ALABAMA MUNICIPAL • ELECTRIC AUTHORITY •

AMEA

Power That Works For You!™

Annual Report for 2002

AMEA
2002

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

Board of Directors

Don Clements . . . . .Chairman
Wayne Duke . . . . .Vice Chairman
Joe R. Sport . . . . .Secretary-Treasurer

Donald F. McClellan . . . . .Director
Charles Ebert, Jr. . . . . .Director
Timothy Kant . . . . .Director
Gary Fuller . . . . .Director
Bill Fann . . . . .Director
Scott Hamil . . . . .Director

Participating Members

City of Alexander City
City of Dothan
City of Fairhope
City of LaFayette
City of Lanett
City of Opelika
City of Piedmont
The Utilities Board of the City of Foley
The Electric Board of the City of Luverne
The Utilities Board of the City of Sylacauga
The Utilities Board of the City of Tuskegee

President & CEO

Robert W. Claussen

Consulting Engineers

R. W. Beck, Inc.
Orlando, Florida

General Counsel

Bradley Arant Rose & White, LLP
Montgomery, Alabama

Bond Fund Trustee

SouthTrust Bank, N.A.
Birmingham, Alabama

Financial Advisor

The Frazer Lanier Company
Montgomery, Alabama

Don A. Clements
City of Dothan

D. Wayne Duke
City of Sylacauga

Joe R. Sport
City of Luverne

Donald F. McClellan
City of Alexander City

Charles Ebert, Jr.
City of Foley

Timothy Kant
City of Fairhope

Gary Fuller
City of Opelika

Bill Fann
City of Piedmont

Scott Hamil
City of Lanett

A Letter from the Chairman and President & CEO

This fiscal year will surely go down as one of the most significant in the history of Alabama Municipal Electric Authority. Sewell St. John Jr., Chairman of the Board since 1984, retired from the Board at the end of December 2001. The lowest average firm delivered unit power cost to the Members since AMEA began to supply power to its Members occurred this fiscal year. A new ten year power supply contract with Alabama Power Company that will commence in 2006 was approved. AMEA's first issue of *Alabama Currents* was published in March with a circulation of over 93,000. A thirty-five percent interest in Hometown Connections℠, which provides deep discounted products and services to public power communities in the United States, was purchased by AMEA from the American Public Power Association. A revised mission statement was one of the many outcomes of the new 2003-2005 strategic plan. A revised industrial development plan was approved. Five new Board members were elected to the Board as well as replacements for the Chairman and Vice Chairman positions.

Don Clements, commissioner at the city of Dothan, was elected Chairman of the Board and Wayne Duke, Board member of the Utilities Board of the City of Sylacauga, was elected Vice-Chairman of the AMEA Board in December 2001. They assumed those positions in January 2002. Chairman Clements has served on the Board since 1985 and also has served as Vice-Chairman of the Board since 1993 and Chairman of the Budget, Audit, Rate Committee from November 1990 to January 2002. Wayne Duke has served on the Board since 1992 and was elected Chairman of the Budget, Audit, Rate Committee in January 2002.

AMEA has been very involved in discussions to change the way transmission service is provided in the Southeastern section of the country. Regional Transmission Organizations have been proposed and AMEA has participated in their possible development. The Federal Energy Regulatory Commission has issued proposed rule making on transmission issues and AMEA has and continues to respond to their proposals. AMEA has joined the Transmission Access Policy Study Group (TAPS) which consist of municipal utilities around the country that are dependent on transmission service provided by others. AMEA is in favor of changes to the way transmission service is provided as long as it is more cost effective to our Members customers and does not allow market power to occur.

The AMEA Scholarship Program which provides approximately 70% of a year's tuition at an Alabama college is continuing to be awarded to a student from each of our eleven Member Cities whose families are customers of the Member electric utility. The Board also adopted an economic development plan to assist the Members in their effort to attract and maintain business for their communities. The plan calls for the continuation of the Capital Fund Program, proactive marketing plans, building professional organization relationships and assisting Member communities in developing economic plans. The

Board authorized the purchase of two Phillips defibrillators for each of the AMEA Members plus one for the AMEA office. This is part of an AMEA/Hometown Connections℠ promotion to encourage the purchase of additional defibrillators and to help cut the possible loss of life due to sudden cardiac arrest.

In January the SCADA and load management system was declared commercial. Completion of this project allows for more opportunities for the Members to provide better service to their customers and to help control the cost of purchase power. SEPA filed a rate increase during the year as a result of large amounts of power that had to be purchased due a drought that has lasted over three years. As agent for the Members, AMEA represented them in the rate case which was settled at 8%, 2% less than initially filed.

The average cost of power to the Members for FY '02 was 37.69 mills per kWh. This was a 0.67 mills per kWh decrease from FY'01. This decrease was due to the influence of lower fuel cost, mild weather and effective load management which improved the system load factor. In FY'87, the first full year as power supplier for the Members, AMEA's average power cost was 38.01 mills per kWh. FY'02 average cost of power was 0.32 mills per kWh lower than FY'87. Corrected for the CPI, AMEA's power cost has decreased approximately 40% since FY '87.

