BUILDING ON A STRONG FOUNDATION

Audited Financial Statements

September 30, 2008 and 2007

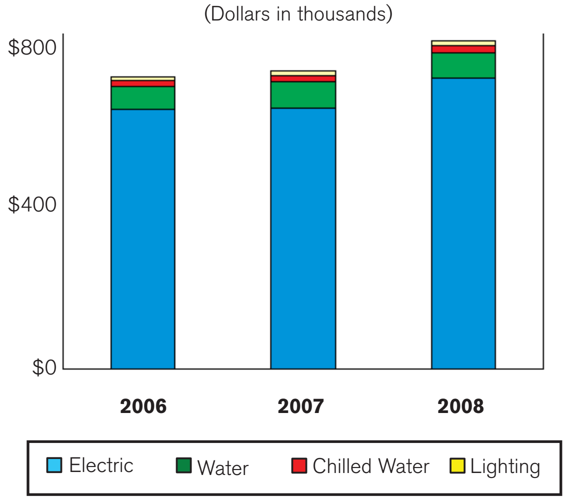
OUC The Reliable One®

FINANCIAL & STATISTICAL HIGHLIGHTS

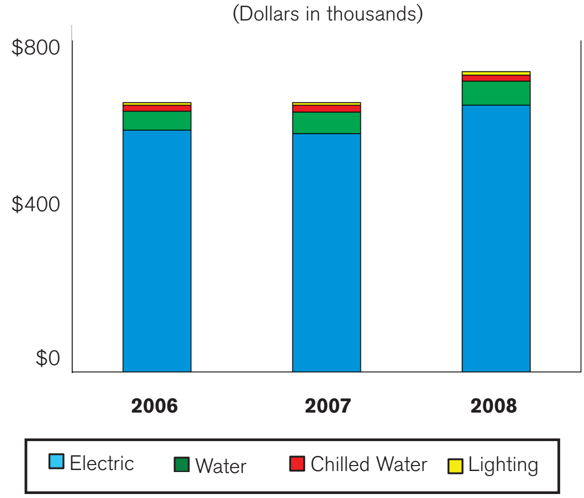
COMBINED FINANCIAL HIGHLIGHTS (Dollars in thousands)	2008	2007	% Increase (Decrease)
Total operating revenues	$ 844,182	$ 765,825	10.2%
Total operating expenses	712,977	639,571	11.5%
Fuel and purchased power	372,423	323,245	15.2%
Interest, gain and net other income	22,843	30,523	(25.2%)
Interest expense	74,167	71,764	3.3%
Income before contributions	79,881	85,013	(6.0%)
Dividend payment	45,952	45,700	0.6%
Utility plant, net	2,149,332	1,934,223	11.1%
Total assets	2,996,312	2,790,254	7.4%
Long-term debt, net	1,352,397	1,415,793	(4.5%)
Net assets	918,105	865,442	6.1%
Senior bond ratings (1)	AA, Aa1, AA	AA, Aa1, AA	-
Debt service coverage:			
Current debt service	1.66	1.64	1.2%

STATISTICAL HIGHLIGHTS			
Electric sales (MWH)	7,734,938	7,980,266	(3.1%)
Water sales (MMGAL)	26,974	29,984	(10.0%)
Lighting sales (MWH)	58,837	56,124	4.8%
Electric active services	203,803	202,928	0.4%
Water active services	137,142	137,306	(0.1%)
Lighting active services	13,414	13,675	(1.9%)
Chilled active water services	1,955	879	122.4%
Average annual residential use per KWH	12,052	12,301	(2.0%)
Average residential revenue per KWH	$ 0.1145	$ 0.1077	6.3%
Average annual residential usage MGAL	125	141	(11.3%)
Average residential revenue per MGAL	$ 2.32	$ 2.21	4.8%

Operating revenues at September 30
(Dollars in thousands)



Operating expenses at September 30
(Dollars in thousands)



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

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

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This discussion should be read in conjunction with the Financial Statements and Notes to the Financial Statements.

Management's Report

The management of Orlando Utilities Commission (OUC) has prepared — and is responsible for — the integrity of the financial statements and related information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and follow the standards outlined by the Governmental Accounting Standards Board.

To ensure the integrity of our financial statements, OUC maintains a system of internal accounting controls. These internal accounting controls are supported by written policies and procedures and an organizational structure that appropriately assigns responsibilities to mitigate risks. These controls have been put in place to ensure OUC's assets are properly safeguarded and the books and records reflect only those transactions that have been duly authorized. OUC's controls are evaluated on an ongoing basis by both management and OUC's internal auditors. In addition, Ernst & Young LLP, OUC's independent public accountants, consider certain elements of the internal control system to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Based on the statements above, it is management's assertion that the financial statements do not omit disclosures necessary for a fair presentation of the information nor do they improperly include untrue statements of a material fact or statements of a misleading nature.

Ken Ksionek

Kenneth P. Ksionek
General Manager &
Chief Executive Officer

John Hearn

John E. Hearn
Vice President &
Chief Financial Officer

Mindy Willis

Mindy F. Willis
Director,
Accounting Services

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to OUC's financial statements. It defines the basic financial statements and summarizes OUC's general financial condition and results of operations.

Basic Financial Statements

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

The Statements of Net Assets presents information on all of OUC's assets and liabilities with the difference between these two amounts being reported as net assets. OUC's assets are separated based on their nature. Utility plant, net includes assets that are both in service and currently under construction. Restricted and internally designated assets include cash, cash equivalents and investments either legally restricted or internally designated based on actions taken by OUC's governing Board (the Board).

The Statements of Revenues, Expenses and Changes in Net Assets present current and prior year revenues and expenses. Operating income is reported separately from net non-operating income, contributions in aid of construction and annual dividend. Net non-operating income and expenses are primarily the result of current and prior year financing and investing activities. Contributions in aid of construction are comprised of amounts received from residential and commercial customers for system enhancements.

The Statements of Cash Flows are presented using the direct method. This method outlines the sources and uses of cash as it relates to operating income. Also included in the cash flow statements are classifications for non-capital related financing, capital related financing, and investing activities.

Financial Highlights

Summary of Financial Position

	Years Ended September 30		
(Dollars in thousands)	**2008**	**2007**	**2006**
Assets			
Utility plant, net	$ 2,149,332	$ 1,934,223	$ 1,813,727
Restricted and internally designated assets	505,172	536,172	595,154
Current assets	266,880	248,438	234,042
Other assets	74,928	71,421	64,924
Total assets	**$ 2,996,312**	**$ 2,790,254**	**$ 2,707,847**
Liabilities and Net Assets			
Long-term debt, net	$ 1,352,397	$ 1,415,793	$ 1,435,889
Current liabilities	437,550	186,213	176,533
Other liabilities and deferred credits	288,260	322,806	293,658
Invested in capital assets, net of related debt	760,049	674,949	530,988
Restricted net assets	1,468	8,335	5,213
Unrestricted net assets	156,588	182,158	265,566
Total liabilities and net assets	**$ 2,996,312**	**$ 2,790,254**	**$ 2,707,847**
Summary of Revenues, Expenses and Changes in Net Assets			
Operating revenues	$ 844,182	$ 765,825	$ 746,255
Operating expenses	712,977	639,571	639,307
Operating income	131,205	126,254	106,948
Net non-operating expense	51,324	41,241	45,174
Income before contributions	79,881	85,013	61,774
Contributions in aid of construction	18,734	24,362	25,293
Annual dividend	(45,952)	(45,700)	(47,800)
Increase in net assets	52,663	63,675	39,267
Net assets - beginning of year	865,442	801,767	762,500
Net assets - end of year	**$ 918,105**	**$ 865,442**	**$ 801,767**

Assets

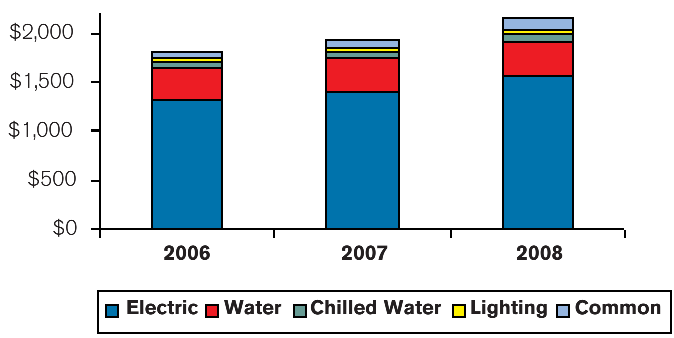
Utility plant, net:

2008 compared to 2007: In 2008, utility plant increased $215.1 million net of a change in accumulated depreciation of $96.6 million. Major projects which contributed to the increase in utility plant included the new combined cycle generation facility at the Stanton Energy Center in the amount of $108.7 million, the new administration building in the amount of $35.1 million, the new chilled water facility at Lake Nona in the amount of $12.9 million and the continued expansion of the Eastern Regional Reclaimed Water distribution system in the amount of $4.5 million. In addition to these major projects, costs for significant capital improvements were incurred at Stanton Unit 1 & 2 in the amount of $22.6 million and in the transmission business unit for the capacity enhancements on the Taft-Lakeland line in the amount of $5.8 million and at the Stanton Energy Site for the planned new generation facility in the amount of $10.1 million. Energy delivery, lighting and information technology system upgrades were also incurred in 2008 in the amount of $38.5 million, $5.8 million and $3.9 million, respectively. The new administration building was opened in October 2008.

On November 13, 2007 OUC and Southern Power agreed to terminate the construction of the gasifier island portion of the new generation facility being constructed on the Stanton Energy Site. The settlement agreement required OUC to remit to Southern Power a total of $22.5 million of which $12.7 million was paid in 2008 and $9.8 million was paid prior to 2007. The settlement agreement further provided for an exchange of land for liquidating damages to OUC in the amount of $22.5 million. The fair value of the land was estimated to be $27.5 million and as such OUC remitted to Southern Power in 2008 an additional $5.0 million for the acquisition of real property located in Orange County, Florida.

2007 compared to 2006: In 2007, utility plant increased $120.5 million net of an accumulated depreciation change of $87.1 million. In 2007, OUC incurred costs of $6.8 million for the completion of the new Customer Information System which was capitalized to utility plant in the amount of $13.6 million. Energy delivery and transmission capital spending in 2007 totaled $66.2 million inclusive of $9.7 million for substation improvements which were completed and placed into service in December 2007. In the area of power resources, $54.9 million was incurred for the new generation facility including the gasifier island at the Stanton Energy Center. Costs of $7.3 million were also incurred for the construction of the new administration building.

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



Restricted and internally designated assets:

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

Assets (continued)

2007 compared to 2006: Restricted and internally designated assets decreased $59.0 million in 2007. This change was due to the utilization of $113.4 million in liability reduction funds for the defeasance of a portion of the 2001, 2001A, and 2003A Bond Series and the release of $6.0 million of designated renewal and replacement funds for the construction of the new administration building. These changes were offset by increased fuel stabilization funds in the amount of $29.4 million as a result of continued price volatility and the on-going funding of the capital reserve account in the amount of $27.1 million for the construction of future capital projects. In addition, in 2007 OUC issued $120.7 million in construction bonds of which $58.4 million of the funds were spent leaving a balance of unspent funds of $62.4 million in 2007. This amount was comparable to the outstanding unspent construction funds in 2006 of $62.8 million.

Current assets:

2008 compared to 2007: Current assets increased $18.4 million in 2008 as compared to 2007. Volatility in the financial markets increased the margin deposit requirements for the 2008 bond series interest rate hedge in the amount of $13.1 million. Growth in the fuel hedge program increased the margin deposit requirement in the amount of $3.3 million. In addition, recent changes in the fuel markets resulted in higher deferred losses in the amount of $5.5 million. Offsetting these increases was a change related to the reclassification of $7.7 million of prepaid turbine outage capital costs which were capitalized to fixed assets in 2008.

