Progress Energy | ANNUAL REPORT 2000

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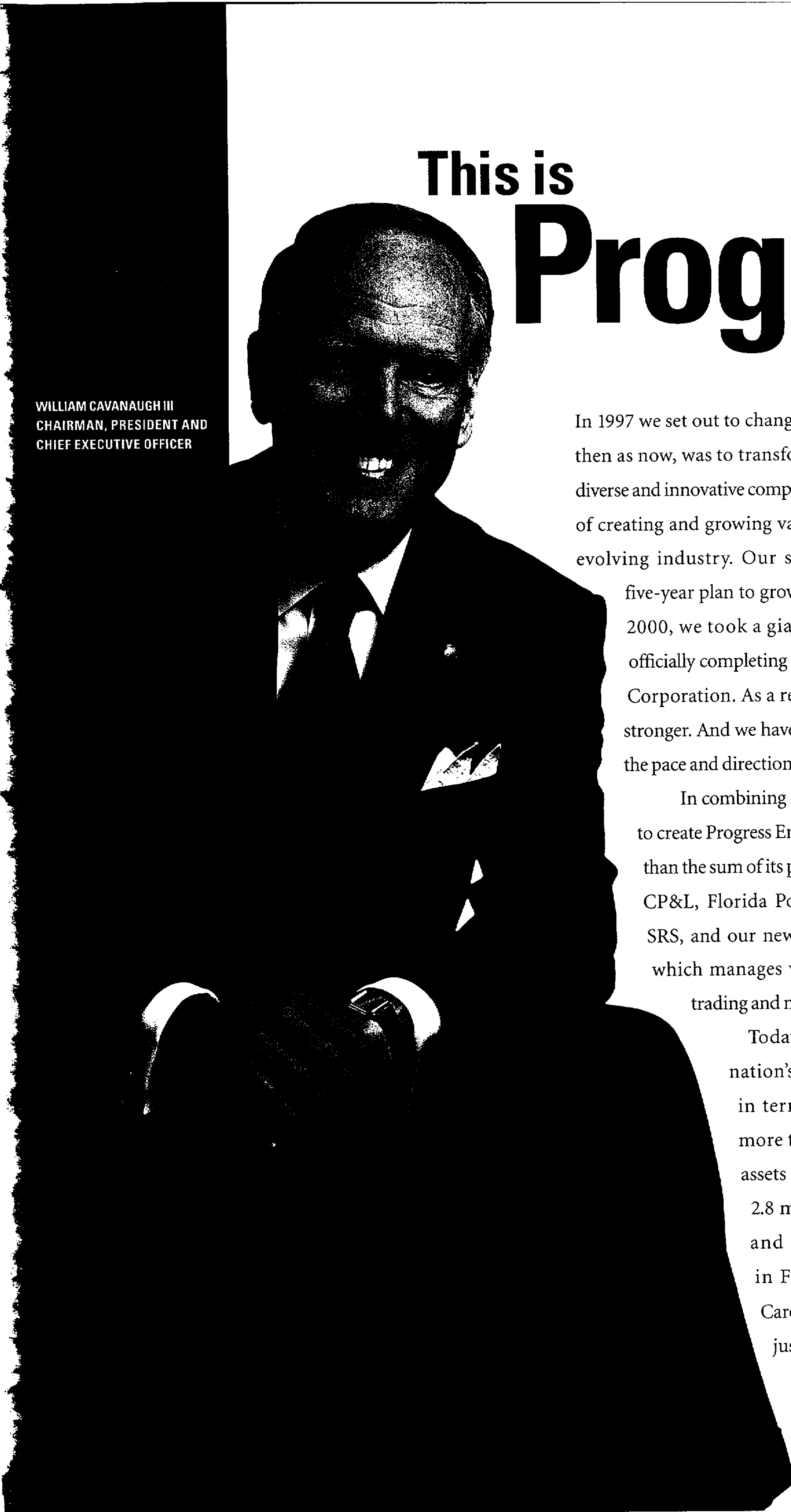
FINANCIAL HIGHLIGHTS*

IN THOUSANDS EXCEPT PER SHARE DATA	FISCAL YEAR ENDED December 31 2000
FINANCIAL DATA	
Operating revenues	$ 4,118,873
Net income	478,361
Basic earnings per common share	3.04
Average common shares outstanding	157,169
COMMON STOCK DATA	
Return on average common stock equity (percent)	13.04
Book value per common share	26.32
Market value per common share (closing)	49.19

* Data for Progress Energy, Inc. includes CP&L Energy for the full year and the results of Florida Progress Corporation since the date of acquisition, November 30, 2000.

This is Progress.



WILLIAM CAVANAUGH III
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

In 1997 we set out to change our future. Our guiding vision, then as now, was to transform CP&L into a more dynamic, diverse and innovative competitor – an energy company capable of creating and growing value for shareholders in a rapidly evolving industry. Our strategy included an ambitious five-year plan to grow the company. On November 30, 2000, we took a giant step in meeting that goal by officially completing our acquisition of Florida Progress Corporation. As a result, we're not only bigger, we're stronger. And we have a new name. One that clearly sets the pace and direction of our company: *Progress Energy*.

In combining Florida Progress and CP&L Energy to create Progress Energy, we created a company greater than the sum of its parts. A company that now includes CP&L, Florida Power, NCNG, Progress Telecom, SRS, and our new business unit, Energy Ventures, which manages wholesale energy marketing and trading and merchant generation.

Today, Progress Energy is among the nation's top 10 investor-owned utilities in terms of generation capacity with more than 19,000 megawatts. Our total assets exceed $20 billion. We serve over 2.8 million electricity and gas customers in Florida and the Carolinas. And we're just getting started.