Gary Fuller, councilman from the City of Opelika, and H. Bayne Smith from the City of Piedmont were seated on the Board in November, replacing respectively Anne Grady and Brent Morrison, who resigned. Charles Ebert Jr., Board member on the Utilities Board of the City of Foley, was seated on the Board in January replacing H. Swell St. John Jr. who resigned due to retirement. Bill Fann, City Clerk from the City of Piedmont, was elected to the Board in August by the Election Committee as a result of H. Bayne Smith resignation. The Board also reconfirmed the Board's selection of Gary Fuller and Charles Ebert Jr. and also elected Mayor Tim Kant of the City of Fairhope to the Board replacing Mayor Lucenia Dunn-Williams of Tuskegee.

As noted, H. Sewell St. John Jr., retired January 1, 2002. Sewell served on the Board of Directors since the first Board was elected in 1981. He served as Chairman of the Board from 1984 to 2002. Due to his dedication to AMEA and the many years of outstanding leadership on the Board we dedicate this report to him and thank the Utilities Board of the City of Foley for allowing him to make such a significant contribution to the success of AMEA.

Respectfully Submitted,

Don Clements
Chairman

Robert W. Claussen
President & CEO

Fiscal Year 2002

General Statistics

AMEA Total Member Power Requirements

Total Coincident Peak Load	670.5 Mw
Total Energy	3,203,757 Mwh
Load Factor	54.5%

AMEA Member Power Resources

Southeastern Power Administration:

Capacity	135.8 Mw
Energy	194,977 Mwh

AMEA:

Firm Power Purchase

Capacity	70.0 Mw
Energy	634,522 Mwh

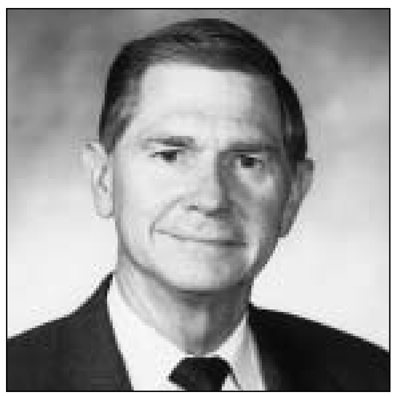
Partial Requirements Purchase

Capacity	464.7 Mw
Energy	2,374,258 Mwh

AMEA MANAGEMENT STAFF

Margaret C. O'Dell
Senior Communications Representative

Thomas E. Bartels
Senior Power Supply Engineer



Robert W. Claussen
President & Chief Executive Officer

J. Marlin Wade
Manager of Finance
& Administration

Raymond W. Phillips
Senior Operations Engineer

Alabama Municipal Electric Authority

Financial Statements as of and for the Years Ended September 30, 2002 and 2001, Additional Information for the Years Ended September 30, 2002 and 2001, and Independent Auditors Report

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

Board of Directors of the Alabama Municipal Electric Authority:

We have audited the accompanying balance sheets of the Alabama Municipal Electric Authority (the "Authority") as of September 30, 2002 and 2001, and the related statements of revenues and expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 19-21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

January 15, 2003

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

BALANCE SHEETS
SEPTEMBER 30, 2002 AND 2001

ASSETS	2002	2001
PREPAID PURCHASE POWER CONTRACTS, net of accumulated amortization of 36,827,000 (2002) and $32,458,000 (2001)	$ 16,072,861	$ 20,442,183
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation of $2,556,000 (2002) and $2,244,000 (2001)	2,369,497	3,559,763
OTHER LONG-TERM ASSETS:		
Investments	452,524	
Participant receivables, long-term	2,327,468	
Total other long-term assets	2,779,992	
SPECIAL FUNDS INVESTED:		
Debt service fund	5,251,674	7,984,910
General reserve fund	336,104	336,000
Reserve and contingency fund	50,000	50,000
Total special funds invested	5,637,778	8,370,910
CURRENT ASSETS:		
Funds invested:		
Revenue fund	8,984,219	4,007,699
Operation and maintenance fund	10,340,646	5,366,441
	19,324,865	9,374,140
Participant receivables	22,237,381	19,641,917
Inventories	392,950	392,950
Total current assets	41,955,196	29,409,007
DEFERRED COSTS:		
Development costs, net of accumulated amortization of $617,000 (2002) and $493,000 (2001)	511,205	613,387
Unamortized bond issuance costs, net of accumulated amortization of $593,000 (2002) and $1,836,000 (2001)	120,035	202,195
Unamortized excess costs of bond refundings, net of accumulated amortization of $4,041,000 (2002) and $3,652,000 (2001)	817,751	1,207,582
Net costs to be recovered from participants		2,370,560
Total deferred costs	1,448,991	4,393,724
Total	$ 70,264,315	$ 66,175,587

See notes to financial statements.