2007 compared to 2006: The increase in current assets was $14.4 million in 2007 as compared to 2006. This change was due to a combination of items including an increase in customer receivables and accrued unbilled revenue in the amounts of $21.0 million and $3.3 million, respectively. The change in customer receivables was primarily due to the aging of customer receivables as a result of the delayed start-up of the collection activities in the newly implemented Customer Information System. In respect to the increase in accrued utility revenue, the key drivers for this change were the rate modifications implemented in January 2007 and the growth in customer base. Fuel for generation also contributed to the change in current assets as a result of an increase in coal inventory on-hand at a non-OUC operated jointly owned power generation plant in the amount $5.0 million. Prepaid expenses increased $4.5 million primarily due to the requirement of a margin deposit for an interest rate hedge in the amount of $3.9 million. Offsetting these changes was a decrease in operating cash and investments in the amount of $19.5 million as a result of planned capital expenditures.

Other assets:

2008 compared to 2007: Other assets increased $3.5 million as a result of the reclassification of the fair value assets established for the future decommissioning of the nuclear power generation facilities. The net book value of assets reclassified from Utility plant, net to the regulatory assets was $7.3 million. Offsetting this change was the systematic reclassification of long-term advance funded defined benefit pension costs in the amount of $3.2 million classified under the heading of Deferred debt to Prepaid expenses.

2007 compared to 2006: Other assets increased $6.5 million as a result of a regulatory action to defer the loss on bond extinguishment costs offset by the reclassification of long-term advance funded defined benefit pension costs in the amount of $3.1 million to Prepaid expenses. The deferred loss related to the bond extinguishment were incurred in December 2006 for the defeasance of a portion of the 2001, 2003 and 2003A Bond Series

Liabilities

Long-term debt, net:

2008 compared to 2007: Long-term debt, net decreased $63.4 million due to the reclassification of the 2004 bond series scheduled to mature in July 2009 in the amount of $216.9 million and other scheduled annual principal payments in the amount of $46.0 million. These amounts were reclassified under the heading of Current portion of long-term debt. These changes were offset by the issuance of new construction bonds in the amount of $200.0 million in November 2007.

Liabilities (continued)

In respect to the reclassification of the 2004 Bond Series, it is OUC's intention to refinance these bonds; however, the mandatory redemption provision in July 2009 requires that these bonds and the associated outstanding discounts be classified under the heading of Current portion of long-term debt.

The recent turmoil in the financial markets has increased OUC's exposure to credit risk, the risk of loss as a result of counterparty nonperformance. OUC executes interest rate swap agreements in accordance with its financial derivative policy which includes a provision requiring counterparties to meet a minimum credit rating (see Note H). In response to the volatility in the financial markets, OUC has reviewed its counterparty risks and has affirmed their ratings and financial viability.

In addition to the increased credit risk, risks related to market liquidity have increased as a result of the tightening credit markets. At September 30, 2008, OUC's credit rating continues to remain consistent with that of 2007. In addition, as noted in Note M, OUC was able to secure funding for the remarketing of debt without exception.

2007 compared to 2006: In November 2006, OUC refunded outstanding bonds in the amount of $124.1 million with a loss on refunding of $16.4 million. In December 2006, OUC executed the defeasance of a portion of the 2001, 2001A and 2003A Bond Series in the amount of $109.8 million. In January 2007, OUC issued new construction bonds in the amount of $120.7 million. These changes along with the annual debt payments in the amount of $41.4 million accounted for the overall change in long-term debt in 2007. In 2007 OUC's credit ratings were as follows:

OUC's credit rating continues to remain consistent in 2008 and 2007 as follows:

Fitch Investors Service	AA
Moody's Investors Service	Aa1
Standard & Poor's	AA

Current liabilities:

2008 compared to 2007: Total current liabilities increased $251.3 million primarily due to the reclassification of the 2004 Bond Series scheduled to mature in July 2009 in the amount of $218.8 million inclusive of the current portion of unamortized discounts. Other changes in current liabilities were the result of increased fuel and purchased power payables in the amount of $17.2 million and an increase in unrestricted accrued net swap payables in the amount of $4.2 million. Additionally, OUC incurred $1.2 million for eminent domain transition costs in 2008.

2007 compared to 2006: Current liabilities increased $9.7 million in 2007 as a result of the early implementation of Governmental Accounting Standard No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits", in the amount of $9.1 million. In addition, OUC incurred $1.0 million for eminent domain transition costs in 2007 leaving an outstanding accrued balance of $2.1 million at September 30, 2007.

Other liabilities and deferred credits:

2008 compared to 2007: Other liabilities decreased $34.5 million in 2008. Continued volatility in the energy markets resulted in the use of $26.6 million of fuel stabilization funds net of interest earnings. In addition, mild weather coupled with a weakening economy resulted in the use of $18.8 million in base rate and liability reduction stabilization funds to mitigate revenue shortfalls. Offsetting these decreases were increases in deferred gains from the fuel hedge program in the amount of $5.0 million and increased unapplied contributions in aid of construction in the amount $2.9 million.

Liabilities (continued)

2007 compared to 2006: Other liabilities increased $29.1 million in 2007. The largest portion of this increase was due to the continued volatility of fuel prices resulting in a $31.4 million increase in the fuel stabilization fund. A portion of this amount, $1.9 million, represented an increase related in accrued unbilled fuel revenue for unbilled electric utility sales. Offsetting this increase was a decrease in customer construction advances as a result of the completion of several major road projects in 2007. Construction advances decreased $3.2 million in 2007.

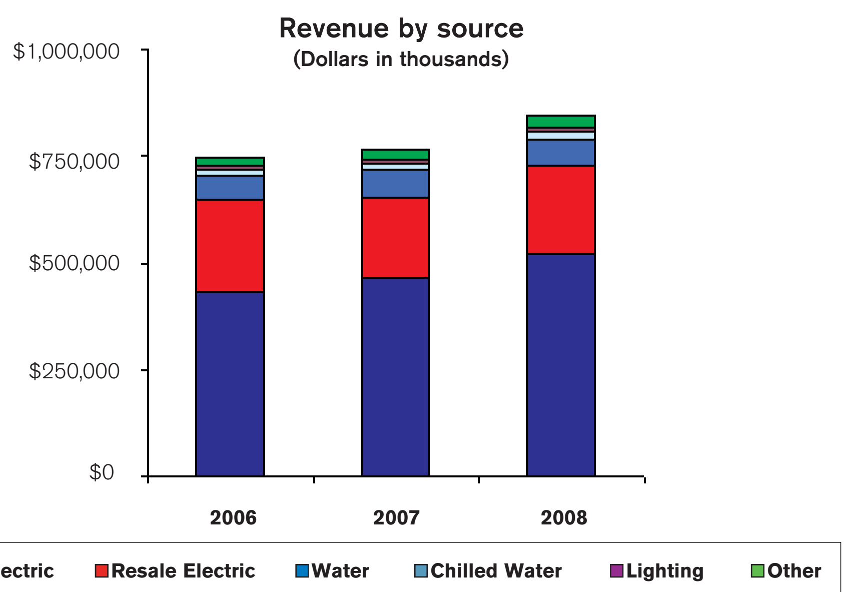
Changes in Net Assets

Operating revenues:

2008 compared to 2007: Operating revenues increased $78.4 million in 2008 as compared to 2007. Changes in the fuel markets increased fuel revenue $48.8 million in 2008. Retail electric energy increased $10.4 million as a result of a rate modification in January 2007 and a 0.5% increase in consumption. In addition to the changes in year-over-year revenue amounts, OUC experienced budgetary revenue shortfalls for retail electric energy in the amount of $20.6 million. To mitigate this shortfall, action was taken by the Board to recognize $16.8 million of base rate and liability reduction stabilization funds. These stabilization funds have been included under the heading of resale electric revenue and are the driver of the change in resale electric revenue in 2008 as compared to 2007. In addition to these changes, chilled water, lighting and other service fee revenues increased $9.4 million due to growth in these business segments.

Offsetting these increases was a decrease in water revenue in the amount of $3.1 million. Consistent with retail electric energy revenue, projections for increased water revenues, in 2008 fell short by $5.7 million of which $2.0 million was mitigated through the use of water stabilization funds.

2007 compared to 2006: Operating revenues increased $17.6 million as compared to 2006. This change was primarily the result of a rate modification to electric retail rates in January 2007. The rate modification adjusted the allocation of the total electric retail rate between energy and fuel with a greater portion of the billed revenue applied to energy. Electric energy increased $22.4 million in 2007 as compared to 2006 while still enabling OUC to reduce the overall customer bill by an average of 3.8%. Year-over-year electric retail fuel revenue increased in the amount of $6.3 million as a result of the softening resale sales. Resale sales decreased $25.4 million solely related to the decrease in resale fuel revenue. In respect to water revenues, a 13.1% rate change in January 2007 coupled with more graduated irrigation rates resulted in a $9.4 million increase in water revenues in 2007. Service fee revenues increased $4.8 million as a result of increased lighting sales and ancillary sales in OUC's new lines of business such as the sale of back-up generation services.



Changes in Net Assets (continued)

Operating expenses:

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

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

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

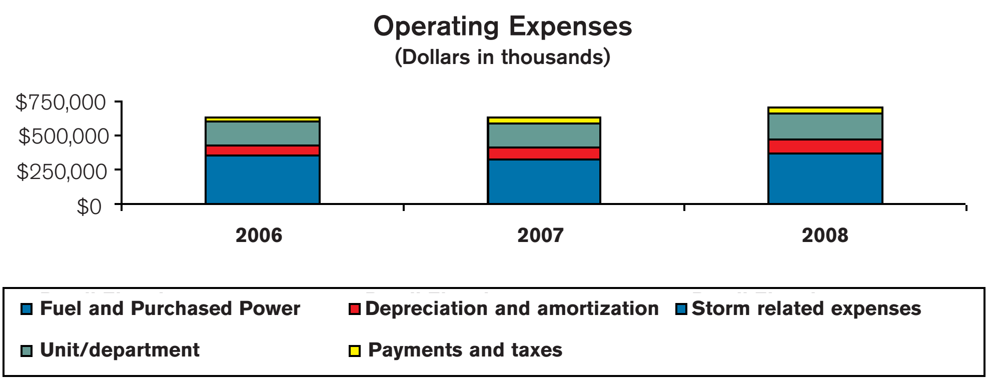
Payments to other governments and taxes increased $2.6 million in 2008 as compared to 2007. A portion of this change was the result of growth in the St. Cloud area and the corresponding increased revenue based payment in the amount of $1.0 million. In addition to this change, tax payments remitted based on collections increased as a result of changes in the outstanding balance of customer receivables at September 30, 2008.

2007 compared to 2006: Total operating expenses in 2007 were $1.7 million lower than in 2006 primarily due to decreased fuel and purchased power costs offset by higher unit/department expenses. In respect to fuel and purchased power costs, these costs decreased $26.7 million or 8% as compared to 2006 as a result of the decreased market volatility of fuel prices and the increased utilization of fuel hedges to stabilize costs against the approved fuel rates.

Unit/department expenses increased $18.1 million in 2007 as compared to 2006. In 2007, OUC early adopted Statement of Governmental Accounting Standard (SGAS) No. 45, “Accounting and Financial Reporting by Employers for Post Employment Benefit Plans Other Than Pensions)” (OPEB) incurring $9.1 million of additional employee benefit costs. These additional costs represent both prior service costs and future benefits earned in the current period and were based on an actuarial valuation. In addition, payroll and other employee benefit costs were $6.1 million greater in 2007 as compared to that of 2006 as a result of increased headcount, annual salary adjustments and higher medical costs. Higher operating costs at each of the generation facilities contributed to the remaining increase in unit/department expenses.