THE PROGRESS ENERGY STAR – a bold, new symbol of energy and motion.

MILESTONES

August 1999
Florida Progress acquisition announced

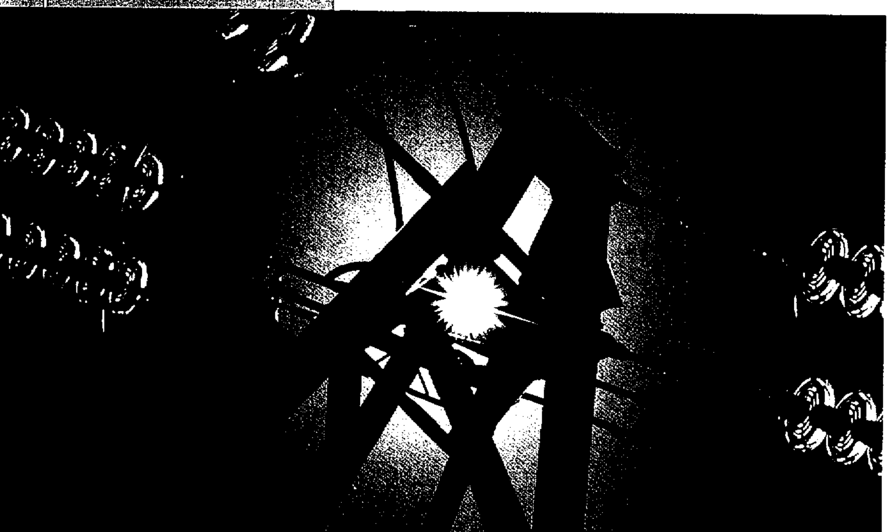
June 2000
CP&L's Wayne County Plant begins operations

September 2000
CP&L Energy sells 10% interest in BellSouth PCS business for $200M

November 2000
Florida Progress acquisition completed

December 2000
Progress Energy (PGN) begins trading on NYSE

A Year of Solid Performance. By a variety of measures, Progress Energy had a strong showing in 2000. On a pre-merger basis, total operating revenues for CP&L Energy in 2000 were $3.8 billion, a 14.4 percent increase over the year before and earnings increased 20.3 percent over 1999 to $3.08 per share, a record high. Total operating revenues for Florida Progress Corporation in 2000 were $4.5 billion, a 16.1 percent increase over the previous year and earnings (on a pre-merger basis) rose to $3.61 per share in 2000, compared to $3.21 in 1999. Energy sales for CP&L and Florida Power increased 3.5 percent and 4.6 percent respectively, reflecting strong customer growth and a colder-than-normal fourth quarter.



We reached new performance heights in 2000. CP&L's three nuclear plants set their seventh-consecutive generation record, surpassing last year's record by nearly 4 percent. Florida Power's Crystal River Nuclear Plant had one of its most productive years as well. SRS, our national energy services and facilities management subsidiary, achieved profitability on $89 million of revenues, up from $74 million in 1999.

And the four new gas-fired peaking units at CP&L's Wayne County Plant came online last June.

Also in 2000, the Standard and Poor's Electric Utility Index saw its greatest one-year gain ever, rising 54 percent and signaling a return of investor confidence in the utility sector. In keeping with that, Progress Energy's common stock closed the year at $49.19, a record closing price. This delivered a total return to shareholders of 72 percent for the year.

A Strong Platform for Growth. Progress Energy is structured for stability, anchored by the foundation of CP&L and Florida Power. But our story does not end here. We have no intention of standing still.

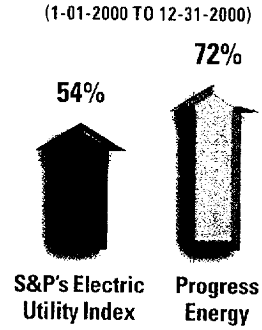
"We created a company

Our priority for the near term is the continued integration of our companies. Already, this process has resulted in the reorganization of our business along strategic lines as well as in the formation of profitable, new business units. While we plan to divest certain non-core businesses gained in the acquisition, such as our rail and barge subsidiaries, we will do so only when the value proposition is right.

Fully integrating CP&L Energy and Florida Progress will yield significant operating synergies and produce savings expected to total more than $100 million in 2001.

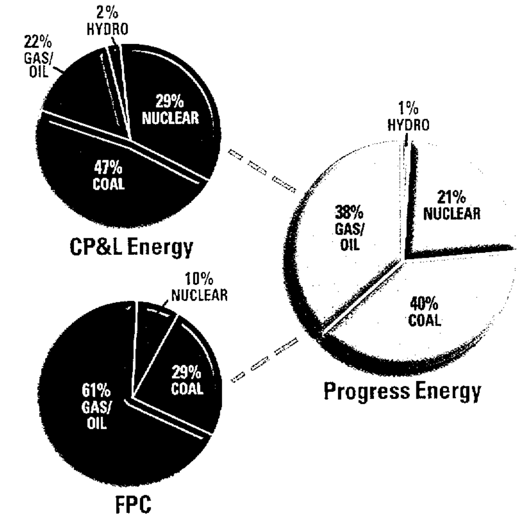
In 2000, CP&L Energy took steps to unlock value from its Interpath subsidiary by striking an ownership deal

TOTAL RETURN TO SHAREHOLDERS
(1-01-2000 TO 12-31-2000)



with Bain Capital. It retained 35 percent of the company's Application Service Provider business, its fiber-optic assets, and its BellSouth PCS investment, which was later sold for $200 million. And we are now folding the fiber-optic network assets into our Progress Telecom subsidiary.