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

BALANCE SHEETS
SEPTEMBER 30, 2002 AND 2001

LIABILITIES AND FUND BALANCE	2002	2001
LONG-TERM DEBT -		
Revenue bonds, net of unamortized discounts	$ 28,008,128	$ 37,244,221
SPECIAL FUNDS LIABILITIES -		
Accrued interest on revenue bonds	156,312	191,738
DEFERRED LIABILITIES -		
Net costs to be refunded to participants	1,647,606	
CURRENT LIABILITIES:		
Current maturities of revenue bonds	9,325,000	6,860,000
Amounts payable under power supply contracts	21,040,323	14,811,567
Interest rate swap agreement	728,993	
Other current liabilities	191,576	412,427
Total current liabilities	31,285,892	22,083,994
FUND BALANCE	9,166,377	6,655,634
Total	$ 70,264,315	$ 66,175,587

See notes to financial statements.

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	2002	2001
OPERATING REVENUES:		
Sales of electricity to participants	$ 113,399,654	$ 113,724,819
Sales of electricity - other	410,052	1,388,029
Total	113,809,706	115,112,848
OPERATING EXPENSES:		
Firm purchase power services - purchased power	10,070,645	24,639,014
Partial requirements services:		
Purchased power	84,194,950	56,202,926
Transmission and distribution	849,361	2,255,601
Cost of other electricity sales	364,485	1,136,789
Other operating and maintenance expenses	1,436,999	1,438,271
Administrative and general expenses	3,162,652	2,555,393
Amortization, principally relating to prepaid purchase power contracts	4,866,935	11,375,609
Total	104,946,027	99,603,603
NET OPERATING INCOME	8,863,679	15,509,245
OTHER (EXPENSE) INCOME:		
Interest expense	(2,212,079)	(3,911,428)
Interest income	841,821	2,439,793
Investment expense	(47,476)	
Interest rate swap agreement loss	(728,993)	
Other income	372,853	296,120
Amortization of bond discounts, issuance costs and excess costs of bond refundings	(560,898)	(1,106,042)
Total, net	(2,334,772)	(2,281,557)
NET COSTS TO BE REFUNDED TO PARTICIPANTS	(4,018,164)	(11,734,841)
EXCESS OF REVENUES OVER EXPENSES	2,510,743	1,492,847
FUND BALANCE:		
Balance - beginning of year	6,655,634	5,162,787
Balance - end of year	$ 9,166,377	$ 6,655,634

See notes to financial statements.

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	2002	2001
OPERATING ACTIVITIES:		
Cash received from participants	$ 110,036,133	$ 120,168,878
Cash paid under power supply contracts	(89,420,968)	(86,435,502)
Cash paid to other suppliers and employees	(4,598,555)	(3,822,849)
Net cash provided by operating activities	16,016,610	29,910,527
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for acquisition of property and equipment	(405,165)	(442,996)
Principal paid on revenue bond maturities	(6,860,000)	(37,465,000)
Interest paid on revenue bonds	(2,300,860)	(4,477,190)
Other	72,274	77,336
Net cash used in capital and related financing activities	(9,493,751)	(42,307,850)
INVESTING ACTIVITIES:		
Purchases of investments	(7,458,066)	(26,966,533)
Proceeds from sale of investments	9,703,534	43,786,602
Interest income received	1,205,878	2,992,956
Net cash provided by investing activities	3,451,346	19,813,025
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,974,205	7,415,702
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	9,166,441	1,750,739
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 19,140,646	$ 9,166,441

(Continued)

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	2002	2001
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	$ 8,863,679	$ 15,509,245
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Amortization and depreciation	4,866,935	11,375,609
Changes in assets and liabilities:		
(Increase) decrease in receivables	(3,944,634)	5,303,620
(Increase) decrease in amounts payable under power supply contracts	6,228,756	(2,355,808)
Increase in other liabilities	1,874	77,861
Total adjustments	7,152,931	14,401,282
Net cash provided by operating activities	$ 16,016,610	$ 29,910,527

(Concluded)

See notes to financial statements.

1. ORGANIZATION AND OPERATIONS

Alabama Municipal Electric Authority (the "Authority") is a public corporation of the State of Alabama. T he Authority was created on August 17, 1981 pursuant to the provisions of Act No. 81-681 of the State of Alabama Legislature for the purpose of securing an adequate, dependable and economical power supply for its participating members. The Authority's power supply is provided under the terms of contractual arrangements (see Note 4). The Authority sells power pursuant to Power Sales Contracts (see Note 3) to each of its eleven participating members, which consist of municipalities, utility boards and an electric board. Each member owns and operates its own electric distribution system.

The activities of the Authority are formally promulgated by and financed under The Power Supply System Revenue Bond Resolution (the "Resolution"), as supplemented and amended, adopted by the Board of Directors. The Resolution established special funds to hold proceeds from debt issuance; such proceeds are to be used for development and acquisition costs and to maintain certain reserves. The Resolution also established additional special funds in which revenues from participants are to be deposited and from which operating costs, debt service, and other specified payments are to be made.

In 1986, the Authority closed a $140,000,000 revenue bond issue (1986 Series A) under the terms of the Resolution. The proceeds from the issue were used primarily to pay the $100,000,000 cost of specified power supply levels to be furnished by Alabama Power Company over 15 years (see Note 4), repay bank loans and member assessments used to finance development activities, fund debt issuance costs, and provide working capital and establish the reserve funds and other accounts required under the Resolution.