Payments to other governments and taxes were $1.0 million higher as a result of increased payments to the City of Orlando and Orange County as a result of increased revenue collections.

The following chart compares expenses over the three year period:



Net non-operating expenses:

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

2007 compared to 2006: Total net non-operating expenses decreased $3.9 million or 9.0% in 2007 as compared to 2006. The key driver of this change was a decrease in interest expense of $2.0 million as a result of current period and prior year bond activity as well as market rate conditions. The remaining change in net non-operating expenses were related to a combination of items including the receipt of $0.5 million of federal funds for the medicare drug program and the receipt of $0.5 million for an insurance recovery related to the derailment of coal railcars in 2006.

Contributions in aid of construction:

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

2007 compared to 2006: Contributions in aid of construction in 2007 were comparable to those collected in 2006 as a result of $3.4 million received from developers for water system infrastructure assets.

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STATEMENTS OF NET ASSETS

Assets	**Years Ended September 30**	
(Dollars in thousands)	**2008**	**2007**
Utility plant		
Utility plant in service	$ 2,971,164	$ 2,854,738
Allowances for depreciation and amortization	(1,224,986)	(1,128,363)
	1,746,178	1,726,375
Land	59,196	31,632
Construction work in progress	343,958	176,216
Total utility plant, net	**2,149,332**	**1,934,223**
Restricted and internally designated assets		
Restricted assets	167,303	148,922
Internally designated assets	337,869	387,250
Total restricted and internally designated assets	**505,172**	**536,172**
Current assets		
Cash and investments	49,607	36,148
Customer accounts receivable, less allowance for uncollectable accounts (2008 - $17,093, 2007 - $11,756)	78,801	89,749
Miscellaneous receivables	12,479	9,886
Accrued utility revenue	37,149	34,775
Fuel for generation	5,972	14,752
Materials and supplies inventory	37,926	35,927
Accrued interest receivable	3,505	3,252
Prepaid expenses and deferred charges	41,441	23,949
Total current assets	**266,880**	**248,438**
Other assets		
Advance pension funding	36,792	40,048
Regulatory assets	22,433	15,894
Other deferred costs	12,224	12,094
Deferred debt costs	3,479	3,385
Total other assets	**74,928**	**71,421**
Total assets	**$ 2,996,312**	**$ 2,790,254**

See notes to the financial statements.

Liabilities		**Years Ended September 30**
(Dollars in thousands)	**2008**	**2007**
Current liabilities		
Payable from restricted assets		
Accrued interest payable on notes and bonds	$ 28,093	$ 28,524
Current portion of long-term debt	264,844	44,440
Customer meter deposits	33,575	31,481
Total payable from restricted and designated assets	326,512	104,445
Payable from current assets		
Accounts payable and accrued expenses	83,002	58,393
Billings on behalf of state and local governments	13,005	12,681
Compensated absences and accrued wages	10,160	9,829
Accrued governmental payments	2,208	2,390
Accrued swap receivables	2,663	(1,525)
Total payable from current assets	111,038	81,768
Total current liabilities	**437,550**	**186,213**
Other liabilities and deferred credits		
Regulatory liabilities	198,135	243,299
Deferred revenue	30,300	24,953
Asset retirement obligation and other liabilities	59,825	54,554
Total other liabilities and deferred credits	**288,260**	**322,806**
Long-term debt		
Bond and note principal	1,378,830	1,441,775
Unamortized discount and deferred amount on refunding	(26,433)	(25,982)
Total long-term debt, net	**1,352,397**	**1,415,793**
Total liabilities	**$ 2,078,207**	**$ 1,924,812**

Net Assets		
Invested in capital assets, net of related debt	$ 760,049	$ 674,949
Restricted	1,468	8,335
Unrestricted	156,588	182,158
Total net assets	**$ 918,105**	**$ 865,442**

See notes to the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(Dollars in thousands)	Years Ended September 30 2008	2007
Operating revenues		
Retail electric revenue	$ 518,825	$ 462,464
Resale electric revenue	207,743	189,801
Water revenues	62,210	65,304
Chilled water revenues	19,170	16,137
Lighting revenues	11,288	9,769
Other revenues	24,946	22,350
Total operating revenues	**844,182**	**765,825**
Operating expenses		
Fuel for generation and purchased power	372,423	323,245
Unit/department expenses	194,905	179,956
Depreciation and amortization	98,312	92,282
Payments to other governments and taxes	46,713	44,088
Storm related expenses	624	-
Total operating expenses	**712,977**	**639,571**
Operating income	**131,205**	**126,254**
Non-operating income and expenses		
Interest income	16,684	23,227
Other income, net	2,188	3,326
Amortization of deferred gain on sale of assets	3,971	3,970
Interest expense	(74,167)	(71,764)
Total net non-operating expense	**(51,324)**	**(41,241)**
Income before contributions	**79,881**	**85,013**
Contributions in aid of construction	18,734	24,362
Annual dividend	(45,952)	(45,700)
Increase in net assets	**52,663**	**63,675**
Net assets - beginning of year	**865,442**	**801,767**
Net assets - end of year	**$ 918,105**	**$ 865,442**

See notes to the financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years Ended September 30 2008	2007
Cash flows from operating activities		
Cash received from customers	$ 829,866	$ 763,456
Cash paid for fuel and purchased power	(372,256)	(326,874)
Cash paid for unit/department expenses excluding salaries and benefits	(107,939)	(95,116)
Cash paid for salaries and benefits	(70,397)	(63,880)
Cash paid for payments to other governments and taxes	(46,923)	(45,400)
Cash paid for storm recovery expenses	(624)	-
Net cash provided by operating activities	**231,727**	**232,186**
Cash flows from non-capital related financing activities		
Dividend payment	(45,952)	(45,700)
Net cash used in non-capital related financing activities	**(45,952)**	**(45,700)**
Cash flows from capital related financing activities		
Debt interest payments	(81,091)	(74,448)
Principal payments on long-term debt	(44,440)	(289,337)
Debt issuances	200,000	260,620
Debt issuance expenses	(1,623)	(2,429)
Construction and acquisition of utility plant net of contributions	(302,678)	(191,427)
Net cash used in capital related financing activities	**(229,832)**	**(297,021)**
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	594,525	592,967
Gain on sale of investments	7,791	-
Purchases of investment securities	(634,030)	(538,523)
Investments and other income received	22,507	33,219
Net cash provided/(used) by investing activities	**(9,207)**	**87,663**
Net increase/(decrease) in cash and cash equivalents	**(53,264)**	**(22,872)**
Cash and cash equivalents - beginning of year	**169,111**	**191,983**
Cash and cash equivalents - end of year	**$ 115,847**	**$ 169,111**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 131,205	$ 126,254
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortizationof plant charged to operations	98,312	92,282
Depreciation charged to fuel for generation and purchased power	3,498	3,471
Depreciation of vehicles and equipment charged to unit/department expenses	7,069	2,538
Changes in assets and liabilities		
Decrease/(increase) in receivables and accrued revenue	8,166	(24,617)
Decrease/(increase) in fuel and materials and supplies inventories	12,744	(6,956)
Increase in accounts payable	24,112	8,905
(Decrease)/increase in deposits payable and deferred costs	(10,734)	13,334
(Decrease)/Increase in stabilization and deferred revenue	(42,645)	16,975
Net cash provided by operating activities	**$ 231,727**	**$ 232,186**
Reconciliation of cash and cash equivalents		
Restricted and internally designated investments	$ 46,578	$ 87,049
Cash and investments	8,559	9,907
Construction and related funds	40,057	1,048
Debt service and related funds	20,653	71,107
Cash and cash equivalents - end of year	**$ 115,847**	**$ 169,111**
Supplemental disclosure of noncash financing activities		
Assets contributed in aid of construction	$ 4,605	$ 7,177
Amortization of debt related costs	$ 3,614	$ 2,540

Note A — The Organization

Orlando Utilities Commission (OUC) was created in 1923 by a Special Act of the Florida Legislature as a statutory commission of the State of Florida. The Act confers upon OUC the rights and powers to set rates and charges for electric, water, chilled water and lighting. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola Counties as well as services outside of these boundaries for chilled water and lighting.

OUC's governing Board (the Board) consists of five members including the Mayor of the City of Orlando. Members serve without compensation and with the exception of the Mayor, who is an ex-officio member of OUC, may serve no more than two full consecutive four-year terms.

Note B — Summary of Significant Accounting Policies

Reporting entity: OUC meets the criteria of an "other stand-alone government" as defined in Governmental Accounting Standards Board Statement No. 14, *"The Financial Reporting Entity"* and No. 39*, Determining Whether Certain Organizations are Component Units."*

Within OUC's stand-alone government reporting structure are undivided interests in several power generation facilities which are operated through participation agreements and are described in Note D. Title to the property is held in accordance with the terms defined in each agreement, and as such, each party is obligated for its contractual share of operations. There are no separate entities or organizations associated with these agreements.

Regulation and Competition: The electric utility industry has been and will be, in the future, affected by a number of legislative and regulatory factors that could have an impact on OUC's operations.

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

In respect to environment legislation and regulation, the Clean Air Interstate Rule (CAIR) and the Clean Air Mercury Rule (CAMR) have been vacated. OUC is reviewing the impact of this court decision on the equipment procurement and installation of projects that would have ensured compliance with these new regulations. Some projects may be installed, canceled or delayed due to this recent action

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

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

Note B — Summary of Significant Accounting Policies (continued)

OUC is a regulated enterprise and, as such, applies the accounting principles permitted by Statement of Financial Accounting Standards No. 71(SFAS 71), *"Accounting for the Effects of Certain Types of Regulation."* Under SFAS 71, certain expenses and revenues are deferred and recognized in accordance with rate actions of the Board.

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

Recent accounting pronouncements: In 2008, OUC implemented Statement of Governmental Accounting Standards (SGAS) No. 48, 49 and 51, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", "Accounting and Financial Reporting for Pollution Remediation Obligations" and "Accounting and Financial Reporting for Intangible Assets"*, respectively. The implementation of these standards did not have a material impact OUC's financial position.

In 2007, OUC early implemented Statement of Governmental Accounting Standard (SGAS) No. 45, *"Accounting and Financial Reporting by Employers for Post Employment Benefit Plans Other Than Pensions "* (OPEB). This standard required employers to recognize post-employment benefits consistent with the service period in which they were earned. Historically these benefits were recorded on a pay-as-you-go basis. In 2008, OUC established a Post-Employment Benefit Trust to accumulate the amounts in excess of the historic pay-as-you go to be available for future benefit payments. The plan description, funding policy, funding status and actuarial methods used to determine the OPEB expense and accrued actuarial liability is disclosed in Note L.

In addition in 2007, OUC early implemented the Statement of Governmental Accounting Standard (SGAS) No. 50, *"Pension Disclosures"* providing for enhanced defined benefit pension disclosures which are included in Note K.

OUC is currently evaluating for future implementation Statement of Governmental Accounting Standards (SGAS) No. 53, *"Accounting and Financial Reporting for Derivative Instruments".* OUC will be required to adopt this standard in 2010 based on the standard effective date. The impact to OUC's financial position has not yet been determined.

Setting of rates: According to the existing laws of the State of Florida, the five Board members of OUC act as the regulatory authority for the establishment of electric and water rates. These rates are set in accordance with the "rate structures" established by the Florida Public Service Commission (FPSC). The FPSC has the jurisdiction to regulate the electric "rate structures" of municipal utilities in Florida. A rate structure is defined as the rate relationship between customer class and among customers within rate classes and is distinguishable from the total amount of revenue requirements a utility may receive from rates.