Our long term focus is on growth. We are exploring new opportunities – both on the regulated and non-regulated sides of our business. We are leveraging our fundamental strengths in customer service, operational efficiency, cost control and regulatory relations to expand in the Southeast. Our growth strategy is three-pronged – we want to: 1) increase our energy generation business, by building new power plants and maximizing our wholesale energy sales; 2) expand our energy delivery business, by capitalizing on the impressive growth potential in Florida and the Carolinas; and 3) develop our broadband capacity wholesale business through Progress Telecom, by extending our fiber-optic network. Continuing on the strategic path just outlined will help us accomplish our financial objectives in 2001.



GENERATION FUEL MIX. The combination of CP&L Energy and FPC results in a more competitively balanced generation fuel mix.

greater than the sum of its parts."

A Culture Bent On Success.

Progress Energy encompasses different geographies, infrastructures, products, markets and workforces. Yet, we are all of one mind when it comes to the future. Our mission: to grow our business and deliver more value to our shareholders.

A new culture is emerging here. One shaped as much by the diversity of our employees and customers as by our knowledge, expertise, commitment to service and vision. We are guided by one of the strongest and most experienced management teams in the industry. We will continue to emphasize operational excellence and provide our customers with exceptional levels of service. Our collective mindset is focused squarely on performance.

Progress Energy's culture embraces the world outside the company, as evidenced by our ongoing commitment to education, the environment, economic development and the communities we serve.

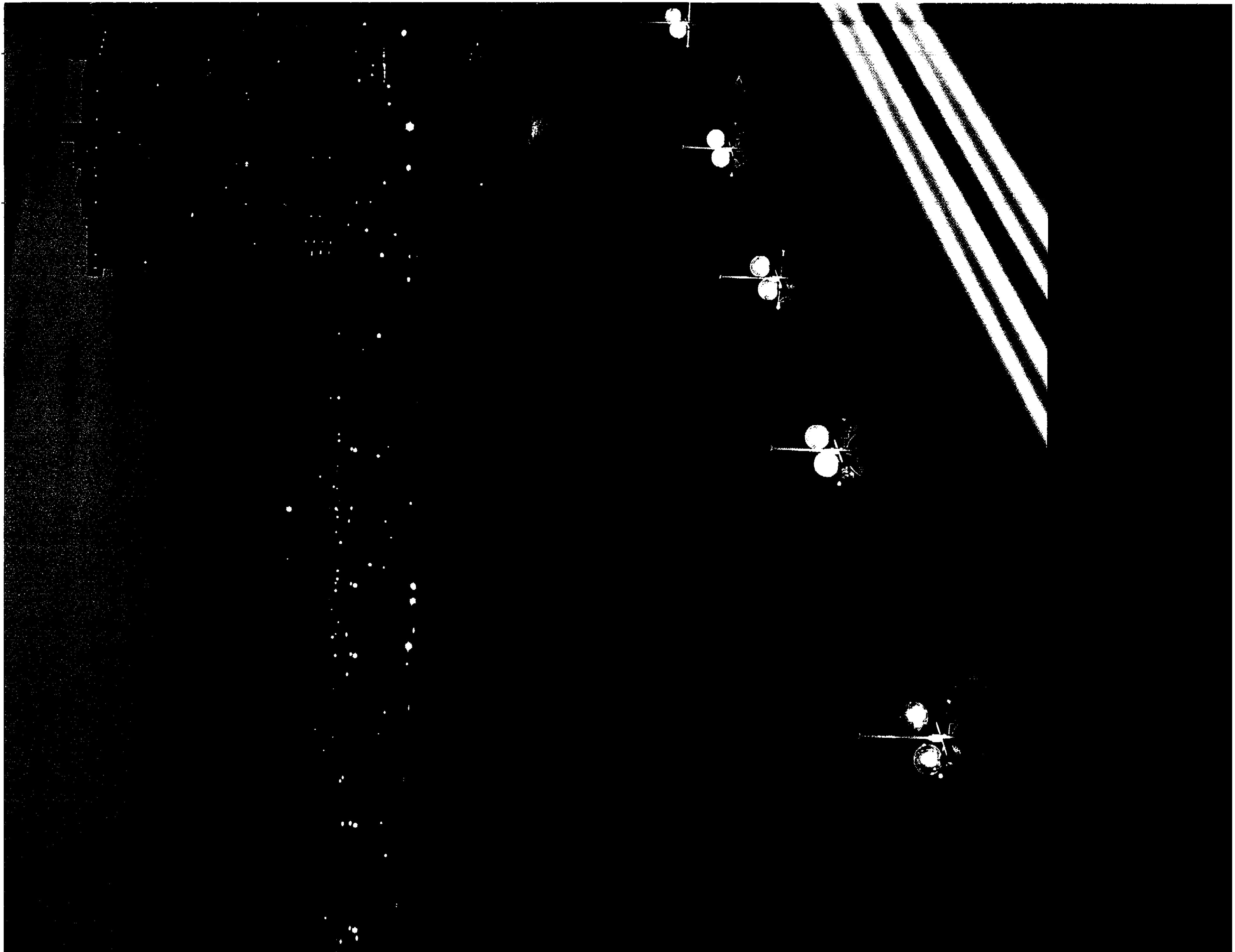
A People-Centric Future.

Creating a company the size of Progress Energy took extensive planning and effort. But above all, it took people – the more than 16,000 exceptional employees from CP&L Energy and Florida Progress who worked long and hard to combine the two entities, all while controlling costs and keeping customer service at high levels. For their significant contribution, I offer a sincere thank-you.