In 1989, the Authority issued $10,270,000 of 1989 Series A revenue bonds for the primary purpose of funding load management and rate stabilization programs. Bond proceeds were also used to pay debt issuance costs and to establish the special funds referred to above. In 1991, the Authority issued $65,845,000 of 1991 Series A revenue bonds, the proceeds of which were primarily used to pay for additional power supply levels through December 2005 under the terms of a contract executed with Alabama Power Company in October 1991 (see Note 4).

During 1992, the Authority issued $93,620,000 of Power Supply System Revenue Refunding Bonds, 1992 Series A. The proceeds of these bonds were used to partially refund a portion of the 1986 Series A bonds (see Note 9).

During 1993, the Authority issued $46,680,000 of Power Supply System Revenue Refunding Bonds, 1993 Series A, the proceeds of which were used to refund the outstanding balance of the 1989 Series A bonds and a portion of the 1991 Series A bonds (see Note 9).

Additional bonds may be issued pursuant to the Resolution subject to compliance with certain conditions defined therein.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accounts of the Authority are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission ("FERC"), and in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Amortization - The prepaid purchase power contracts and deferred costs are presented net of accumulated amortization. The power contracts are being amortized based on the amount of firm power to be supplied each year as a percentage of total firm power to be supplied over the lives of the respective contracts.

Unamortized bond issuance costs are being amortized using the bonds outstanding method over the life of the bonds. Development costs are primarily being amortized on a straight-line basis over the term of the initial 1986 prepaid purchase power contract. Costs related to the renegotiation of the Partial Requirements Service Agreement (Note 4) are amortized over the term of the amended agreement. The bond discounts are being amortized over the life of the bonds using the interest method. Net costs to be recovered from future billings to participants are not amortized but will be recovered through future rates (see Note 6).

Cash and Cash Equivalents - The Authority considers cash and cash equivalents to be all unrestricted, highly liquid instruments with original maturities of three months or less, the amounts of which are included in certain funds as follows:

	2002	2001
Revenue fund - rate stabilization	$ 8,800,000	$ 3,800,000
Operation and maintenance fund	10,340,646	5,366,441
	$ 19,140,646	$ 9,166,441

Investments - The Authority accounts for investments in accordance with Statement of Governmental Accounting Standards No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this statement, investments are recorded at fair value for purposes of reporting under GAAP. Investments are stated at amortized cost or cost for purposes of reporting in accordance with the terms of the Bond Resolution.

Participant Receivables - Receivables derived from sales of electricity to participants represents a substantial portion of the total participant receivables balance. Also included within this classification are installment notes receivable from certain of the Authority's members all executed during the year ended September 30, 2002. These notes have 10-year terms and bear interest at 5%.

Inventories - Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment - Property and equipment primarily consists of the Authority's Load Management System. All property and equipment is recorded at cost and depreciation is computed using the straight line method over the estimated useful lives of the related assets.

Excess Costs of Bond Refundings - Excess costs of bond refundings represent the excess costs associated with the advance refunding (defeasance) of bonds. Such costs are deferred and amortized over the life of the refunding bonds using a method which approximates the interest method.

Derivative Financial Instruments – The fair value of the interest rate swap agreements (see Note 8) are determined by dealer quote. These values represent the estimated amount the Authority would receive or pay to terminate the agreements taking into consideration current interest rates.

Taxes - As an agency of the State of Alabama, the Authority's income is exempt from federal and state income taxes. The Authority is exempted from property and franchise or other privilege taxes; however, the Authority is subject to a statutory requirement that it make a payment in lieu of property, sales, and certain other taxes.

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

3. POWER SALES CONTRACTS

Each participating member has entered into an Amended and Restated Power Sales Contract (the "Sales Contracts") with the Authority which extends through December 31, 2035. The Sales Contracts require that the Authority furnish, and each member take and pay for, all power and energy requirements of the member ("full requirements services") in excess of that supplied by the Southeastern Power Administration ("SEPA") and any Excluded Power Supply Resources, as defined. Initially, the participating members are required to purchase all of their full requirements services from the Authority. From January 1, 2001, the power supply requirements may be limited by either the participating member or the Authority to equal the members' "Contract Rate of Delivery," which is defined as the highest billing demand of the member during the 24 billing periods preceding the effective date of the limitation, adjusted up or down by not more than 10% to provide for optimal utilization of the Authority's resources.

Under the terms of the Sales Contracts, each member may acquire Excluded Power Supply Resources under certain conditions which include a provision that the total power obtained from such resources, excluding its SEPA allocation, cannot exceed 10% of the member's adjusted maximum demand (as defined) in any preceding calendar year.

Retail electric rates charged by participating members to their local consumers are not subject to the regulatory control of the Alabama Public Service Commission ("PSC"). The Sales Contracts stipulate that each member maintains retail rates sufficient to enable it to pay all amounts due to the Authority.

4. POWER SUPPLY AGREEMENTS

The Authority has entered into power supply agreements (the "Contract") with Alabama Power Company (the "Company"). In October 1991, the Authority commenced a power supply contract agreement with the Company. The 1991 Firm Power Purchase Contract provides for delivery of additional firm capacity ranging from 30 megawatts to 80 megawatts annually through December 2005. The Authority paid the Company $52.9 million for the additional firm capacity.