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

Effective January 1, 2007, the Board reduced electric retail rates 3.8% to reflect fuel price moderation and increased water rates 13.1% as a result of increased costs. In conjunction with the electric retail rate decrease, the Board approved the modification of the rates between energy and fuel. In July 2008, the Board approved rate increases for retail electric fuel rates and retail water rates which are to become effective on October 1, 2008. These increases are expected to result in an overall 6.4% increase in electric retail rates and an overall 6.3% increase in water retail rates in 2009.

Note B — Summary of Significant Accounting Policies (continued)

Budgets: Revenue and expense budgets are prepared on an annual basis in accordance with OUC's budget policy and bond resolutions and submitted to the Board for approval prior to the beginning of the fiscal year. Legal adoption of budgets is not required. Actual revenues and expenses are compared to the budget by operating unit as well as by line item. Variance analyses are prepared and submitted to the Board each month as required by OUC's budget policy and bond resolutions.

Utility plant: Utility plant is stated at historical cost with the exception of the fair value assets recorded in accordance with FERC Order 631, *"Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations"* and impaired assets recorded in accordance with Governmental Accounting Standard (SGAS) No. 42 *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*. Fair value assets are recognized over the license period of the nuclear generation facility and are subject to periodic re-measuring. In 2008, assets with a net book value of $7.3 million were reclassified to Other assets under the heading of Regulatory assets.

Historic utility plant costs include the costs of contract work, labor, materials and allocated indirect charges for equipment, supervision and engineering. OUC's capitalization criteria for utility plant is based on an economic useful life of 2 years and a asset cost of at least $1,000 with the exception of bulk purchases which must have a minimum purchase amount of $500 and a total purchase amount of $75,000. Interest expense is not a component of OUC's historical utility plant costs.

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

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

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

At September 30, 2008 there was no impairment costs included as a component of depreciation expense. At September 30, 2007, impairment costs included in depreciation expense were $1.7 million. Total depreciation including impairment expenses as a percentage of total depreciable assets was 3.3% and 3.2% for 2008 and 2007, respectively.

Cash, cash equivalents and investments: Cash and cash equivalents are reported under the heading of restricted and internally designated assets and current assets. OUC's cash and cash equivalents include all authorized instruments purchased with an original maturity date of three months or less including all investments in the Surplus Funds Investment Pool Trust Fund and money market funds. These instruments and the money market funds are reported at amortized cost and the Florida Local Government Surplus Funds Trust Fund (SBA), an external 2a-7 investment pool, is presented at the share price. At September 30, 2008 no funds were invested in the Florida Local Government Surplus Trust Fund (SBA).

Investments are reported at fair market value with the exception of the funds held in the Debt Service Reserve funds. The Debt Service Reserve funds are recorded at their amortized cost in accordance with OUC's ratemaking model and its intention to retain these investments until the underlying debt has reached maturity or the series has been refunded. Realized and unrealized gains and losses for all investments except those executed in conjunction with a bond refunding are included in interest income on the Statements of Revenues, Expenses and Changes in Net Assets. Realized gains recognized as a result of bond refunding are included in

Note B — Summary of Significant Accounting Policies (continued)

unamortized discount and deferred amount on refunding. Premiums and discounts on bonds and other investments are amortized using the effective interest method.

Investments maintained in OUC's Defined Benefit Trust fund, see the Required Supplemental Information schedule, are reported at quoted market value as of their actuarial valuation date.

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

Derivative instruments: Fuel related derivative transactions are executed in accordance with OUC's internally established Energy Risk Management Oversight Committee (Committee) whose primary objective is to minimize exposure to energy price volatility for cash flow and control purposes. The Committee has a defined organizational structure and responsibilities, which include approving all brokerage relationships, counter-party credit worthiness, and overall program compliance. In addition, the Energy Risk Management Program incorporates specific volume and financial limits which begin at 40% of the approved fuel budget of the current year (the 1st year) and graduate down in 5% increments to 20% of the forecasted annual fuel budget for the 5th year. The recording of fuel derivatives, when appropriate, is included on the Statements of Net Assets as either an asset or liability measured at fair market value. Related gains and/or losses are deferred and recognized in the specific period in which the derivative is settled and included as a part of Fuel for generation and purchased power costs in the Statements of Revenues, Expenses and Changes in Net Assets.

Financial related derivative transactions and interest rate swap agreements are executed to modify interest rates on outstanding debt. Periodically, as defined by the underlying agreement, the net differential between the fixed and variable rates is exchanged with the counterparty and included as a component of interest expense. No fair market value amounts related to these agreements are recorded on the Statements of Net Assets. Fair value amounts of these financial instruments are included in Note H. The termination of an interest rate swap agreement subsequent to September 30, 2008 is included in Note M.

Accounts receivables: OUC bills customers monthly on a cyclical basis. Revenue is recognized in the period in which it was earned net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated based upon OUC's historical experience with collections and current energy market conditions. Bad debt for estimated uncollectible accounts was recorded as a reduction of operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets.

The customer net accounts receivable balance of $78.8 million and $89.7 million at September 30, 2008 and 2007, respectively, includes billings on behalf of the State and other local governments, net of administrative expenses of $13.0 and $12.7 million, respectively, for 2008 and 2007. As billing agent, these amounts do not flow through OUC's Statements of Revenues, Expenses and Changes in Net Assets.

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

Accrued utility revenue: This amount represents services provided to retail customers but not billed at the end of the fiscal year for electric, water, chilled water and lighting. Accrued unbilled revenue includes amounts stabilized for unbilled electric fuel revenue with the offsetting amount included as a regulatory liability under the heading of fuel stabilization. The amount of unbilled electric fuel revenue was $11.9 million and $10.4 million at September 30, 2008 and 2007, respectively.

Fuel for generation: Fuel oil and coal are reported at current cost which is adjusted on a monthly basis.

Materials and supplies inventory: Materials and supplies are reported at current cost which is evaluated on a periodic basis in conjunction with OUC's contractual material and supply agreements.

Note B — Summary of Significant Accounting Policies (continued)

Prepaid expenses and deferred charges: Prepaid expenses represent costs that are anticipated to be recognized in the Statements of Revenues, Expenses and Changes in Net Assets in the near future including service agreement costs and the current portion of the advance pension funding. Deferred charges represent costs such as margin deposits and deferred fuel hedge costs. Prepaid expenses and deferred charges at September 30, 2008 and 2007 were $41.4 million and $23.9 million for which margin deposits (see Note H – Interest rate swaps) were $17.0 million and $3.9 million, respectively.

Advance pension funding asset: The advance pension funding asset at September 30, 2008 and 2007 was $36.8 million and $40.0 million, respectively, and is being amortized based on annual actuarial valuations consistent with the maturity period of the related pension obligation bonds included in Note K.

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

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

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

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

Accounts payable and accrued expenses: Accounts payable and accrued expenses include liabilities incurred in conjunction with fuel and purchased power costs, vendor payables and accrued expenses for self insurance expenses. The following table summarizes the significant payable balances included under this heading at September 30:

(Dollars in thousands)	2008	2007
Fuel for generation and purchased power payables	$ 41,551	$ 24,320
Vendor payables	30,440	27,396
Accrued self insurance expenses	3,019	2,268
Other accounts payable and accrued expenses	7,992	4,409
Total	$ 83,002	$ 58,393

Pollution Remediation Obligations: OUC and the City of Orlando are voluntarily working together to delineate contamination at the former Lake Highland service area. Although this contamination is not on OUC's property, OUC and the City have been working together to ready this asset for sale. Costs related to the clean-up activity in the amount of $0.5 million have been capitalized and deferred in anticipation of a land sale.

Fuel and soil oil contamination were found on a former OUC power plant and substation site, respectively. OUC actively monitors each of these sites and as such OUC has accrued $0.4 million under the heading of Accounts payable and accrued expenses to address current and future pollution remediation activities.

Note B — Summary of Significant Accounting Policies (continued)

Compensated absences and accrued wages: OUC accrues vacation leave for all employees annually on January 1. Sick leave is earned annually on the employee's anniversary date and is accrued based on a ratio of sick leave taken to sick leave earned. This ratio is then used to determine an employee's payout at either the retirement rate of 50% or termination rate of 25%. No payout is available for employees with less than 2 years of employment. Compensatory time is accrued when earned. In 2008, OUC modified its vacation policy based on results of a consolidated compensation and benefits study. At September 30, 2008 and 2007, the estimated liability for compensated absences and accrued wages was $10.2 million and $9.8 million, respectively.

Deferred revenue: Deferred revenue represents advanced funds received for future services that are amortized over a period consistent with the service agreement. In October 1999, in conjunction with the sale of the Indian River Plant, OUC received prepaid transmission access fees that are being amortized over the life of the agreement. Deferred revenue related to this agreement at September 30, 2008 and 2007 was $13.5 million and $14.4 million, respectively.

Asset retirement obligation and other liabilities: Included in this amount are the asset retirement obligations (ARO) related to the legal requirement of decommissioning OUC's interest in the St. Lucie Unit 2 and Crystal River Unit 3 nuclear generation facilities and advances received from customers for construction commitments. The asset retirement obligation was determined based on the most recent approved Florida Public Service Commission (FPSC) report provided to OUC by the owner-operators of these plants. The amount estimated for OUC's share of the decommissioning cost of these facilities, in 2000 dollars, was $26.7 million and $8.6 million for St. Lucie Unit 2 and Crystal River Unit 3, respectively. Adjusted to 2003 dollars, based on FPSC approved earnings rates, these amounts are $31.4 million and $9.6 million, respectively and the accretion period is consistent with each plant's license period. Amounts recorded at September 30, 2008 and 2007 were $37.3 million and $36.9 million and $13.5 million and $12.9 million, for St. Lucie Unit 2 and Crystal River Unit 3, respectively.

License expirations for St. Lucie and Crystal River are 2043 and 2016, respectively.

Contributions in aid of construction: Funds received from developers and customers for assets owned and maintained by OUC as well as funds received for system development fees are recorded as contributions in aid of construction in the period in which they have been received on the Statements of Revenues, Expenses and Changes in Net Assets.

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

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

Reclassifications: Certain amounts in 2007 have been reclassified to conform to the 2008 presentation.

Note C — Utility Plant

Activity for the years ended September 30, 2008 and September 30, 2007 were as follows:

Utility plant (Dollars in thousands)	September 2007	Additions	Transfers	Retirements/ reclassifications	September 2008
Electric	$ 2,112,303	$ 19,822	$ 64,893	$ (10,082)	$ 2,186,936
Water	456,590	4,907	14,965	(539)	475,923
Chilled Water	72,032	56	9,383	-	81,471
Lighting	64,642	-	9,139	(194)	73,587
Shared/customer service	149,171	2,902	1,471	(297)	153,247
Total utility plant	2,854,738	27,687	99,851	(11,112)	2,971,164
Accumulated depreciation					
Electric	(871,046)	(67,264)	(8)	1,889	(936,429)
Water	(128,013)	(17,281)	33	461	(144,800)
Chilled Water	(14,129)	(2,945)	9	270	(16,795)
Lighting	(25,532)	(2,615)	-	39	(28,108)
Shared/customer service	(89,643)	(9,475)	(34)	298	(98,854)
Total accumulated depreciation	(1,128,363)	(99,580)	-	2,957	(1,224,986)
Total depreciable utility plant, net	1,726,375	(71,893)	99,851	(8,155)	1,746,178
Land	31,632	5,020	22,544	-	59,196
Construction work in progress	176,216	290,604	(122,395)	(467)	343,958
Utility plant, net	$ 1,934,223	$ 223,731	$ -	$ (8,622)	$ 2,149,332

Utility plant (Dollars in thousands)	September 2006	Additions	Transfers	Retirements/ reclassifications	September 2007
Electric	$ 2,036,768	$ 21,148	$ 64,312	$ (9,925)	$ 2,112,303
Water	429,313	7,871	20,841	(1,435)	456,590
Chilled Water	70,531	-	1,606	(105)	72,032
Lighting	55,192	10	9,570	(130)	64,642
Shared/customer service	130,554	3,223	15,857	(463)	149,171
Total utility plant	2,722,358	32,252	112,186	(12,058)	2,854,738
Accumulated depreciation					
Electric	(809,380)	(65,724)	77	3,981	(871,046)
Water	(114,533)	(14,880)	-	1,400	(128,013)
Chilled Water	(11,525)	(2,928)	(5)	329	(14,129)
Lighting	(22,410)	(3,137)	-	15	(25,532)
Shared/customer service	(83,324)	(7,110)	(72)	863	(89,643)
Total accumulated depreciation	(1,041,172)	(93,779)	-	6,588	(1,128,363)
Total depreciable utility plant, net	1,681,186	(61,527)	112,186	(5,470)	1,726,375
Land	31,632	-	-	-	31,632
Construction work in progress	100,909	187,493	(112,186)	-	176,216
Utility plant, net	$ 1,813,727	$ 125,966	$ -	$ (5,470)	$ 1,934,223

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

Note D – Jointly Owned Operations

OUC operated: OUC maintains fiscal, budgetary and operating control at four (4) power generation facilities for which there are undivided participant ownership interests. These undivided ownership interests are with the Florida Municipal Power Agency (FMPA) and Kissimmee Utility Authority (KUA). Each agreement is limited to the generation facilities and excludes the external facilities. OUC also maintains operational control of a wastewater treatment facility at the Stanton Units 1 & 2 site through an agreement with Orange County.