As we look to the future, the people of Progress Energy will continue to play a critical role in our strategy and success. They are at the center of innovation and change. They are key to greater performance. They are the force that keeps Progress Energy a company on the move.

William Cavanaugh

WILLIAM CAVANAUGH III
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER



Progress is Growing. THE ENERGY MARKET IS NOT STANDING STILL. AND NEITHER IS PROGRESS ENERGY. NEW CUSTOMERS. NEW INDUSTRY. NEW OPPORTUNITIES. IT'S ALL HEADING OUR WAY.

ECONOMIC DEVELOPMENT. RESIDENTIAL CUSTOMERS ARE NOT THE ONLY ONES ATTRACTED TO THE SOUTHEAST. BUSINESS AND INDUSTRY ARE COMING HERE, TOO – WITH HELP FROM PROGRESS ENERGY. OUR ECONOMIC DEVELOPMENT TEAM IS MAKING THE RELOCATION/EXPANSION PROCESS QUICKER AND EASIER FOR COMPANIES – HELPING WITH EVERYTHING FROM SITE SELECTION TO PROVIDING CUSTOMIZED ENERGY SOLUTIONS.

Two major electric utility companies. One natural gas company. 53,700 square miles of retail service territory. More than 19,000 megawatts of generation capacity. 4,070 miles of natural gas transmission and distribution pipe. 106,000 miles of fiber-optic strands. And all of it situated in one of the fastest-

We're framing an idea big enough to house an ever-expanding market.

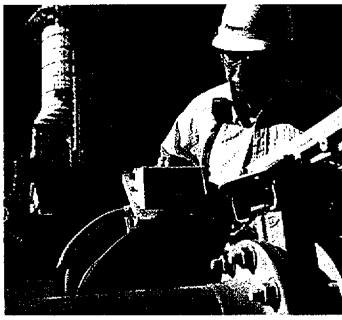
growing regions in the country. This is Progress Energy today.

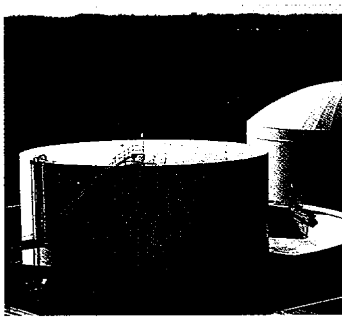
But tomorrow we'll be even bigger. The Southeast is expanding at an extraordinary rate. Housing starts are more than double the national average. Demand for energy is at an all time high. Our market base is growing by more than 60,000 new customers a year – a pace that shows no sign of slowing.

In all, Progress Energy serves more than 2.8 million customers across the Southeast, helping their worlds work by providing electricity, natural gas and broadband capacity. More than that, we provide an exceptional level of customer service. And that helps our customers' worlds work even better.

In 2000, we focused on making energy delivery even more reliable and bill payment more convenient. Both Florida Power and CP&L, for example, have introduced the option of paying bills online. Florida Power is also expanding the number of locations where customers can pay their power bills – by nearly fourfold. To improve service response, Florida Power equipped a large portion of its service fleet with computers and wireless technologies, giving field crews quick online access to critical information. CP&L equipped its fleet previously. Combined, CP&L and Florida Power have invested millions in new wires, substations, transformers and other delivery enhancements during the past three years – boosting overall electric service reliability to record highs. And for the third year in a row, CP&L was named winner of the Edison Electric Institute's Emergency Response Award. At Progress Energy, reliability is something we'll never outgrow.

POWER SURGE. Peaking generation was up in 2000. The big news: we brought our new Wayne County peaking plant online. Our next step: double the capacity of our existing Monroe, Georgia, merchant plant.





Progress is Converging. AT PROGRESS ENERGY, WE'RE STRENGTHENING OUR CULTURE. BRINGING TOGETHER THE RIGHT MIX OF COMPONENTS. LIKE 16,000 TALENTED, EXPERIENCED PEOPLE. A COMBINED SERVICE HISTORY OF NEARLY 200 YEARS. ONE SHARED VISION FOR SUCCESS.

The synergies gained by the combination of CP&L Energy and Florida Progress involve more than just our infrastructure.

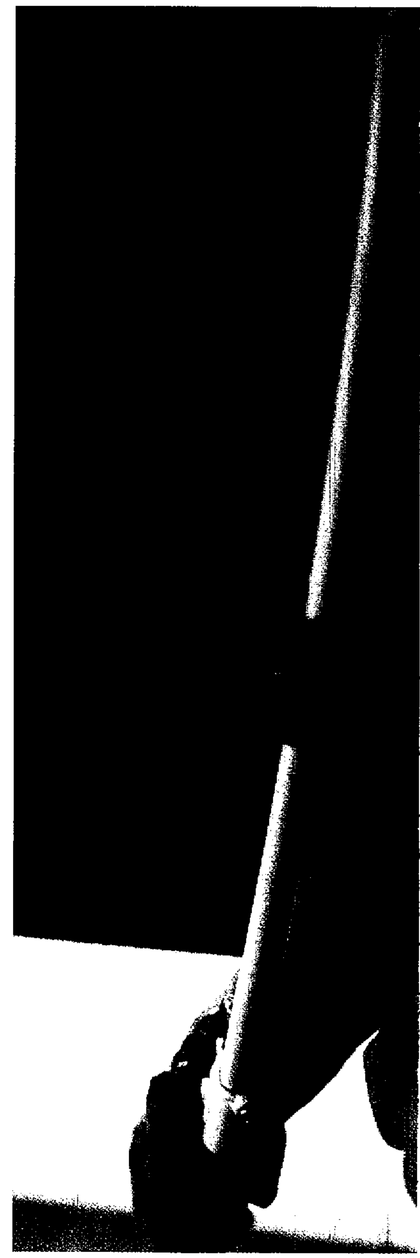
We're developing a culture energized enough to push performance to new heights.