The energy charge under the 1991 Firm Power Purchase Contract is based upon the same energy rate (excluding the capital substitution component) contained in the Partial Requirements Service Agreement described below and is based on average costing energy rate concepts which underlaid those rates previously charged by the company to the participating members under the MUN-1 Tariff prior to the Authority commencing power sales.

The Company's performance under the 1991 Firm Power Purchase contract is secured by a Liquidated Damages Note which must be paid with interest thereon to the Authority in the event of a default, as defined. T he Liquidated Damages Note is secured by First Mortgage Bonds which have been issued by the Company in the name of an escrow agent. The bonds are due at the conclusion of the contract terms and cannot be redeemed by the escrow agency prior to maturity unless an event of default occurs requiring satisfaction of the Liquidated Damages Note.

On February 4, 1986, the Authority also entered into the Partial Requirements Service Agreement (the "Agreement") whereby the Authority purchases power in excess of that received from other Authority power supply resources in order to meet the total requirements of the participating members. In addition, the Agreement provides transmission services to deliver power to the participating members' points of delivery.

To allow for greater resource flexibility by the Authority, the Company, on July 8, 1994 filed an Amended Agreement with FERC that was negotiated between the Company and the Authority. The Amended Agreement, filed with an effective date of October 1, 1994, extends through December 31, 2005 and can be terminated thereafter by either party with five years written notice, but such termination shall not be effective earlier than January 1, 2006. Among other things, the Amended Agreement allows (i) for the constant rate design over the contract term, (ii) the Authority to operate base, intermediate or peaking resources and (iii) the Authority to purchase from the Company or a third party transmission services, control center services, load regulation services, reserve services or backup services.

In connection with the Amended Agreement, each of the participating members have executed a Guaranty and Indemnity Agreement with the Company whereby each member has guaranteed its pro rata share of payments owed the Company by the Authority for partial requirements services.

The Authority also has a Firm Power Sale Agreement with Entergy Power, Inc. ("EPI") for EPI to provide 50 megawatts of firm peaking capacity and associated energy to the Authority annually through December 31, 2005. Under this agreement, the Authority will receive a guaranteed savings of $1 per kilowatt per month provided the Authority schedules the capacity over its billing peak and does not schedule more than 67 hours in a month or 804 hours in a year.

On April 10, 1995, the Authority entered into a short-term Non-Firm T ransmission Service Tariff with Southern Company Services, Inc. This tariff allows the Authority to wheel nonfirm power through the operating companies of the Southern Company. Effective October 1, 1996, the Partial Requirements ("PR") Service Agreement was amended (Amended No. 1) to reflect a rate reduction for PR service. The rate reduction reflected an approximate 5.4% reduction in revenue requirements for PR service. The new PR service rate will remain in effect, unless mutually agreed to change, until October 1, 2001.

Effective May 1, 1998, the PR service agreement was amended (Amended No. 2) to reflect a reduction in the May through September billing demand rate beginning May 1, 1999 and continuing through May 1, 2001. The first reduction was 1% below the current rate; the second reduction (May 1, 2000) was 2% below the current rate; the third reduction (May 1, 2001) was 4.2% below the current rate and will stay at the level for the May through September billing period for the remainder of the contract. The Authority and the Company have agreed to a rate moratorium from

May 1, 2001 until January 1, 2006. Amendment No. 2 also reflects the parties' agreement regarding certain notice provisions under Article II of the Amended PR Agreement, which pertain to changes in the amount of load to be serviced by Alternative Resources.

On December 20, 2001, the Authority entered into a Power Supply Arrangement ("PSA") with the Company. The PSA will begin January 1, 2006 and end December 31, 2015. The Company will deliver the capacity and energy sold to the Authority at the high voltage side of the transformers at the various generating units of the Company that provides capacity and energy under the PSA. The Company will provide 100% of the Authority's capacity and energy needs, as determined by the Authority, during the contract period unless the Authority provides the Company notice to supply up to 10% of its needs for 2006 and after 2006 up to 20% of its needs for 2006. The Authority may provide all of the Authority's load growth after the first five years of the contract period. The Authority is responsible for obtaining transmission service, to deliver the capacity and energy to the Authority's metering points with its Members, from the Southern Company. The application process for transmission services is in progress.

In connection with the PSA, the Authority's Members will not be required to execute a Guaranty and Indemnity Agreement with the Company so long as the Authority has outstanding debt.

Pursuant to the provisions of Section 11-50A-25, *Code of Alabama 1975*, as amended, the Authority is required to file the PSA with the Alabama Public Service Commission ("APSC"). On May 7, 2002 the APSC ordered that "the Agreement and the rates to be charged by the Authority pursuant to the provisions of the Agreement are not disapproved by the Commission." The PSA pursuant to the FERC regulations does not require their approval.