Non-OUC operated: OUC maintains an undivided participant interest with Southern Company at their Stanton Unit A combined cycle generation facility located at OUC's Stanton Energy Center, Florida Power & Light at their St. Lucie Unit 2 nuclear generation facility, Progress Energy at their Crystal River Unit 3 nuclear generation facility and the City of Lakeland at their McIntosh Unit 3 coal-fired generation facility. In each of these agreements, fiscal, budgetary and operational controls are not maintained by OUC with the exception of fuel related services at Stanton Unit A where OUC retains responsibility as fuel agent for the initial 10 years of operation. Funds secured in this role as fuel agent are restricted on the Statements of Net Assets and disclosed in Note E.

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

Facility name	Agreement year	Total facility net megawatt capacity	OUC undivided ownership interest	Net OUC megawatt capacity
Crystal River Unit 3 (CR3)	1975	835	1.60%	13
McIntosh Unit 3 (MAC3)	1978	340	40.00%	136
St. Lucie Unit 2 (SL 2)	1980	853	6.09%	52
Stanton Unit 1 (SEC 1)	1984	440	68.55%	302
Indian River Combustion Turbines (IRP - A&B)	1988	96	48.80%	47
Indian River Combustion Turbines (IRP - C&D)	1990	236	79.00%	186
Stanton Unit 2 (SEC 2)	1991	440	71.59%	315
Stanton Unit A (SEC A)	2001	633	28.00%	177

Plant balances and construction work in progress for SEC1, SEC2, MAC3 and the Indian River Plant CT's include the cost of common and/or external facilities. At the other plants, participants pay user charges to the operating entity for the cost of common and/or external facilities. User charges paid for SECA are remitted back to OUC at their proportionate ownership interest of Shared Facilities. Allowance for depreciation and amortization of utility plant is determined by each participant based on their depreciation methods and rates relating to their share of the plant.

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

(Dollars in thousands)	2008			2007		
	Utility Plant	Accumulated Depreciation	Net Book Value	Utility Plant	Accumulated Depreciation	Net Book Value
SEC 2	$ 418,538	$ 134,882	$ 283,656	$ 404,502	$ 126,479	$ 278,023
SEC 1	327,496	164,463	163,033	322,653	155,247	167,406
MAC 3	158,373	94,047	64,326	145,037	89,184	55,853
SL 2	142,642	76,063	66,579	132,249	74,221	58,028
SEC A	75,971	14,561	61,410	67,956	10,985	56,971
IRP	65,693	45,987	19,706	65,876	43,581	22,295
CR 3	22,567	13,254	9,313	21,323	13,490	7,833
Total	$ 1,211,280	$ 543,257	$ 668,023	$ 1,159,596	$ 513,187	$ 646,409

Note E – Cash, Cash Equivalents and Investments

OUC maintains a portion of its cash, cash equivalents and investments in interest-bearing qualified public depository accounts with institutions insured by the Federal Deposit Insurance Corporation or collateralized by a pool of U.S. Governmental securities, per the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes as well as other types authorized by the investment policy. At September 30, 2008 and 2007 the total amount of deposits and investments were $554.1 million and $570.2 million, respectively.

Cash, cash equivalents and investments are managed by OUC in accordance with its investment policy. The investment policy provides management with guidelines to ensure risks associated with these assets are mitigated. The following are the key controls which OUC utilizes to mitigate investment risk:

- **Interest Rate Risk:** OUC's investment policy requires a minimum of 10% of the operating portfolio be held in highly marketable securities with maturities not exceeding 30 days. This requirement enables OUC to mitigate fair value changes within the portfolio and reduce its exposure to this risk. In addition, the investment policy limits maturities based on investment type and credit strength and entrusts OUC's management to execute transactions in accordance with the "prudent person" rule requiring the evaluation of current market conditions to ensure overall interest rate risks that might adversely affect the portfolio value are mitigated.

- **Custodial Credit Risk:** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, OUC's deposits may not be returned or OUC will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. OUC addresses this risk in several ways. Deposits are placed in a qualified public depository which provides protection under 280, Florida Statutes and the Florida Public Deposits Act. The Act however does not cover mutual funds and similar types of securities. OUC addresses mutual fund risk by limiting amounts invested and defining credit criteria for the funds used. In addition, the federal government has extended temporary coverage for these types of investments through April 2009. OUC had $17.1 million and $81.2 million in mutual funds and similar types of securities as of September 30, 2008 and 2007, respectively.

- **Credit Risk:** To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, OUC limits investments to those rated, at a minimum, "A-1" or equivalent for commercial paper and "A" or equivalent for medium-term corporate notes by nationally recognized rating agencies.

- **Credit and Concentration Risk:** These risks are mitigated by providing specific guidance as to the weighting and integrity of the deposit and investment instruments other than those investments in U.S. Treasury and U.S. Government Agency obligations as well as the execution of these transactions by management in accordance with the "prudent person" rule. The following are the concentrations greater than 5 percent at September 30:

Investment Type	2008	2007
Federal Home Loan Banks	43%	26%
Federal Home Loan Mortgage Corporation (Freddie Mac)	25%	20%
Federal National Mortgage Association (Fannie Mae)	14%	23%
SunTrust repurchase agreements	6%	-
Local Goverment Surplus funds	-	11%
Bank of America repurchase agreements	-	8%

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

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

Investment Type	Credit Guidelines	Maximum Portfolio Weighting
Repurchase and reverse repurchase agreements	Secured transactions executed under a master repurchase agreement with collateral limited to direct governmental and agency obligations with terms of <10 years and held and maintained by a third party trust at a market value of 102% of the cash value.	50% and 20%, respectively
Money market funds	Limited to funds which meet a stable net asset value of $1 per share and are not rated less than Aaa, AAAm or equivalent by at least one nationally recognized rating agency.	20%
Commercial paper	Minimum rating of "A-1", "P-1" and F1 by at least 2 nationally recognized rating agencies	20%
High grade corporate notes	Minimum rating of "A+", "A1" by at least 2 nationally recognized rating agencies.	10%
Interest-bearing qualified public depository accounts	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	20%
Certificates of deposit	Investments held by or purchased from institutions certified with the Florida Security of Public Deposits Act, Chapter 280 of the Florida Statutes.	5%
Taxable municipal bonds	Minimum "A" rating by a nationally recognized rating agency	10%
Bankers acceptances	Inventory based with an unsecured, uninsured and unguaranteed obligation rating of at least P-1 and A and A-1 and A by Moody's and S&P, respectively. Bank must be ranked in the top 100 banks in terms of total assets by the American Bank's yearly report.	10%
Local government surplus funds investment pool	Qualified under the laws of the State of Florida.	25%

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

Weighted average maturity	2008	2007
U.S. Treasuries	9.50	9.50
U.S. Agencies	2.61	3.63
C orporate Bonds	0.56	0.48
Municipal	-	0.24
Local Government Surplus Funds	-	0.08

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

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

(Dollars in thousands)	2008	2007
Cash	$ 10,536	$ 23,807
Cash equivalents		
Money market	50,401	67,964
Local Government surplus funds	-	57,144
U.S. Agencies	54,910	10,335
Municipals	-	9,861
Total cash equivalents	105,311	145,304
Total cash, cash equivalents and investments	115,847	169,111
Investments		
U.S. Agencies	422,196	367,205
U.S. Treasuries	3,796	3,914
Corporate notes and commercial paper	12,261	29,942
Total investments	438,253	401,061
Total cash, cash equivalents and investments	$ 554,100	$ 570,172
Restricted and internally designated assets		
Restricted assets		
Nuclear generation facility decommissioning funds	$ 42,901	$ 40,328
Debt service reserve funds	45,773	46,229
Construction fund	78,629	62,365
Total restricted assets	167,303	148,922
Internally designated assets		
Stabilization funds	101,431	134,603
Debt service reserve funds	72,632	72,242
Renewal and replacement fund	51,095	58,433
Deposits and advances	51,609	50,210
Capital Reserve	32,140	32,618
Liability reduction fund	20,380	30,593
Self-Insurance fund	8,582	8,551
Total internally designated assets	337,869	387,250
Total restricted and internally designated assets	505,172	536,172
Other funds		
Cash and investments	49,607	36,148
Less: accrued interest receivable from restricted and internally designated assets	(679)	(2,148)
Total cash, cash equivalents and investments	$ 554,100	$ 570,172

Note F — Regulatory Deferrals

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

Regulatory assets:

- **Deferred interest costs:** This amount represents the deferral of interest costs incurred in association with the Series 1993 and 1993B bonds as a result of differing short-term and long-term rates at the time of bond issuance. The amount of deferred charges at September 30, 2008 and 2007 were $5.7 million and $6.1 million, respectively. Deferred charges are currently amortized as a component of interest expense over the remaining period of the original bond series.

- **Loss on defeasance:** In December 2006, OUC used proceeds from the Liability Reduction Fund to defease portions of the Series 2001, 2001A and 2003A bonds ($109.8 million) in anticipation of yielding a favorable rate differential between the interest earnings from the Liability Reduction funds and the defeased debt. In conjunction with this defeasance, a loss in the amount of $10.9 million was recognized which is being amortized over an eight year period, a period consistent with the originally scheduled recovery period. The deferred amount at September 30, 2008 and 2007 was $8.7 million and $9.8 million, respectively.

- **Asset retirement obligation costs:** This amount represents nuclear decommissioning costs which have not been collected through OUC's rate structure or interest earnings from the decommissioning trust fund. Consistent with the fair value asset established for the future decommissioning of the St. Lucie and Crystal River nuclear generation facilities, these costs are expected to be recognized over the approved license period for each facility. The cumulative difference for the asset retirement regulatory assets at September 30, 2008 was $8.0 million.

Regulatory liabilities:

- **Deferred gain on sale of assets:** On October 5, 1999, OUC sold its steam units at the Indian River Plant (IRP) and elected to defer the gain on sale ($144.0 million). In accordance with this action, a portion of the amount ($45 million) was designated to offset generating facility demand payments. In 2004, the Board approved the systematic recognition of the remaining gain amount ($99.0 million), including residual funds remaining from the portion of gain designated to offset generating facility demand payments, to be recognized over a period consistent with the life of the Stanton Unit A generation plant. As a result of this action, OUC has recognized gains of $4.0 million annually during the years ended September 30, 2008 and 2007. The deferred gain on sale amount at September 30, 2008 and 2007 was $81.1 million and $85.1 million, respectively.

