610.87 | 673.40 | n/a | n/a |
| 98.55 | 98.35 | 98.21 | 96.63 | 96.39 | 96.00 |
| 2 | 2 | 1 | 1 | 2 | 2 |
| 6.25 | 6.25 | 6.00 | 6.00 | 10.00 | 10.00 |
| 12.50 | 12.50 | 12.00 | 12.00 | 20.00 | 20.00 |
| 1,429 | 1,304 | 1,203 | 1,096 | 909 | 898 |
| 62.60% | 57.20% | 54.90% | 50.00% | 24.90% | 24.60% |
| 37.40% | 42.80% | 45.10% | 50.00% | 75.10% | 75.40% |



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SUPPLEMENTAL AUDIT REPORTS



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

**INDEPENDENT AUDITOR'S REPORT 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, 2006, and have issued our report thereon dated December 18, 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 opinions on the financial statements and not to provide an opinion 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 over financial reporting that, in our judgment, could adversely affect Utilities Commission, City of New Smyrna Beach, Florida's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions were reported to management of Utilities Commission, City of New Smyrna Beach, Florida in a separate report on audit matters dated June 5, 2006, and are also described in the accompanying Management Letter dated December 18, 2006, under the headings *Prior Year Matters* and *Current Year Matters*. We consider all of the items reported in each communication to be reportable conditions.

A material weakness is a reportable 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 caused by error or fraud 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.

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida
Page 2 of 2

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards* and which were reported to management of Utilities Commission, City of New Smyrna Beach, Florida in a separate report on audit matters dated June 5, 2006, and are also described in the accompanying Management Letter dated December 18, 2006, under the headings *Prior Year Matters* and *Current Year Matters*.

We also noted certain additional matters that we reported to management of Utilities Commission, City of New Smyrna Beach, Florida, in a separate report dated June 5, 2006, and in a separate letter dated December 18, 2006.

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

Brent Milliken & Co., P.A.

December 18, 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, 2006, and have issued our report thereon dated December 18, 2006.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have also issued our Report on Audit Matters and Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in those reports, which are dated June 5, 2006 and December 18, 2006, respectively, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (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 or schedule of findings and questioned costs, 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 have been corrected, except as noted 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 the Auditor General (Section 10.554(1)(h)3.) required that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we have addressed these matters under the heading *Current Year Findings and Recommendations*, in the accompanying Exhibit A.

To the Honorable Chairman and Commissioners
Utilities Commission, City of New Smyrna Beach, Florida
New Smyrna Beach, Florida
Page 2 of 2

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 controls or schedule of findings and questioned costs and are not clearly inconsequential: (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. Our audit disclosed certain matters required to be disclosed by Rules of the Auditor General (Section 10.554(1)(h)4.) under *Prior Year Findings and Recommendations*; in the accompanying Exhibit A.

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.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that Utilities Commission, City of New Smyrna Beach, Florida did not meet any 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 for the fiscal year ended September 30, 2006, 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, 2006. 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, 2006. 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.

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 Milliken & Co., P.A.

December 18, 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. **Exceleron *CommWorx* System Flaws, 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 principally telephone sales reported by 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. We also noted various reporting differences and potential indications of manipulation of data and report writing functions related to this program by the former IT Director. 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.

We noted a significant number of the original issues and system limitations had still not been resolved since the Commission first began using this program. We also found evidence of numerous communications from the former IT Director to Exceleron wherein many of these and other important accounting issues and system flaws were identified and found most of these problems were never appropriately corrected.

As a result of these serious programmatic errors, we recommended that management have internal staff, and if necessary to contract with an outside consultant to review these matters in more detail to determine if the system flaws, limitations and errors could have contributed to significant revenue loss to the Commission. We also recommended that if sufficient evidence exists to support these assertions that management should consult with its legal counsel to assess the possibility of a civil action to recover fees paid to Exceleron.