They involve people. Progress Energy people. Smart, reliable, confident, resourceful – together they are helping to define a new, broader mindset for Progress Energy. One that's focused not only on ideas, but on action.

Ours is a performance-based culture. And nowhere is that performance more evident than in our storm response. After a winter storm dumped more than 20 inches of snow on Raleigh and south-central North Carolina last January, we recovered in record time, restoring power within 24 hours to 78 percent of the 173,000 CP&L customers who were without electricity. Within three days, our crews had restored power to more than 90 percent of our affected customers. Florida battled the weather, too. After Hurricane Gordon came ashore in September 2000, Florida Power crews worked tirelessly, restoring power within 24 hours to more than 92 percent of the 198,000 customers who had lost it.

As our culture grows more dynamic, it grows more diverse – leading us to explore new opportunities. Our lines of business are expanding. Energy Ventures, a new organization within Progress Energy, was created to manage and grow our non-regulated generation assets and wholesale energy marketing and trading. SRS (Strategic Resource Solutions), our energy solutions subsidiary, is an industry leader in integrated energy and facility management solutions for multi-site enterprises. SRS helps school districts, department store chains and other clients save substantially on energy costs. Progress Telecom, our fiber-optic subsidiary, carries digital traffic along the East Coast, providing broadband capacity to carriers like MCI WorldCom and Verizon Wireless. At Progress Energy, we're advancing in all the right directions.

QUICK RESPONSE. Problem? Progress Energy's 525 customer service representatives have the solution – 24 hours a day, seven days a week.



COMMUNITY INVOLVEMENT. Progress Energy's culture doesn't stop at the front door. It extends into the communities we serve through countless hours of community service donated by our employees. And through philanthropic support for education, economic development and the environment provided by the Progress Energy Foundation.

Progress is Innovating. INFRASTRUCTURE. KNOWLEDGE. RELIABILITY. THAT'S WHAT KEEPS THE LIGHTS BURNING. BUT TO MOVE FORWARD IN THE ENERGY BUSINESS, IT TAKES NEW IDEAS, NEW WAYS OF LEVERAGING CORE STRENGTHS. AT PROGRESS ENERGY, WE'RE PUTTING BOTH INTO ACTION.

INFORMATION TECHNOLOGY. THE HEART OF OUR INFRASTRUCTURE ISN'T ONLY A GENERATION PLANT, BUT THE TECHNOLOGY THAT OPERATES IT. PROGRESS ENERGY LEVERAGES ITS WORLD-CLASS INFORMATION TECHNOLOGY CAPABILITIES IN MANY WAYS – FROM ENHANCING CUSTOMER SERVICE TO MAKING FACILITIES MANAGEMENT MORE EFFICIENT. REASON ENOUGH TO BE NAMED ONE OF THE NATION'S MOST INNOVATIVE USERS OF INFORMATION TECHNOLOGY IN THE 12TH ANNUAL INFORMATIONWEEK 500.

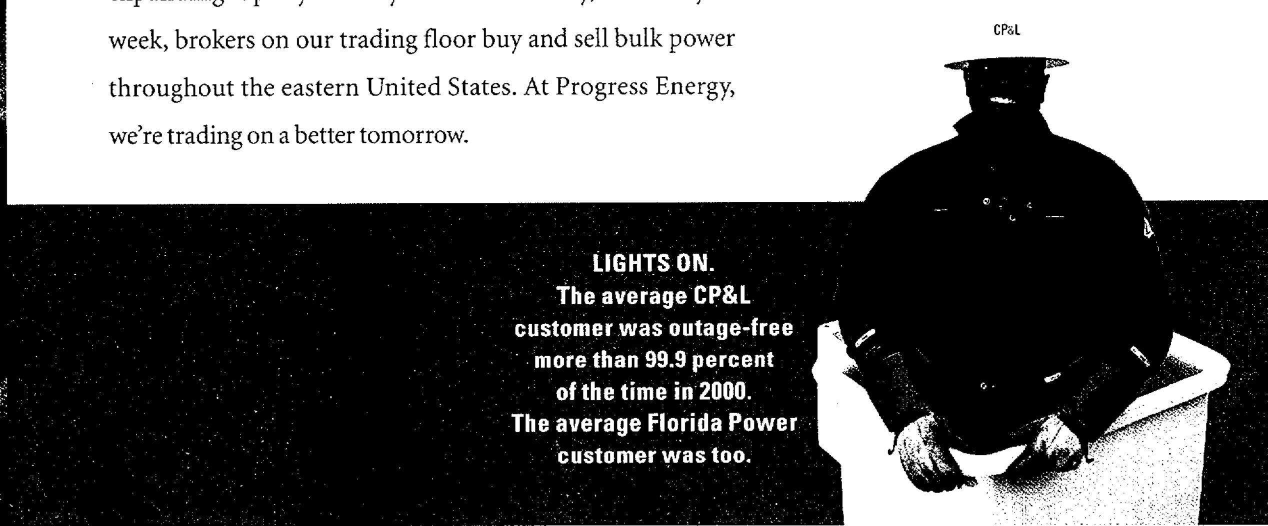
At Progress Energy, we deliver natural gas and electricity to a diverse, growing customer base throughout the Southeast. But some of the greatest opportunities for growth now lie elsewhere – on the non-regulated side of our generation business.