- **Deferred gain on settlement:** As a result of an eminent domain action in July 2005, the Florida Department of Transportation (FDOT) took possession of OUC's Administration building parking garage. In exchange for taking possession of OUC's garage and the underlying land, the FDOT provided OUC with an adjacent land parcel and a cash settlement of $15 million. In accordance with Governmental Accounting Standards Board Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" the assets associated with this transaction were determined to be impaired and were written-down to the lower of cost or fair market value. In addition to the impairment expense, OUC accrued transition costs of $6.0 million for relocation expenses related to the new Administration facility. The remaining proceeds from the settlement, $2.3 million, were deferred and are included on the Statements of Net Assets at September 30, 2008 and 2007. Accrued transition costs outstanding at September 30, 2008 and 2007 were $1.0 million and $2.2 million, respectively.

Note F — Regulatory Deferrals (continued)

- **Deferred wholesale trading profits:** This account represents a portion of profits generated from resale sales.
- **Electric and water rate stabilization:** The Board established these accounts for costs (revenues) that are to be recovered by (used to reduce) rates in periods other than when incurred (realized). In August 2008, the Board approved the use of up to $6.0 million from the electric base stabilization fund and $2.0 million from the water stabilization fund to cover revenue shortfalls in 2008.
- **Fuel Stabilization:** This account was established in accordance with guidelines from the Public Utilities Regulatory Policies Act of 1978 and represents the difference between the fuel costs charged to customers inclusive of accrued utility revenue and fuel costs incurred. Fuel stabilization funds recorded in conjunction with unbilled electric revenue for the years ended September 30, 2008 and 2007 were $12.1 million and $10.4 million, respectively. These amounts have been excluded from internally designated funds for fuel stabilization as these amounts have not yet cycled through the customer billing process.
- **Health insurance reserve:** OUC's governing Board established this account to mitigate unexpected increases in medical costs to employees.

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

	September 30	
(Dollars in thousands)	**2008**	**2007**
Regulatory assets	$ 22,433	$ 15,894
Fuel Stabilization	$ 64,180	$ 90,771
Rate stabilization	33,329	38,248
Deferred wholesale trading profits	16,612	26,326
Health insurance reserve	582	551
Deferred revenue regulatory liabilities	114,703	155,896
Deferred gain on sale of assets	81,132	85,103
Deferred gain on settlement	2,300	2,300
Deferred gain regulatory liabilities	83,432	87,403
Total regulatory liabilities	$ 198,135	$ 243,299

Note G – Insurance Programs and Claims

Insurance Programs

OUC is exposed to various risks of loss related to torts, theft of and destruction to assets, errors and omissions and natural disasters. In addition, OUC is exposed to risks of loss due to injuries and illness of its employees. These risks are managed through OUC's self-insurance program and third-party insurance coverage. Under the self-insurance program, OUC is liable for all claims up to certain maximum amounts per occurrence. Claims in excess of $250,000 for healthcare coverage, $1.0 million for general and automobile liability and $500,000 for workmen's compensation are covered by insurance at September 30, 2008 and 2007.

The healthcare benefits program is administered through an insurance company and as such the administrator is responsible for processing the claims in accordance with the benefit specifications, with OUC reimbursing the insurance company for its payouts. Expenses are recorded by OUC when paid to the insurance company. Incurred claims include both current period payments plus estimated incurred but not received claims based on actuarial information received in conjunction with OUC's annual State of Florida self-insurance filing.

Note G – Insurance Programs and Claims (continued)

In 2007 OUC began recognizing grant reimbursements under the retiree drug subsidy (RDS) provisions of Medicare Part D which became effective on January 1, 2006. This amount has been included under the heading of Other income, net in the Statements of Revenues, Expenses and Changes in Net Assets at September 30, 2008 and September 30, 2007 in the amounts of $255,000 and $453,000, respectively.

Liabilities associated with the workmen's compensation and healthcare programs are determined based on actuarial studies. These amounts also include amounts for claims that have been incurred but not reported. Liabilities associated with general and automobile coverage are determined based on historic information. The liability associated with this program is included in the Statements of Net Assets under the heading of Accounts payable and accrued expenses. Self-insurance program liability at September 30, 2008 and 2007 is as follows:

(Dollars in thousands)	Workmen's compensation	General and automobile liability	Health and medical claims	Total
Balance at September 30, 2006	$ 595	$ 50	$ 1,364	$ 2,009
Payments, net of recoveries	(147)	(94)	(10,344)	(10,585)
Incurred claims	47	294	10,503	10,844
Balance at September 30, 2007	495	250	1,523	2,268
Payments, net of recoveries	(200)	(256)	(11,858)	(12,314)
Incurred claims	341	681	12,043	13,065
Balance at September 30, 2008	$ 636	$ 675	$ 1,708	$ 3,019

Claims

It is the opinion of OUC's general counsel that OUC, as a statutory commission, may enjoy sovereign immunity in the same manner as a municipality, as allowed by Florida Court of Appeals rulings. Under said rulings, Florida Statutes limit of liability for claims or judgments by one person for general liability or auto liability is $100,000 or a total of $200,000 for the same incident or occurrence; greater liability can result only through an act of the Florida Legislature. Furthermore, any defense of sovereign immunity shall not be deemed to have been waived or the limits of liability increased as a result of obtaining or providing insurance in excess of statutory limitations.

Liability for accidents at the nuclear power plants for which OUC has a minority interest are governed by the Price Anderson Act which limits the public liability of nuclear reactor owners to the amount of insurance available from private sources and an industry retrospective payment plan. Both majority owners (Florida Power & Light and Progress Energy Corporation) maintain the maximum amount of private liability insurance ($300 million per site) and participate in a secondary financial protection system. In addition, both majority owners participate in nuclear mutual companies that provide limited insurance coverage for property damage, decontamination and premature decommissioning risks. Irrespective of the insurance coverage, should a catastrophic loss occur at either of the plants, the amounts of insurance available may not be adequate to cover property damage and other expenses incurred. The owners of a nuclear power plant could be assessed to pay a maximum payout of $503 million per unit per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed $75 million per incident per year. Uninsured losses, to the extent not recovered through rates, would be borne by each of the owners at their proportionate ownership share and may have an adverse effect on their financial position. See Note D for OUC's ownership interest in St. Lucie Unit 2 and Crystal River Unit 3.

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

Note H — Long-Term Debt

Long-term debt activity for the years ended September 30 were as follows:

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

1 - Variable rates that ranged from 1.19% to 7.90% for the year ended September 30, 2008.
2 - Variable and fixed rates range from 3.02% to 6.07% and 4.00% to 5.00% respectively, for the year ended September 30, 2008

Current portion of long-term debt: Included under the financial statement heading is the maturity of the 2004 Bond Series in the amount of $216.9 million. It is OUC's intention to remarket these bonds at their maturity date in July 2009, similar to the transactions noted in Note M. Other maturity amounts are consistent with amounts in 2007.

Variable rate credit facilities: Underlying each of the variable rate bond series, OUC maintains standby credit facilities. Credit facility counterparties are evaluated consistent with the criteria outlined for Interest rate swaps. Credit facilities available at September 30, 2008 and 2007 were $540.7 million and $340.7 million, respectively.

Note H — Long-Term Debt (continued)

(Dollars in thousands)

Series	Maturity	Interest rates (%)	2006	Additions	Decreases	2007	Current portion
1992 Bonds	2010	5.30 - 6.00%	$ 176,675	$ -	$ 31,440	$ 145,235	$ 33,265
1996A Bonds	2023	4.10%	60,000	-	-	60,000	-
2001 Bonds	2023	4.00 - 5.25%	247,945	-	159,860	88,085	6,085
2001A Bonds	2020	4.00 - 5.25%	36,495	-	19,785	16,710	155
2002A Bonds	2017	Variable Rate (1)	120,000	-	-	120,000	-
2002B Bonds	2022	Variable Rate (1)	100,000	-	-	100,000	-
2002C Bonds	2027	5.00 - 5.25%	70,955	-	45,270	25,685	-
2003 Bonds	2025	5.00%	54,775	-	-	54,775	-
2003A Bonds	2022	2.50 - 5.00%	116,630	-	5,735	110,895	140
2003B Bonds	2022	3.00 - 5.00%	105,700	-	10,200	95,500	865
2003T Bonds	2018	1.24 - 5.29%	49,820	-	2,990	46,830	3,075
2004 Bonds	2009	3.00 - 5.25%	216,900	-	-	216,900	-
2005A Bonds	2011	3.50 - 4.00%	40,525	-	-	40,525	-
2005B Bonds	2025	4.55 - 5.00%	120,000	-	-	120,000	-
2006 Bonds	2023	4.00 - 5.00%	-	124,370	-	124,370	855
2007 Bonds	2016	Variable & fixed rate (2)	-	120,705	-	120,705	-
Total debt			1,516,420	245,075	275,280	1,486,215	44,440
Less current portion			41,420	44,440	41,420	44,440	-
Total long-term debt			$ 1,475,000	$ 200,635	$ 233,860	$ 1,441,775	$ 44,440

1 - Variable rates ranged from 3.38 to 4.02 % for the year ended September 30, 2007.
2 - Variable and fixed rates ranged from 3.02 to 3.83 % and 4.00 to 5.00% for the year ended September 30, 2007.

Note H – Long-Term Debt (continued)

Following is a schedule of annual principal and interest maturities on bonds and notes outstanding:

Years Ending (Dollars in thousands)	Principal	Interest	Total
2008	$ 262,945	$ 83,637	$ 346,582
2009	48,350	72,170	120,520
2010	51,080	59,083	110,163
2011	89,385	56,315	145,700
2012	51,030	53,481	104,511
2013-2017	291,915	232,681	524,596
2018-2022	412,345	159,665	572,010
2023-2027	284,725	67,852	352,577
2028-2032	125,000	22,796	147,796
2033-2037	25,000	1,140	26,140
Total	$ 1,641,775	$ 808,820	$ 2,450,595

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

- **Rate covenant:** The net revenue requirement for annual debt service has been set at 100% or available funds plus net revenues at 125% of annual debt service.
- **Additional bonds test:** This test is limited to OUC's certification that it meets the rate covenant.
- **Flow of funds:** There are no funding requirements; however, consistent with prior resolutions, OUC can determine whether to fund a debt service reserve account on an issue-by-issue basis or internally designate funds.
- **System definition:** OUC's system definition has been modified to utility system. This definition is a more expansive definition to accommodate organizational changes and the expansion into new services.
- **Sale of assets:** System assets may be sold if the sale will not interfere with OUC's ability to meet rate covenants. Consistent with prior lien resolutions, proceeds must first be used to pay debt service.

Refunded and defeased bonds: Consistent with accounting guidance, all refunded and defeased bonds are treated as extinguished debt for financial reporting purposes and have been removed from the Statement of Net Assets. The proceeds secured from refunding transactions are invested in United States obligations in irrevocable escrow deposit trust funds. Each escrow deposit trust is structured to mature at such time as to provide sufficient funds for the payment of maturing principal and interest on the refunded bonds. Interest earned or accrued on these escrow funds have been pledged and will be used for the payment of the principal and interest on each respective bond series.

For the fiscal year ended September 30, 2008 and 2007, OUC refunded $124.1 million of long-term debt as summarized below:

(Dollars in thousands)

Debt issued	Month issued	Par amount issued	Par amount refunded	PV savings	Accounting loss	Savings % of refunded bonds	Debt Refunded
2006	Nov - 06	$ 124,370	$ 124,080	$ 4,528	$ 16,363	3.65%	2001, 2002C, 2003A and 2003B

Note H — Long-Term Debt (continued)

In December 2006, OUC used proceeds from the Liability Reduction Fund (LRF) to partially defease $109.8 million of the Water and Electric Revenue Bond Series 2001, 2001A and 2003A respectively. LRF proceeds were invested in United States Treasury obligations and United States Government Agency securities in an irrevocable escrow deposit trust fund and will mature at such time and in such amounts so to provide sufficient funds for the payment of principal and interest on the defeased bonds. The $10.9 million loss associated with this defeasance has been deferred in accordance with Board action and is included under the heading of Regulatory liabilities.