Recommendation: It is our understanding that no actions have taken place to determine whether or not Exceleron's *CommWorx* system may have contributed to revenue loss over the past three years. We understand that the Commission's IT Department has been downsized and that current staff may not have the ability to make this assessment. However, we continue to recommend that management considered hiring a competent outside consultant to review these matters in more detail and if necessary seek legal guidance to possibly recover fees paid for this inferior product.

Year Ended September 30, 2006

UTILITES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA

2. Monitoring for Fraud

For the past two years we have made management aware of its 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 performing our audit, we consider management's identification and measurement of the risks of fraud and whether preventive internal controls are implemented to mitigate those risks.

As stated previously we acknowledge 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 include assessment of fraud risks, and an oversight process to monitor these risks.

Recommendation: We continue to 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. It is our understanding that in the coming fiscal year the Commission will be hiring a Controller/Budget Officer that will be assigned the responsibilities of documenting internal controls for all departments and as part of these duties evaluating 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.

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

In the prior year, we noted that the Commission had never fully developed a formal, written, accounting policies and procedures manual. We recommended that management establish and implement a standard accounting and operating procedures manual outlining all fiscal policies to be followed. As communicated last year, we understand that the process of preparing and implementing such a comprehensive manual may take several years.

Recommendation: We continue to recommend that management establish a standard accounting and operating procedures manual outlining all fiscal policies to be followed by all departments throughout the Commission. We also recommend that once in place, management should periodically review each department's compliance with standard procedures for recording transactions and reporting financial activities.

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

In the prior year, we commented on the use of a separate database by the Finance Department to account for capital assets and for purposes of maintaining a detailed depreciation schedule for utility plant in service. We noted discrepancies in arithmetic totals and erroneously computed depreciation on fully depreciated assets produced by this system. We recommended that management abandon the use of this stand alone database and implement the fixed asset module

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that integrates with the Microsoft Great Plains Dynamics general ledger and financial management system, to correct these problems.

Recommendation: Due to the timing in communicating this finding management has not had the time to implement this recommendation by year-end. It is our understanding that the IT Department will be assisting the Finance Department in implementing the Great Plains fixed asset module in the coming fiscal year, which should correct these problems.

5. Accounting/Finance-Capital Assets and Work Orders

In our prior year comment, we made specific observations relating to several work orders pertaining to the Head End Building and various Venetian Bay work orders; however, we also communicated general findings involving the work order system and noted that some project transaction ledger detail did not reconcile to work order closing statements. We noted that some expenses being charged to work orders that are not directly identifiable costs associated with the specific assets being constructed, such as, meals for employees, petty cash reimbursements for incidentals and other operating expenses. We also found that more assistance is required from Engineering to better identify specific assets related to projects from the onset, so that costs related to each specific asset are properly identified and capitalized. This will be helpful when closing out work orders and accounting for the completed asset when placed in service. In many instances the capital improvement plan only outlines total project costs without specifically identifying the assets that will be capitalized upon completion.

Recommendation: It is our understanding that the Workforce ROI application software previously used by the Finance Department to manage work orders is being replaced in the coming fiscal year by a module that is part of the Microsoft Great Plains financial management system that integrates with the general ledger. We understand that this will help to eliminate some of the problems encountered in the past; especially, with the reconciliation between the project transaction ledger detail and the work order closing statements. We also recommend that the Finance Department continue to communicate with other departments on the proper accounting treatment for capital assets and work in progress, so that there is uniformity in capitalization of costs associated with the completed utility plant assets. Finally, we recommend that staff in Engineering continue to work with the Finance Department to review all outstanding projects to better identify the capital assets that will be placed in service as each project closes.

6. Communications-Tax Collection Liability/Opportunity for Refunds

In the prior year we commented on the ongoing examination being conducted by the Florida Department of Revenue with respect to communications services tax returns that have been filed with the state. As of the date of our report this examination is still ongoing and has yet to be resolved. We also communicated that the Commission may be in default of filing various information reports and had failed to comply with filing over a year's worth of reports to various taxing agencies. We also were informed by the Commission's contracted tax remitter (Telecom Professionals, Inc. a.k.a "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. We know that there is a large provision for losses on 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.