Altogether, Progress Energy operates 32 power plants in Florida, the Carolinas and Georgia, with a combined capacity of more than 19,000 megawatts. An additional 1,200 megawatts will be added in 2001. Much of the new capacity will be "peaking power," reserve electric power needed to meet high customer demand. Not all of that demand comes from our retail customers, however. In 2000, we signed a five-year contract to supply Duke Power with peaking capacity and energy. In addition, through our Wholesale Energy marketing organization, we sell non-regulated on-demand power to municipalities and other resellers in the Southeast. And we continue to provide generation capacity and energy to municipal electric utilities in Georgia. Construction is underway on a second combustion-turbine unit at our Monroe, Georgia, merchant plant, and we are in the process of building on a second merchant power plant site in Effingham County, Georgia, near Savannah.

EFFICIENCY BOOST. Florida Power's line crews also handle the build-out of Progress Telecom's fiber-optic network.

We're building a generation strategy strong enough to support the future.

Energy trading is another non-regulated area that is expanding rapidly. Twenty-four hours a day, seven days a week, brokers on our trading floor buy and sell bulk power throughout the eastern United States. At Progress Energy, we're trading on a better tomorrow.



LIGHTS ON. The average CP&L customer was outage-free more than 99.9 percent of the time in 2000. The average Florida Power customer was too.

BOARD OF DIRECTORS

EDWIN B. BORDEN
President
The Borden Manufacturing Co.
(textile management services)
Goldsboro, NC
Elected to the board in 1985

DAVID L. BURNER
Chairman, President and
Chief Executive Officer
The BF Goodrich Co.
(aerospace, specialty chemicals
and industrial products)
Charlotte, NC
Elected to the board in 1999

WILLIAM CAVANAUGH III
Chairman, President and
Chief Executive Officer
Progress Energy, Inc.
Raleigh, NC
Elected to the board in 1993

CHARLES W. COKER
Chairman
Sonoco Products Co.
(manufacturer of paperboard
and paper and plastic
packaging products)
Hartsville, SC
Elected to the board in 1975

RICHARD L. DAUGHERTY
Executive Director
NCSU Research Corp.
(Centennial Campus development)
Raleigh, NC
Elected to the board in 1992

RICHARD KORPAN
Retired Chairman, President
and Chief Executive Officer
Florida Progress Corporation
Golden, CO
Elected to the board in 2000

W. D. "BILL" FREDERICK, JR.
Citrus grower and rancher
Orlando, FL
Elected to the board in 2000

ESTELL C. LEE
President
The Lee Company
(building supplies company)
Wilmington, NC
Elected to the board in 1988

WILLIAM O. MCCOY
Franklin Street Partners
(investment management)
Chapel Hill, NC
Elected to the board in 1996

E. MARIE MCKEE
Senior Vice President
Corning, Inc.
(developer of technologies
for glass, ceramics, fiber optics
and photonics)
Corning, NY
Elected to the board in 1999

JOHN H. MULLIN, III
Chairman
Ridgeway Farm, LLC
(timber management)
Brookneal, VA
Elected to the board in 1999

RICHARD A. NUNIS
Retired Chairman of
Walt Disney Parks and Resorts,
and President, New Business
Solutions, Inc.
Orlando, FL
Elected to the board in 2000

J. TYLEE WILSON
Retired Chairman and
Chief Executive Officer
RJR Nabisco, Inc.
Ponte Vedra Beach, FL
Elected to the board in 1987

JEAN GILES WITTNER
President
Wittner & Co., Inc. and subsidiaries.
(real estate management
and insurance brokerage
and consulting)
St. Petersburg, FL
Elected to the board in 2000

EXECUTIVE AND SENIOR OFFICERS

WILLIAM CAVANAUGH III
Chairman, President
and Chief Executive Officer

ROBERT B. MCGEHEE
Executive Vice President
President and
Chief Executive Officer
Progress Energy Service Company

WILLIAM D. JOHNSON
Executive Vice President,
General Counsel and Secretary

PETER M. SCOTT III
Executive Vice President and
Chief Financial Officer

H. WILLIAM HABERMEYER, JR.
President and
Chief Executive Officer
Florida Power Corporation

TOM D. KILGORE
President and
Chief Executive Officer
Progress Energy Ventures, Inc.

WILLIAM S. ORSER
Group President - Energy Supply *

DONALD K. DAVIS
Executive Vice President -
Energy Services *

FRED N. DAY IV
Executive Vice President -
Energy Delivery *

C. S. HINNANT
Senior Vice President -
Nuclear Generation *

E. MICHAEL WILLIAMS
Senior Vice President -
Power Operations *

WAYNE C. FOREHAND
Senior Vice President -
Energy Delivery
Florida Power Corporation