The balance outstanding at September 30, 2008 and 2007 for defeased bonds were $346.1 million and $411.5 million, respectively.

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

The schedule summarizes OUC's fair value position, based on quoted market rates, for its outstanding swap agreements at September 30, 2008 and 2007. Costs associated with these agreements are deferred and amortized over the life of the underlying bond agreement. Collateral deposits are required when the valuation exceeds the contractual thresholds and at September 30, 2008 and 2007 counterparties held collateral deposits in the amounts of $17.0 million and $3.9 million, respectively.

The notional amounts below are the basis for which interest is calculated; however, the notional amounts are not exchanged. Included in the schedule below is a forward starting fixed payer swap agreement in the amount of $100 million for which cash flows are not anticipated to occur until April 6, 2009.

(Dollars in thousands)

Bond Series	Notional Amount	OUC Pays	Rate	Amount	Termination Date	2008 Fair Value	2007 Fair Value	Counterparty Credit
2005A	$ 40,000	Variable	SIFMA	4.976%	10/3/2011	$ 2,888	$ 2,668	Aaa/AA-/AA-
2002A	72,000	Fixed	3.596%	67% of Libor	10/1/2017	(4,218)	(1,979)	Aa2/AA-/AA-
2002A	48,000	Fixed	3.596%	67% of Libor	10/1/2017	(2,793)	(1,376)	Aa3/AA-/AA-
2002B	60,000	Fixed	3.530%	67% of Libor	10/1/2022	(2,962)	(612)	Aa3/AA-/AA-
2002B	40,000	Fixed	3.530%	67% of Libor	10/1/2022	(1,979)	(388)	Aa2/AA-/AA-
2003	36,000	Variable	SIFMA	3.099%	10/1/2008	448	381	Aa2/AA-/AA-
2003	24,000	Variable	SIFMA	3.099%	10/1/2008	299	247	A1/AA+/AA-
2004	135,000	Variable	SIFMA	3.114%	7/1/2009 (1)	795	481	Aa2/AA-/AA-
2004	90,000	Variable	SIFMA	3.114%	7/1/2009 (1)	611	314	Aaa/AAA
2009(2)	100,000	Variable	4.442%	SIFMA	10/1/2027	(7,157)	(3,801)	A1/A+/AA-
2007	22,615	Fixed	3.64%	CPI + 105 bps	10/1/2015	(398)	(182)	Aa3/AA-/AA-
2007	13,400	Fixed	3.66%	CPI + 105 bps	10/1/2016	(200)	(90)	Aa3/AA-/AA-
2008	200,000	Fixed	4.559%	SIFMA	10/1/2033	(21,506)	(13,603)	Aaa/AA-/AA-
Total	$ 881,015					$ (36,172)	$ (17,940)	

(1) - OUC intends to remarket the Series 2004 bonds in a variable rate mode.

(2) - In November 2005 OUC entered into a forward starting swaps with Morgan Stanley. The intent is to synthetically lock in current historically low long term fixed rated on a portion of the Series 2004 bonds due July 2009

Note I – Commitments and Contingent Liabilities

Fuel for generation and purchased power commitments: OUC and its participants have entered into fuel supply and transportation contracts for coal and natural gas. Transportation contracts have also been entered into in association with OUC's role as fuel agent for SECA. These contracts were secured in 2004 for a term of 10 years, the term of the fuel agent agreement.

In September 2006, OUC along with several other Florida municipalities became a project participant in a twenty-year natural gas pre-pay supply agreement with Florida Gas Utility (FGU). In conjunction with this agreement, FGU has secured revenue bonds in the amount of $694.2 million to pre-pay natural gas for the term of the agreement. As a project participant, OUC has the right to acquire natural gas at its proportionate ownership share, 23.855%, for the term of the agreement, at a discounted price. In exchange for this right, OUC has provided FGU a commitment to acquire its proportionate share of natural gas secured under this pre-pay agreement. The agreement has an index-based pricing structure such that the cost of natural gas under the contract floats with the market. In 2008, OUC acquired $18.0 million in gas supply through this agreement compared to $8.7 million in FY07.

The following schedule summarizes OUC's commitments for fuel for generation and purchased power:

Year	Amount (Dollars in thousands)
2009	$ 138,900
2010	136,058
2011	104,398
2012	66,474
2013	64,778
2014	64,130
2015	61,780
2016	59,405
2017 - 2023	59,275
2024 - 2026	20,284

Derivative fuel instruments: OUC's fuel-related derivative transactions are executed in accordance with the Energy Risk Management policy and benchmarked to the annual approved budgeted fuel rate. These transactions, where applicable, are recorded on the Statements of Net Assets as either an asset or liability measured at fair market value under the headings of Prepaid expenses and deferred charges and Deferred revenue, respectively.

Fair value changes for these transactions are deferred and recognized in the specific period in which the instrument was settled and are included as part of the Fuel for generation and purchased power costs in the Statements of Revenues, Expenses and Changes in Net Assets. Fair value savings in the amount of $4.1 million and fair value costs in the amount of $5.0 million were recognized for the years ended September 30, 2008 and 2007, respectively.

Margin Deposits required for the execution of these transactions are recorded under the heading of Prepaid expenses and deferred charges on the Statement of Net Assets.

The following table summarizes OUC's required margin deposits, its outstanding fuel related assets and liabilities at September 30:

(Dollars in thousands)	2008	2007
Margin deposits	$ 5,789	$ 2,494
Deferred charges	7,936	2,363
Deferred revenue	(6,094)	(1,558)
Total net amount	$ 7,631	$ 3,299

Note I — Commitments and Contingent Liabilities (continued)

Power generation plant commitment: In 2005, the Board approved the execution of the joint development of a new generation facility including a gasifier island at the Stanton Energy Center. On November 13, 2007, OUC and Southern Power agreed to terminate the construction and the participant agreements related to the gasifier island portion of the project. The new combined cycle generation facility remains on target for an in-service date of June 2010. Total costs for this new generation facility are projected to be $296.0 million for which OUC has incurred $157.0 million as of September 30, 2008.

In conjunction with the development of new combined cycle generation facility, OUC has entered into an agreement with Orange County to ensure that there will be no facility-wide net increase in NOx emissions. This agreement includes OUC co-sponsoring with Orange County, community-based projects that provide environmentally beneficial NOx, greenhouse gas and/or toxic emission reductions. The combined OUC-Orange County commitment for projects of this nature is $1.0 million with annual contributions of no less than $100,000. In addition, in January 2007, both parties mutually agreed to fund qualified Renewable Energy projects within Orange County in the amount of $1.0 million over a ten-year period. To date no costs have been incurred for these projects.

Chilled water commitment: In June 1998, OUC entered into an agreement with Trigen-Cinergy Solutions (TCS) to construct and provide air conditioning cooling systems (chilled water) for buildings in the Orlando metropolitan area. In March 2004, the Board authorized the dissolution of this agreement and as such, acquired TCS' 51% operational interest in the chilled water operations. In addition to the acquisition price of $24.4 million, contingent payments, recorded to goodwill and amortized over the estimated remaining life, are due upon the securing of new customer contracts in certain chilled water operating loops. In 2008, OUC made a contingency payment in the amount of $0.7 million to the entity which acquired TCS, Suez-Degs of Orlando. Additional contingency payments of $4.4 million are anticipated to be incurred in 2010.

Water contigent liability: A contingent liability has been asserted against OUC by the South Florida Water Management (SFWMD) through the St. Johns Water Management District. The claim asserts adverse impact to wetlands and other surface waters as a result of OUC"s historic groundwater withdrawals. At present, OUC and its consultants are evaluating wetland site specific data and groundwater modeling information to assess the viability of this claim including potential monetary damages. At this junction there is insufficient data to substantiate that OUC's groundwater water withdrawals have significantly contributed to any negative impacts experienced by the wetlands however management does not believe the probability of the assertion to be remote.

Note J — Major Agreements

City of Orlando: OUC pays to the City of Orlando (City) a revenue-based payment and an income-based dividend payment.

The revenue-based payment is recorded as an operating expense and is derived to yield a payment based on 6% of gross retail electric and water billings and 4% of chilled water billings for retail customers within the City limits. In 2007 and prior, this payment was calculated at 6% of gross retail electric and water billings and 4% of gross chilled water billings. In 2008, the Board approved establishing fixed annual amounts based on projected gross billings as opposed to actual revenues for the fiscal years ended September 30, 2008 through 2011. Revenue-based payments for the years ended September 30, 2008 and 2007 were $25.1 million and $24.1 million, respectively.

The income-based dividend payment is recorded as a reduction to net assets in the Statement of Revenues, Expenses and Changes in Net Assets and has historically been calculated based on 60% of net income before contributions. As a result of action taken by the Board, the dividend for 2007 was modified to 80% of net income before contributions less amounts deposited to the Capital reserve fund. Amounts deposited to the Capital reserve fund were $27.6 million and the income-based payment was $45.7 million for the year ended September 30, 2007. In 2008, consistent with Board's action to establish fixed annual amounts for the revenue based payment, the Board approved fixed income-based dividend payments for the fiscal years ended September 20, 2008 through 2011. The fixed income-based dividend payment, considering amounts deposited to the Capital reserve fund, was $46.0 million.

Note J — Major Agreements (continued)

Fixed revenue and income-based payments for 2009 through 2011 are $73.2 million, $74.4 million, and $76.6 million, respectively.

City of St. Cloud: In April 1997, OUC entered into an interlocal agreement with the City of St. Cloud (STC) to assume responsibility for providing retail electric energy services to all STC customers and to assume control and operation of STC's electric transmission and distribution system and certain generation facilities.

In return, OUC is obligated to pay STC 9.5% of gross retail electric billings with an annual amount of no less than $2.4 million, subject to certain provisions, and pay STC's electric system net debt service. The term of the agreement commenced May 1, 1997 and, as amended in April 2003, continues until September 30, 2032.

Billed revenue for this interlocal agreement is included under the heading of Resale electric revenue and was $58.2 million and $58.8 million, respectively, for the years ended September 30, 2008 and 2007. Revenue-based payments and net debt service payments for the years ended September 30, 2008 and 2007 were $7.0 million and $6.0 million, respectively.

Orange County: OUC pays a revenue-based payment to Orange County calculated at 1% of gross retail electric billings to customers within the County but outside the city limits of the City of Orlando. This payment is recorded under the heading of Payments to other governments and taxes on the Statement of Revenues, Expenses and Changes in Net Assets. Revenue-based payments were $1.1 million for each of the years ended September 30, 2008 and 2007.

Note K — Pension Plans

Defined benefit plan

Plan description: OUC maintains a single-employer, defined benefit pension plan for all employees who regularly work 20 or more hours per week and were hired prior to January 1, 1998. Under provisions of the pension plan, employees who participate receive a pension benefit equal to 2.5% of the highest three consecutive years average base earnings times years of employment. Benefits in this plan vest after five years of service and are earned for up to a maximum service period of 30 years. OUC also offers, subject to annual approval by the General Manager, a supplementary cost of living adjustment (COLA) for employees covered under the defined benefit pension plan.

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

Annually actuarial reports are prepared with the most recent report being completed for the period ending September 30, 2008. Actuarial reports received each February disclose plan assets and actuarial liabilities as of the beginning of the current fiscal year for required contribution levels in the subsequent fiscal year. As such the actuarial valuation report dated October 1, 2006 includes the required contribution levels for the fiscal year ending September 30, 2008. This methodology enables OUC to better match its budgetary and rate-making requirements.