Recommendation: We continue to recommend that management explore the opportunity to file claims for refunds with TPI's assistance 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.

7. Information Technology-Storage Management

It is our understanding that in response to our comments last year on this subject, the IT Department has put into place a reliable backup and recovery process that provides for on-site backup of all UC data. However, two other important aspects pertaining to storage management have yet to be implemented; a disaster recovery plan and a records retention policy.

Recommendation: We recommend that management continue to direct IT personnel to address the missing components related to storage management. We understand that a disaster recovery plan has been defined that is scheduled for implementation in March 2007. We also understand that the responses to an RFP are under review to implement the Document Management plan that will address the archival and retrieval of email, data files, and scanned documents used for record retention.

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

When we conducted our prior year audit and review of the IT Department, there was no formal inventory of existing hardware or software throughout the organization. We also found that equipment was not logged and controlled by the Commission in accordance with prudent asset control procedures. This was the case in the current audit period as well.

Recommendation: We continue to recommend that an immediate inventory of all hardware and software items should be conducted by the Commission and that a more formal asset management process be implemented to track all assets throughout the Commission. We understand that the IT Department is current in the process of acquiring

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equipment and software that will provide bar coding labels to be affixed to equipment that can be scanned and stored in a database for later retrieval. The process will initially be used to control the inventory of computers, monitors, telephones, and cell phones. We understand that IT is working on applying this same process to inventory and control other fixed assets.

9. Information Technology-Security Policy

During the conduct of our prior year audit, we noted that the overall security policy for the IT Department was not documented. Many of the practices were informal and communicated on an as-needed basis. No written policies existed. During our current year audit we found nothing had changed regarding these matters. The IT Department has not formally addressed this important policy.

Recommendation: We continue to 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.

10. General-New Accounting Pronouncements

Two new accounting pronouncements, GASB Statements 43 and 45, relating to accounting and financial reporting by employers for postemployment benefits other than pensions become effective with the fiscal year beginning on October 1, 2006. These statements deal with accounting, reporting and disclosure requirements for postemployment benefits other than pensions, known as "OPEB". These new standards have the potential for tremendous increases in the expenses and liabilities reported in the financial statements of many governmental entities even when an employer that provides no postretirement benefits, such as medical, dental, long-term care or life insurance, but permits retired employees to continue health insurance by paying 100% of the premium, may have an employer expense under the new GASB rules. This stems from an implicit rate subsidy for retirees, which the GASB considers to be an OPEB.

Recommendation: We understand that steps have already been taken to start the planning process for determining the effect of this requirement. We continue to recommend that management make a comprehensive assessment of all of the City's postemployment 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 need to be compiled to appropriately determine the expenses and liabilities associated with the postemployment benefits for inclusion in your future financial statements.

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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:

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

One of the matters that came to our attention after our prior year audit, but before delivery of the audit reports to the Commission last year, involved improper access to the Cogsdale interfaced application of the Great Plains financial management system by Finance Department personnel. 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.

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. 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; however, it may not address the issues related to the interfacing of the Cogsdale utility billing system, where it appears the application is deficient in security, internal data integrity and database consistency.

Recommendation: We continue to recommend that the IT Department take into consideration the needs of the Finance Department to upgrade and install the most recent version of Great Plains and to resolve the security and database integrity issues that are of utmost concern. It is our understanding that an assessment has been made by IT to replace the Cogsdale system with another system that will meet the needs of the Finance Department, while addressing the technical needs of the IT Department.

2. Communications-Management Issues

Since inception of the Communications Division, the Commission has found it very difficult to compete with large established incumbent conglomerates (Bellsouth, Sprint, and others), particularly when it is associated with the providing of telecommunications services outside its previously restricted territorial service areas. We believe that 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

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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 were discussed in substantially more detail in our special Report on Audit Matters dated June 5, 2006, which was provided to you on that date.
- 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

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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 were encountered through the end of the fiscal year.
- 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

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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. In 2006, 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. 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

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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

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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.