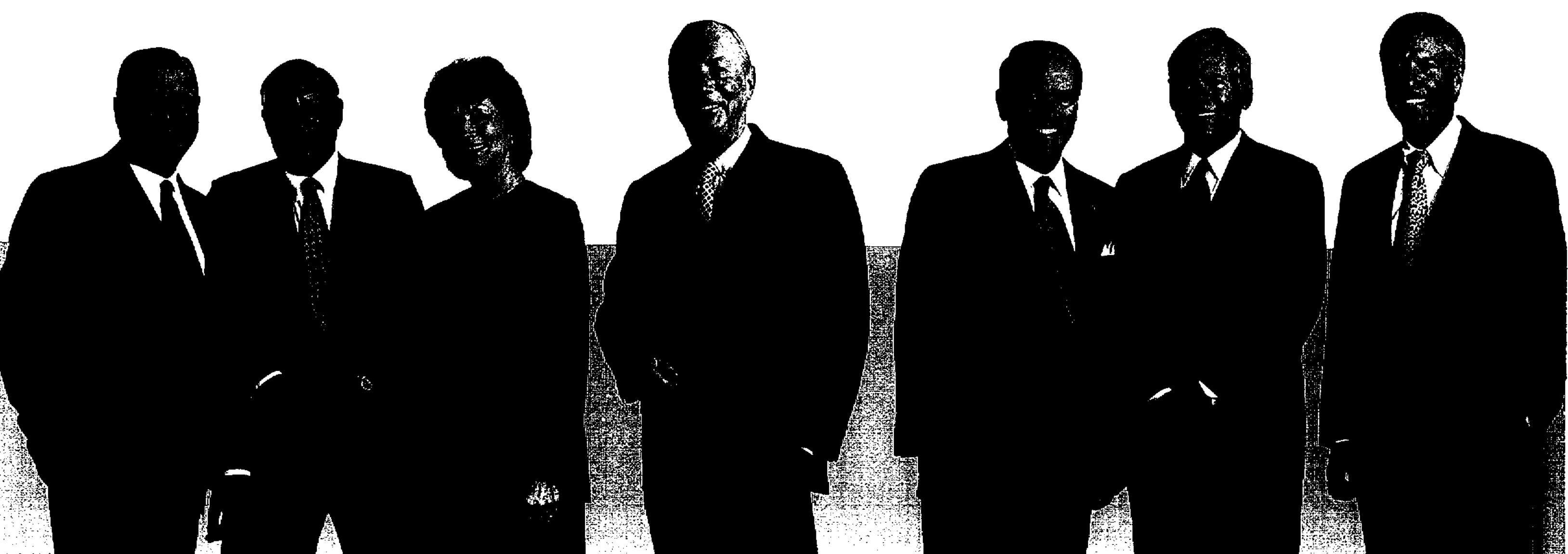
CECIL L. GOODNIGHT
Senior Vice President -
Administrative Services +

BONNIE V. HANCOCK
Senior Vice President –
Finance and
Information Technology +

* Carolina Power & Light Company
and Florida Power Corporation

\+ Progress Energy Service Company

STANDING, LEFT TO RIGHT:
DAVID L. BURNER, RICHARD KORPAN, JEAN GILES WITTNER, J. TYLEE WILSON, WILLIAM CAVANAUGH III, W.D. "BILL" FREDERICK, JR., JOHN H. MULLIN, III, CHARLES W. COKER, RICHARD A. NUNIS, EDWIN B. BORDEN, ESTELL C. LEE, WILLIAM O. MCCOY, E. MARIE MCKEE, RICHARD L. DAUGHERTY



Progress Report

FINANCIAL REVIEW

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RESULTS OF OPERATIONS

FOR 2000 AS COMPARED TO 1999 AND 1999 AS COMPARED TO 1998

In this section, earnings and the factors affecting them are discussed. The discussion begins with a general overview, then separately discusses earnings by business segment.

OVERVIEW

Progress Energy, Inc. (Progress Energy or the Company) was initially formed as CP&L Energy, Inc. (CP&L Energy), which was the holding company into which Carolina Power & Light Company (CP&L) reorganized on June 19, 2000. All shares of common stock of CP&L were exchanged for an equal number of shares of CP&L Energy. On December 4, 2000, the Company changed its name from CP&L Energy to Progress Energy, Inc.

The Company's acquisition of Florida Progress Corporation (FPC) became effective on November 30, 2000. The acquisition was accounted for using the purchase method of accounting. As a result, the consolidated financial statements for 2000 reflect 12 months of operations for CP&L Energy and one month of operations for FPC.

The operations of Progress Energy and its subsidiaries are divided into four major categories: two electric utilities (both CP&L and Florida Power Corporation), a natural gas utility and other. The other category includes non-regulated energy businesses including merchant energy generation and coal and synthetic fuel operations. The other category also provides various products and services for energy and facility management and telecommunications and includes holding company operations.

In 2000, net income was $478.4 million, a 26.1% increase over $379.3 million in 1999. Basic earnings per share increased from $2.56 per share in 1999 to $3.04 per share in 2000. Continued customer growth and usage and tax credits from Progress Energy's share of synthetic fuel facilities positively affected earnings. Other significant events included the sale of a 10% limited partnership interest in BellSouth Carolinas PCS for a $121.1 million after-tax gain, additional accelerated depreciation of nuclear generation facilities for a $193 million after-tax effect and the December operations of FPC. Florida Progress Corporation contributed net income of $28.7 million for the month of December 2000. The Company issued 46.5 million shares of common stock in connection with the acquisition of FPC, which resulted in a dilution of earnings per common share.

In 1999, Progress Energy's net income was $379.3 million, a 4.3% decrease from $396.3 million in 1998. Basic earnings per share decreased from $2.75 in 1998 to $2.56 in 1999. Earnings were negatively affected by the effects of Hurricanes Dennis and Floyd, a decline in electric sales to industrial customers and a decline in electric revenues due to increased utilization of the real-time pricing tariff. Continued customer growth and the addition of North Carolina Natural Gas Corporation (NCNG) on July 15, 1999, positively affected net income. The Company issued 8.3 million shares of common stock in connection with the acquisition of NCNG, which resulted in a dilution of earnings per common share.