Periodically the plan issues stand-alone financial statements with the most recent report being issued for the year ending September 30, 2007.

Funding policy: The pension plan agreement requires OUC to contribute, at a minimum, amounts actuarially determined. The rate of contribution, based on annual covered payroll, required by OUC for the year ending September 30, 2008 and 2007 is 19.12% and 19.32%, respectively. Required participant contribution obligations are 4.0% of earnings until the later of age 62 or completion of 30 years of service, with no required contributions thereafter. The benefit reduction for early retirement is 1.0% per year.

Note K – Pension Plans (continued)

In November 2003, OUC issued taxable pension bonds in the amount of $55.3 million to advance fund the plan. Proceeds from this issuance have been included as a component of the net pension asset. Recognition of the advance funding along with interest earnings on the net pension asset are included as part of the annual pension costs under the heading of “Adjustment to ARC”. The current portion of the advance funding is determined based on the debt funding schedule and for the years ending September 30, 2008 and 2007 was $3.2 million and $3.1 million, respectively. These amounts are amortized as a component of Unit/department expenses on the Statements of Revenues, Expenses and Changes in Net Assets.

Actuarial methods and assumptions: In accordance with GASB Statement No. 27 and approval by the Board, the annual actuarial amounts are calculated using the aggregate cost method. In addition, the following approved actuarial assumptions were used for the valuation periods of 2006 and 2005 for required contribution levels in 2008 and 2007, respectively.

	October 1	
	2006	**2005**
Investment rate of return	8.00%	8.00%
Projected salary increases	5.50%	5.50%
Inflation component	4.00%	4.00%

Effective for the October 1, 2005 valuation period, the contribution period for the year ending September 30, 2007, the Board approved both the revaluing of the actuarial assets to market, including restarting the smoothing period, and changing the investment rate of return assumption from 8.5% to 8.0%.

For actuarial calculation purposes, the ad hoc cost-of-living adjustment (COLA) of approximately 1.5% has not been included in the actuarial valuation report. This annual adjustment is subject to annual approval by the General Manager and is non-binding to OUC. Preliminary actuarial findings indicate that the inclusion of the COLA, at average historically rates, would increase the 2009 annual required contribution (ARC) by approximately $6.9 million.

Annual pension cost and net pension asset: OUC recognizes annual pension costs in accordance with GASB Statement No. 27, “*Accounting for Pensions by State and Local Government Employers*” and based on information obtained from the annual actuarial report. GASB Statement No. 27 also requires recognition of a net pension asset or obligation for the cumulative differences between the annual pension cost and employer contributions to the plan. Pension cost and the net pension asset at September 30 are as follows:

	September 30	
(Dollars in thousands)	**2008**	**2007**
Current year actuarial required contribution (ARC)	$ 5,665	$ 5,872
Interest earnings on net pension asset	(3,578)	(4,113)
Adjustment to ARC	7,077	7,529
Annual pension cost	9,164	9,288
Contributions applicable to pension period	5,907	6,020
Change in net pension asset	(3,257)	(3,268)
Beginning net pension asset	44,204	47,472
Ending net pension asset	40,947	44,204
Less current portion	(4,155)	(4,156)
Long-term advance pension funding asset	$ 36,792	$ 40,048

Note K – Pension Plans (continued)

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

(Dollars in thousands)

Years ended	Annual pension cost (APC)	Current year contributions	Percentage of APC contributed
2008	$ 9,164	$ 9,040	99%
2007	9,288	9,120	98%
2006	9,076	8,940	99%

Funded status and Funding progress: In accordance with GASB Statement No. 50, "Pension Disclosures" included in the required supplemental information portion of the report, following the Notes to the financial statements is a schedule of funding progress for the actuarial value of the pension assets.

At September 30, 2008, the investment value of the assets included in the Defined Benefit Pension Trust were $231.3 million or 14.0% lower than the actuarial value of $268.9 million at October 1, 2007 as a result of volatility in the financial markets. The impact of this decrease will be included in the actuarial valuation report for the year ended September 30, 2010.

Defined contribution plan

All employees who regularly work 20 or more hours per week and were hired on or after January 1, 1998, are required to participate in a defined contribution retirement plan established under section 401(a) of the Internal Revenue Code and administered by OUC. In addition, employees hired prior to January 1, 1998, were offered the option to convert their defined benefit pension account to this plan. The plan was created by OUC resolution.

Under the plan, each eligible employee, upon commencement of employment, is required to contribute 4.0% of their salary, with OUC making a matching contribution of 4.0%. In addition, OUC will match up to 2.0% for additional voluntary contributions. Employees are fully vested after one year of employment. Total contributions for the years ended September 30, 2008 and September 30, 2007 were $4.2 million ($1.9 million employer and $2.3 million employee) and $3.4 million ($1.5 million employer and $1.9 million employee), respectively.

Note L – Other Post-Employment Benefits

Health and Medical Insurance

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

Contribution requirements of the plan members are determined by the Board. Currently medical and dental benefits, inclusive of secondary health coverage for Medicare eligible employees, are fully subsidized for employees retiring under the defined benefit pension plan. Employees retiring under the defined contribution pension plan are not subsidized although implicit subsidies are provided to those employees electing to pay for medical and dental coverage at annually approved premium rates. At September 30, 2008, 1,140 plan participants (479 active employees and 661 retired employees) were eligible for fully subsidized medical and dental coverage and 617 plan participants were eligible for implicit subsidy benefits.

Note L – Other Post-Employment Benefits (continued)

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

Funding policy: In accordance with the implementation of Governmental Accounting Standard No. 45 in September 2007 (GASB Statement No. 45) , "Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions" (OPEB), funding for post-employment benefits is established from actuarial valuations and is approved annually by the Board. In 2008, an Other Post-Employment Plan Trust, similar to the Defined Benefit Pension Trust, was established to retain funds for the future payment of other post-employment benefit costs. The Trust agreement was set-up such that in the beginning years OUC will remit the full annual OPEB cost and on a quarterly basis withdraw an amount equivalent to the pay-as-you go amount being disbursed through operations. At such time that the assets in the OPEB fund reach a level sufficient to fund annual costs, the reimbursement to operations will be discontinued.

The annual required contribution provided to OUC as part of the actuarial valuation report prepared on October 1, 2007 for the year ended September 30, 2008 and the actuarial valuation report prepared on October 1, 2006 for the year ended September 30, 2007 was $13.9 million and $14.1 million, respectively. A portion of the annual OPEB cost was funded on a pay-as-you-go basis in 2008 and 2007 in the amounts of $6.0 million and $5.0 million, respectively. The remaining portion of the annual OPEB cost, $8.4 million and $9.0 million, was paid to the Orlando Utilities Other Post-Employment Benefit Trust payment in 2008 and 2007, respectively.

The rate of contribution, based on annual covered payroll for the years ended September 30, 2008 and 2007 was 22.2% and 24.5%, respectively.

Annual OPEB cost and net OPEB obligation: OUC's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) actuarially determined in accordance with the parameters of GASB Statement No. 45. In 2008 and 2007, OUC's ARC and OPEB expense was $13.9 million and $14.1 million, respectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and a portion of the unfunded actuarial liabilities over a period of twenty years, a period consistent with the estimated employment tenure of those employees receiving fully subsidized benefits. The net OPEB receivable at September 30, 2008 and 2007 was $0.5 million and $0 million, respectively.

The following table shows the components of OUC's OPEB cost, current year contributions and changes in the net OPEB obligation at September 30.

(Dollars in thousands)	2008	2007
Current year actuarial required contribution (ARC)	$ 13,876	$ 14,069
Interest on net OPEB obligation	-	-
Adjustment to ARC	-	-
Annual OPEB Costs	13,876	14,069
Contributions Made	(5,992)	(5,035)
Change in OPEB obligation	7,884	9,034
Amount paid to OPEB Trust	8,400	-
Less current portion of OPEB payable	-	9,034
Prepaid contribution to OPEB trust	$ 516	$ -

Note L – Other Post-Employment Benefits (continued)

Funded Status of Funding Progress: The funding status of the plan for the years ending September 30, 2007 and 2008 is included in the required supplemental information portion of the report following the Notes to the financial statements.

Funding to the Other Post-Employment trust, established under the Internal Revenue Code Section 115, began in 2008 for the fiscal period ending September 30, 2007. Net payments in the amount of $8.4 million were remitted in 2008 and a payment in the amount of $9.1 million was accrued at September 30, 2007 and included under the heading of Accounts payable and accrued expenses.

Actuarial Methods and Assumptions: Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of actuarial methods and assumptions used including techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events into the future; as such these actuarial amounts are subject to continual valuation.

In the October 1, 2006 actuarial valuation, the frozen entry age normal cost method with an increasing normal cost pattern consistent with the salary increase assumption was used. The actuarial assumptions include the following:

	October 1, 2006	
Investment rate of return	8.00%	
Projected salary increases	5.50%	
Annual health care cost trend rate	12.00%	*
Utility discount rate	3.1% - 5.5%	**

* Rate reduces in decrements to an ultimate rate of 5% in 7 years

** Rate differential is dependent on employment status

The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over a 20 year period. This period is consistent with expected close-out period of the defined benefit plan and the eligibility of subsidized post-employment benefits.

Note M – Subsequent Events

On October 1, 2008 OUC remarketed the 1996A and 2003 Bond Series in the amounts of $60.0 million and $54.8 million, respectively. The 1996A Bond Series was remarketed for a 5 year term at an interest rate of 3.75% with a mandatory tender on October 1, 2013 and the 2003 Bond Series was remarketed for a 4 year term at an interest rate of 3.50% with a mandatory tender on October 1, 2012. Costs associated with this remarketing were deferred and will be recognized consistent with the life of the original bond series.

On October 24, 2008, at OUC's request, the 2004 Bond Series swap agreements, scheduled to mature in July 2009, were terminated. As a result of this transaction a gain in the amount of $1.3 million will be recognized in 2009.

Defined benefit plan:

The following funding schedule presents multi-year trend information on the funded status of the Defined Benefit Pension plan as of October 1, 2007. This schedule has been prepared using the entry age actuarial method as the method used in OUC's actuarial valuation, the aggregate actuarial cost method, does not identify or separately amortize unfunded actuarial accrued liabilities.

Schedule of Funding Progress
(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL)	UnfundedA AL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered
10/1/2001	$ 203,819	$ 218,358	$ 14,539	93.3%	$ 34,114	42.6%
10/1/2003	224,562	236,164	11,601	95.1%	33,333	34.8%
10/1/2004	219,853	244,485	24,632	89.9%	32,845	75.0%
10/1/2005	243,973	266,618	22,645	91.5%	32,393	69.9%
10/1/2006	254,462	275,759	21,297	92.3%	31,686	67.2%
10/1/2007	268,893	285,786	16,893	94.1%	30,981	54.5%

Other post-employment benefit plan:

The following funding schedule presents multi-year trend information on the funded status of the Other post-employment benefit plan as of October 1, 2007. This schedule has been prepared using the entry age actuarial method, the method used to prepare OUC's actuarial valuation in 2008 and 2007.

Schedule of Funding Progress
(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL)	UnfundedA AL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered
10/1/2006	$ -	$ 148,970	$ 148,970	0%	$ 57,324	260%
10/1/2007	9,034	157,456	148,422	6%	62,524	237%

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Report of Independent Auditors

The Commissioners of Orlando Utilities Commission

We have audited the accompanying statement of net assets of Orlando Utilities Commission (OUC), as of September 30, 2008 and 2007, and the related statement of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OUC's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of OUC's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OUC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OUC as of September 30, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008 on our consideration of OUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Ernst & Young LLP

November 26, 2008

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The Reliable One®

2008 AUDITED FINANCIAL STATEMENTS

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