We were particularly concerned after discovering evidence of interdepartmental cooperation in manipulating database files and financial representations, and in discovering 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 and in our prior year's reports, 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. We believe 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

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authority granted by the Commission and in conformity with established management policies and procedures.

3. Formal Code of Conduct and Conflict of Interest Policy

As of the commencement of our current year audit the Commission had no formal code of conduct including policies on conflicts of interest. It is our understanding that the Commission's Director of Human Resources has prepared a draft of a Statement of Ethics and Statement of Conflict of Interest that incorporates by reference the Code of Ethics for Public Officers and Employees under Part III of Chapter 112, Florida Statutes Part.

Recommendation: While it appears that the Commission will be adopting a more formal code of conduct and conflict of interest policy, it is important that the policies adopted require the appointed Commissioners, in addition to management and employees of the Commission, to periodically declare compliance to such policies. This will facilitate periodic communication of these very important policies to officials and staff and it will help to adequately control and identify potential related party transactions that are required to be disclosed in the Commission's records and to insure that if such transactions take place in the normal course of business that such transactions are legally authorized.

4. Operating Cash

We noted that the Commission's year-end position in unrestricted cash and cash equivalents had dramatically decreased in the current fiscal period, as compared to the balance reported at the end of the prior fiscal year. Losses sustained by the Commission's Telecommunications division for three fiscal years in a row had a real financial impact on the cash used for operations and those funds set aside in the Rate Stabilization Fund. However, not all of the blame rests solely on Telecommunications losses.

We noted that the Commission approved an increase in the Fuel and Purchased Power Cost Adjustment Clause (FPPCAC), effective November 1, 2005; from \$17.18 per 1,000 kWh to \$31.20, to collect the unbilled under-recovered fuel and purchase power costs. We also noted that as of September 30, 2005 the amount of unbilled under-recovered fuel costs totaled \$2,548,620. At September 30, 2006 the unbilled under-recovered fuel costs amounted to \$4,702,901. So, while the energy cost adjustment billing factor was increased, the Commission did not recover the unbilled revenue receivable. To the contrary, this receivable almost doubled, indicating continued increased fuel costs incurred that are paid by the Commission and yet to be collected from its customers. This also contributed to the use of operating cash and draining of the Rate Stabilization Fund.

As we explained to the Commission on numerous occasions, the Rate Stabilization Fund is nothing more than an internally designated portion of the Commission's Master Checking Account balance that is used for controlling cash flow in periods when the Commission experiences rising costs for fuel and purchased power. The increase in the unbilled revenue receivable account has a direct correlation to the increase in the expense reported by the Electric Department for fuel and purchased power and a corresponding decrease in the contribution of funds to the Commission's Rate Stabilization Fund. Management recognized this and brought

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before the Commission a proposal to increase the FPPCAC factor, which the Commission promptly approved in its November 20, 2006 meeting.

The steady increases in fuel and purchased power costs and other operating and maintenance expenses are among the many factors considered in the most recent Cost of Service Analysis and Rate Study Report prepared by Black & Veatch, wherein they indicate that existing rates are insufficient to provide for current and projected levels of operations. It should be noted that the last formal comprehensive rate study prepared for the Commission was more than fifteen years ago. In their report it appears revenue and capacity fees were lacking and did not keep pace with the growth in purchased power and operating and maintenance expenses or with the cost of utility system expansion, which indirectly contributed to a slow and steady drain on operating cash.

Also contributing to the decline in unrestricted cash was prior management's policy to transfer more than the minimum required 8% annual contribution to the unrestricted Renewal and Replacement Fund to help internally finance capital improvement projects, many of which in recent years related to Telecommunications projects that the Commission has since abandoned or could have been externally financed with long-term debt.