As of September 30, 2001, the Authority has entered into Interchange Agreements with 27 electric utilities. The Authority has also entered into Power Purchase and Sales Agreements with 19 independent power producers and power marketers. The Authority has also entered into one "Hub Service" agreement with the Energy Authority, a power marketer. A Scheduling Agreement has been executed with SCANA Energy Marketing, Inc. and the Energy Authority. A Purchasing Agreement has been executed with Southern Company Services. These agreements provide the Authority the opportunity to buy and sell replacement energy on an hour-to-hour, daily, weekly, and monthly basis. The energy that can be replaced or sold is associated with the contracts with the Company, Southern Company Services, and EPI.

5. INVESTMENTS

The Resolution authorizes the Authority to invest in (1) direct obligations of, or obligations, of which the principal and interest are unconditionally guaranteed by The United States of America; (2) direct and general obligations of any state in the U.S. or of any agency or local government unit thereof whose obligations are fully secured as to principal and interest by cash or obligations of the character described in (1) above; (3) obligations of or guaranteed by any agency or corporation of the U.S.; (4) New Housing Authority Bonds or Project notes issued by the public agencies and fully secured as to principal and interest by certain agreements with the U.S.; (5) obligations of any state, territory, or possession of the United States of America or of any political subdivision thereof whose securities are rated by a nationally recognized bond rating agency in either of its two highest rating categories; (6) certificates of deposit issued by a bank, trust company or similar institution; the Authority's deposits in any such institution cannot exceed 5% of the institution's capital stock, surplus, and undivided profits unless fully insured by the Federal Deposit Insurance Corporation or secured to the extent not insured by certain obligations acceptable under the Resolution; (7) obligations issued or guaranteed by any corporation which are rated similarly to that described in (5) above; (8) repurchase agreements with a member of the Federal Reserve System which are collateralized by the types of obligations described above; and (9) interest in a portfolio of money market instruments containing specified types of obligations.

The Resolution permits the Authority to establish official depositories with any bank or trust company, organized under the laws of any state in the United States, having capital stock, surplus, and undivided profits aggregating at least $10 million. At September 30, 2002 and 2001, the Authority had such amounts recorded on its books totaling $19,140,646 and $9,166,441, respectively, which approximated the bank balances.

In connection with the 1991 bond offering, the Authority's trustee entered into a Master Repurchase Agreement which required Lehman Brothers, Inc. to repurchase permitted investments of bond proceeds upon notification by the trustee. All investments made under this agreement are fully collateralized by United States government securities held by the trustee in the name of the Authority.

Investments included in the funds invested categories are stated at fair value, plus any accrued interest.

The Authority's cash and investments are summarized as follows:

	2002 Fair Value	2002 Cost	2001 Fair Value	2001 Cost
U.S. government treasury bonds and agency certificates - held by Trustee in the Authority's name (uninsured and unregistered)	$ 1,636,229	$ 1,592,567	$ 1,293,190	$ 1,264,000
Repurchase agreement	3,404,000	3,404,000	6,584,500	6,584,500
Money market instruments - mutual funds composed of U.S. Treasury obligations	990,829	990,829	884,363	884,363
Interest rate swap agreement	(393,280)		(391,143)	
	5,637,778	$ 5,987,396	8,370,910	$ 8,732,863
Interest bearing cash and cash equivalent accounts	19,140,646		9,166,441	
Accrued interest and other	184,219		207,699	
Total funds invested	$ 24,962,643		$ 17,745,050	
Consisting of:				
Special funds invested	$ 5,637,778		$ 8,370,910	
Current assets	19,324,865		9,374,140	
	$ 24,962,643		$ 17,745,050	

6. NET COSTS TO BE RECOVERED FROM (REFUNDED TO) PARTICIPANTS

Power rates charged to participating members are designed to cover the Authority's "costs" as defined by the Resolution and the Sales Contracts. The Authority's rates are structured to systematically provide for debt service requirements, operating funds, and reserves specified by the Resolution. Recognition of "expenses" (defined according to GAAP), which are not included as "costs," is deferred to such period as it is intended that such "expenses" will be covered by rates. Recognition of the "revenues," which under the Resolution and the Sales Contracts are collected to cover "costs" that are not "expenses," is deferred to such period as it is intended that such "revenues" cover "expenses."

The Authority is required by the Resolution to review and, if necessary, revise its rate structure upon the occurrence of a material change in circumstances, but in any event at least once every year. The Resolution also permits the Authority to implement rate stabilization practices whereby revenues collected currently may be deposited in a special account to provide for gradual rate increases which will be required in future years to cover the Authority's costs and other funds requirements mentioned above. Rates charged by the Authority are not subject to the regulatory control of the PSC or FERC.