Accordingly, many factors have impacted the Commission's current year-end unrestricted cash position.

Recommendation: The comprehensive Cost of Service Analysis and Rate Study Report prepared by Black & Veatch recommends that the Commission retain an appropriate level of uncommitted cash funds for working capital needs and to cover contingencies, including revenue shortfalls due to weather depressed sales, among other reasons. We also noted that the report clearly states that with the prior existing rates the anticipated cumulative cash shortfall by the end of forecast period (2010) would be substantial and therefore the Commission should be increasing rates over a period of time, while looking for other revenue enhancements.

We echo these recommendations and add that the most recent rate increases adopted by the Commission are necessary to meet current and projected levels of operations and projected funding needed to meet future debt service requirements for financing much needed infrastructure improvements. We also recommend that management consider the findings reported in the Rate Study relating to potential cost reductions that may have a positive impact on replenishing the unrestricted cash position.

It is our understanding that management has already implemented a review of the Capital Improvement Plan to try to postpone or eliminate some projects and is aggressively taking steps to address the levels of spending in all departments to reverse the trend affecting unrestricted cash.



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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



MANAGEMENT'S RESPONSE

Prior Year Matters

1. **Exceleron CommWorx System Flaws, Limitations and Errors.**
This matter has been discussed with the Utilities Commission legal counsel. Currently, assessments are being made with regard to the on-going financial viability of Exceleron.
2. **Monitoring for Fraud.**
We have put a formal policy in place. A Controller's position has been filled, and will be responsible documenting and monitoring of internal controls as well as completing risk assessments.
3. **Accounting/Finance – Uniform Accounting Policies and Procedures Manual.**
We have begun the process of formally compiling a manual. This will be an on-going work in progress and will become part of the Controller's responsibility.
4. **Accounting/Finance – Capital Assets Module – Depreciation Record.**
Finance is currently working with IT to upgrade our accounting system to include a fully integrated fixed assets module.
5. **Accounting/Finance – Capital Assets and Work Orders.**
The new software upgrade will alleviate the reconciliation complications. Another accountant has been added to our staff that is dedicated to capital projects, work orders, construction work in progress and the fixed assets process. We are working with other departments to implement controls and better reporting to finance.
6. **Communications – Tax Collection Liability/Opportunity for Refunds.**
We have secured a relationship with TPI and the Florida Department of Revenue to obtain possible refunds. We are currently awaiting response from the Florida Department of Revenue.
7. **Information Technology – Storage Management.**
A document management plan is in the final stages of acceptance.
8. **Information Technology – Software/Hardware Inventory Control and IT Infrastructure.**
A plan is in place and underway, expected full implementation within three months.
9. **Information Technology – Security Policy**
A formal process has been put in place for access approval, reporting and monitoring. An internet/e-mail usage policy has been implemented.

10. **General – New Accounting Pronouncements**

We do not believe we have an exposure except for COBRA as is required by the Federal Government. Because COBRA is fully reimbursed to the UC, we don't believe this process represents a possible liability. We will continue to review the Florida Retirement System for changes in our potential liability.

Current Year Matters

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

We have a plan in process to upgrade our current accounting system and are in the final stages of selecting a system to replace Cogsdale which will better meet the Finance Department's needs. Also see item 9 response.

2. **Communications – Management Issues**

Noted.

3. **Formal Code of Conduct and Conflict of Interest Policy.**

A formal policy has been approved by the Commission and implemented company-wide.

4. **Operating Cash**

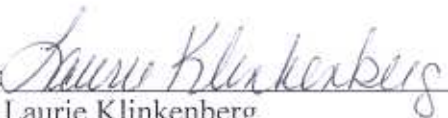
We have implemented new rates as suggested by the Cost of Service Analysis and Rate Study Report. We are carefully monitoring spending in all departments.

Signed:



Robert J. Rodi
General Manager/CEO

Signed:



Laurie Klinkenberg
Director of Finance