Net costs to be recovered from (refunded to) participants include the following:

	Year Ended September 30,		From Inception to September 30,	
	2002	2001	2002	2001
GAAP items not included in billings to participants:				
Amortization of prepaid purchase power contracts	$ 4,369,320	$ 10,757,242	$ 136,827,136	$ 132,457,816
Amortization of development costs		193,574	3,200,000	3,200,000
Amortization of bond discounts and issuance costs	171,067	307,518	10,119,739	9,948,672
Amortization of excess costs of bond refundings	389,831	798,524	14,208,618	13,818,787
Interest on Revenue Bonds			17,063,216	17,063,216
Expenses paid with bond proceeds			2,194,441	2,194,441
Net change in fair value of investments	(12,335)	25,184	349,618	361,953
Other	213,909	213,909	2,032,759	1,818,850
	5,131,792	12,295,951	185,995,527	180,863,735
Bond resolution requirements included in billings to participants:				
Debt service	4,149,958	20,830,792	177,740,334	173,590,376
Special funds deposits	5,000,000	3,000,000	8,800,000	3,800,000
Investment income not available for operating purposes			1,102,799	1,102,799
Working capital withdrawal		200,000		
	9,149,958	24,030,792	187,643,133	178,493,175
	$ (4,018,166)	$ (11,734,841)	$ (1,647,606)	$ 2,370,560

7. LONG-TERM DEBT

Long-term debt at September 30, 2002 consists of the following serial bonds:

	1993 Bonds	
Maturity	Effective Interest Rate	Amount
2003	5.20	$ 9,325,000
2004	5.30	10,160,000
2005	5.40	18,030,000
		$ 37,515,000
Less current maturities		9,325,000
Less unamortized bond discount		181,872
		$ 28,008,128

Interest on all of the bond issues is payable semi-annually.

The Authority's bonds are secured by a pledge of all revenues of the Authority and all special funds established by the Resolution subject to certain terms and conditions set forth therein. The Resolution requires that reserve deposits be maintained in the Debt Service Fund equal to 10% of the principal amount of all bond series outstanding, calculated with respect to each series as of the date of issuance. The Resolution contains certain restrictive financial and operational covenants. At September 30, 2002, the Authority was in compliance with its debt covenants.

The Authority has a Master Note Agreement with its primary bank which provides the Authority with a maximum borrowing capacity of $5 million through April 29, 2003, at which time the Agreement expires and any notes outstanding thereunder are due. Interest is payable monthly at a rate equal to the 90 day London Interbank Offered Rate ("LIBOR") plus 150 basis points (which was 3.28% at September 30, 2002). A condition of insufficient moneys in certain funds, as defined in the Resolution, is required by the Resolution to be cured before funds can be applied toward repayment of outstanding notes under the Master Note Agreement. Outstanding notes are secured by a pledge of the Authority's revenues which is subordinated to the security interest for bonds issued pursuant to the Resolution.

On September 7, 2000, the authority signed another Master Note Agreement for a maximum borrowing capacity of $3 million through September 7, 2003. Borrowings under this agreement are to provide funds for the Authority to loan to participating members and other qualified persons for use in assisting industrial development in the service areas of participating members. Principal and interest payments must coincide with payments made to the Authority, not to exceed a five-year amortization. Interest is payable monthly at the 90-day LIBOR rate plus 150 basis points and any amounts borrowed are secured by the related amounts owed the Authority.

During the years ended September 30, 2002 and 2001, no amounts were outstanding under either of these agreements.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Authority enters into certain interest rate swap agreements to manage its exposure to interest rate movements by effectively converting a portion of its debt from fixed to variable rates. Maturity dates of these interest rate swap agreements generally match those of the underlying debt. These agreements, which have maturities of up to seven years, involve the exchange of variable rate payments for variable rate payments without the exchange of the underlying principal amounts. Variable rates are based on the three-month U.S. Dollar LIBOR and the BMA Index. The notional principal amounts of these interest rate swap agreements outstanding were $50 million as of September 30, 2002 and 2001.

During the year ended September 30, 2002, the Authority entered into an additional interest rate swap agreement for which there is no underlying debt. This agreement, which matures in 2014, involves the exchange of variable rate payments for variable rate payments, based upon the $50 million notional amount. Variable rates are based on the three-month U.S. Dollar LIBOR and the BMA Index.

The Authority has adopted Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (collectively, "SFAS No. 133"), as of October 1, 2000. Under SFAS No. 133, the Authority is required to either designate derivative contracts as hedges and monitor the effectiveness of the hedges against the original financial instruments or mark the derivative instruments to market and report any changes in the derivatives' fair market values through the income statement. The Authority has not chosen to seek hedge accounting under SFAS No. 133. As such, the differential between fixed and variable rates to be paid or received is accrued as interest rates change in accordance with the agreements and recognized over the life of the agreements as an adjustment to interest expense. At September 30, 2002 and 2001, the Authority's derivative instruments represented a collective mark to market liability of $1,122,273 and $391,143, respectively. In accordance with the Resolution, $393,220 and $391,143 of the total liability at September 30, 2002 and 2001, respectively, representing interest rate swap agreements for which there is underlying debt, is reflected in net costs refunded to participants.

9. BOND REFUNDINGS

In previous years, the Authority issued tax exempt bonds to refund (through defeasances) certain bonds. As the proceeds of these refunding bonds, along with certain other available funds, were placed in an irrevocable escrow account with a trustee to provide for all future debt service on the refunded bonds, the refunded bonds are considered to be defeased and neither the assets held by the trustee nor the related liabilities for the refunded bonds are reflected in the Authority's financial statements.

At September 30, 2002, the outstanding principal balance of the defeased bonds was $34,040,000.

10. RETIREMENT PLAN

The Authority's employees participate in the Employees' Retirement System of Alabama's defined benefit pension plan. Employees currently contribute 5% of their gross pay to the Plan and the Authority contributes approximately 6.5% (2002 and 2001). The Authority's contributions are designed to fund the normal contribution amount. The Authority's retirement expense for the years ended September 30, 2002 and 2001 was $57,130 and $52,598, respectively.

Retirement payments under the Plan are future obligations of the Employees' Retirement System of Alabama. The Authority's obligations under the Plan are limited to the funding described above. Valuation of the plan assets and accumulated benefits for the Authority is not available as the Employees' Retirement System of Alabama does not segregate this information.

11. SUBSEQUENT EVENT

On December 19, 2002, the Authority's Board of Directors authorized the purchase and installation of two gas-fired simple cycle peaking units with an expected in-service date of June 2004. The current estimated cost of this project is $45-$50 million.

ADDITIONAL INFORMATION

(See Independent Auditors' Report)

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED
FOR THE YEAR ENDED SEPTEMBER 30, 2002

	Funds Invested October 1, 2001	Power Billing Receipts	Income From Other Electricity Sales	Other Income	Investment Income	Disbursements	Transfers	Funds Invested September 30, 2002
Debt service fund:								
Debt service account	$ 107,220				$ (687,128)	$ (9,160,860)	$ 9,551,891	$ (188,877)
Debt service reserve account	7,877,690				503,195		(3,669,327)	4,711,558
	7,984,910				(183,933)	(9,160,860)	5,882,564	4,522,681
General reserve fund	336,000				9,139		(9,035)	336,104
Reserve and contingency fund	50,000				810		(810)	50,000
Revenue fund:								
Revenue account	207,699	$ 109,453,997	$ 582,136	$ 372,854	697,268	(675,638)	(110,454,097)	184,219
Rate stabilization account	3,800,000						5,000,000	8,800,000
	4,007,699	109,453,997	582,136	372,854	697,268	(675,638)	(105,454,097)	8,984,219
Operation and maintenance fund:								
Operation and maintenance account						(94,925,710)	94,925,710	
Working capital account	5,366,441				318,537		4,655,668	10,340,646
	5,366,441				318,537	(94,925,710)	99,581,378	10,340,646
	$ 17,745,050	$ 109,453,997	$ 582,136	$ 372,854	$ 841,821	$ (104,762,208)	$ -	$ 24,233,650

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

STATEMENT OF CHANGES IN ASSETS OF FUNDS INVESTED
FOR THE YEAR ENDED SEPTEMBER 30, 2001

	Funds Invested October 1, 2000	Power Billing Receipts	Income From Other Electricity Sales	Other Income	Investment Income	Disbursements	Transfers	Funds Invested September 30, 2001
Debt service fund:								
Debt service account	$ 2,238,932				$ 168,592	$ (26,867,190)	$ 24,566,886	$ 107,220
Debt service reserve account	17,008,058				1,213,194	(9,021,500)	(1,322,062)	7,877,690
	19,246,990				1,381,786	(35,888,690)	23,244,824	7,984,910
General reserve fund	5,919,173				430,576	(6,053,500)	39,751	336,000
Reserve and contingency fund	50,000				2,366		(2,366)	50,000
Revenue fund:								
Revenue account	115,166	$ 118,937,058	$ 1,233,393	$ 296,120	366,681		(120,740,719)	207,699
Rate stabilization account	800,000						3,000,000	3,800,000
	915,166	118,937,058	1,233,393	296,120	366,681		(117,740,719)	4,007,699
Operation and maintenance fund:								
Operation and maintenance account						(90,301,192)	90,301,192	
Working capital account	950,739				258,384		4,157,318	5,366,441
	950,739				258,384	(90,301,192)	94,458,510	5,366,441
	$ 27,082,068	$ 118,937,058	$ 1,233,393	$ 296,120	$ 2,439,793	$ (132,243,382)	$	$ 17,745,050

ALABAMA MUNICIPAL ELECTRIC AUTHORITY

SCHEDULES OF REVENUES AND EXPENSES PER BOND RESOLUTION
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

	2002	2001
REVENUES:		
Sales of electricity to participants	$ 113,399,654	$ 113,724,819
Sales of electricity - other	410,052	1,388,029
Investment revenues available for operations	106,372	2,849,378
Other income	372,853	296,120
Deposit to working capital account		(200,000)
Total revenues	114,288,931	118,058,346
EXPENSES:		
Firm purchase power services - purchased power	10,070,645	24,639,014
Partial requirements services:		
Purchased power	84,194,950	56,202,926
Transmission and distribution	849,361	2,255,601
Cost of other electricity sales	364,485	1,136,789
Deposit to rate stabilization account	5,000,000	3,000,000
Other operating and maintenance expenses	1,720,703	1,649,155
Administrative and general expenses	3,162,652	2,555,393
Debt service	6,415,392	25,126,621
Total expenses	111,778,188	116,565,499
EXCESS OF REVENUES OVER EXPENSES	$ 2,510,743	$ 1,492,847

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