ACQUISITION

On November 30, 2000, the Company completed its acquisition of FPC for an aggregate purchase price of approximately $5.4 billion. The Company paid cash consideration of approximately $3.5 billion and issued 46.5 million common shares valued at approximately $1.9 billion. In addition, the Company issued 98.6 million contingent value obligations (CVO) valued at approximately $49.3 million. See Note 2A to the consolidated financial statements for additional discussion of the FPC acquisition.

Progress Energy funded the cash portion of the acquisition with commercial paper, backed by a credit facility. Progress Energy replaced a majority of the short-term financing with long-term senior notes during the first quarter of 2001. See "Financing Actitivities" discussion under LIQUIDITY AND CAPITAL RESOURCES for more details.

The acquisition was accounted for by Progress Energy using the purchase method of accounting. Preliminary goodwill of approximately $3.4 billion has been recorded and is being amortized on a straight-line basis over a period of primarily 40 years. One month of amortization, or approximately $7.0 million, was recorded in 2000. As part of the North Carolina Utilities Commission (NCUC) order approving the acquisition, Progress Energy agreed to have CP&L exclude all cost increases attributable to the acquisition from retail rates. Management expects synergies from the combination of the two companies to offset the amortization of goodwill.

Progress Energy has announced its intention to sell two of its non-utility business segments acquired in the transaction, Rail Services and Inland Marine Transportation. Therefore, the results of operations of these segments are not included in Progress Energy's consolidated earnings and the related assets and liabilities are presented as net assets held for sale on the consolidated balance sheet.

As part of the acquisition of FPC, Progress Energy is now a holding company whose subsidiaries operate in multiple states. Therefore, Progress Energy is now registered with, and subject to, regulation by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935, as amended (PUHCA). Pursuant to the SEC's order dated November 27, 2000, the Company has committed to divest of certain immaterial non-utility businesses. The Company has also agreed to file a response with the SEC by November 30, 2001, that will either provide a legal basis for retaining certain other non-utility businesses or a commitment to divest of those businesses.

ELECTRIC

The electric segment is primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina by CP&L and, since November 30, 2000, in portions of Florida by Florida Power Corporation (Florida Power). The territory in the Carolinas served by CP&L includes a substantial portion of the coastal plain of North Carolina extending to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont section of North Carolina, an area in northeastern South Carolina, and an area in western North Carolina in and around the city of Asheville. CP&L serves an area of approximately 34,000 square miles, with a population of approximately 4.2 million. As of December 31, 2000, CP&L provided electricity to approximately 1.2 million customers. The Florida territory served by Florida Power is in the west central part of the state, including the area around Orlando and the cities of St. Petersburg and Clearwater. Florida Power serves an area of approximately 20,000 square miles, with a population of approximately 4.5 million. As of December 31, 2000, Florida Power provided electricity to approximately 1.4 million customers.

The operating results of both electric utilities are primarily influenced by customer demand for electricity, the ability to control costs and the authorized regulatory return on equity. Annual demand for electricity is based on the number of customers and their annual usage, with usage largely impacted by weather. Operating results are primarily influenced by the level of electric sales to each electric utility's customer base and the costs associated with those sales.

CP&L

REVENUES

CP&L's electric revenue fluctuations as compared to the prior year were due to the following factors (in millions):

	2000	1999
Customer growth & usage	$ 114	$ 50
Weather	55	(14)
Price	(16)	(31)
Sales to Power Agency	12	–
Sales to other utilities	18	4
Other	2	–
Total Increase	$ 185	$ 9

An increase in the number of customers served and changes in usage patterns contributed to revenue increases for both periods. CP&L added over 33,000 new customers in 2000 and 29,700 in 1999. Residential and commercial sales increased in both periods. Industrial sales usage increased in 2000 after declining in 1999. Industrial sales in 2000 were boosted by the textile industry and lumber and wood industry, which experienced increased market demand. This increase was partially offset by the chemicals and paper industries, which continued to decline. The increase in the weather component for 2000 is primarily attributable to the fourth quarter when colder-than-normal weather conditions existed. The decrease in the weather component for 1999 reflects overall milder-than-normal weather conditions compared to 1998.

The change in price in 2000 reflects decreases in wholesale prices and the continuing effects of the real-time pricing rate schedule. For the 1999 comparison period, the price-related decrease is due to increased utilization of the real-time pricing tariff, which went into effect in late 1998. Sales to North Carolina Eastern Municipal Power Agency (Power Agency) and sales to other utilities each increased in 2000 after remaining relatively flat in the prior period. The increase in revenue related to sales to Power Agency is primarily due to increased usage due to colder-than-normal weather in the fourth quarter. The increase in sales to other utilities was primarily due to increased demand due to weather and competitive prices in the fourth quarter.

EXPENSES

CP&L had an increase in fuel expense in 2000, primarily due to increases in volume and increases in fuel prices associated with gas- and oil-fired units. For 1999, the change in fuel expense primarily reflects changes in the Company's generation mix.

For the 2000 and 1999 comparison periods, purchased power decreased due mainly to the expiration of CP&L's long-term purchase power agreement with Duke Energy in mid-1999. Additionally, 2000 reflects a decrease in purchases from cogeneration facilities.

CP&L's other operation and maintenance expenses increased in 2000 due to increases in benefit plan-related expenses and emission allowances. For the 1999 comparison period, other operation and maintenance expenses were negatively affected by $28.6 million of storm restoration expenses incurred as a result of Hurricanes Dennis and Floyd, as well as an increase in general and administrative expenses.

Emission allowance expense of $16 million that was recorded in 2000 was reversed in 2001 and recorded as a regulatory asset pursuant to an order received on January 5, 2001 from the NCUC allowing CP&L to defer these costs for future recovery. A total of $23 million was expensed in 2000. See "Retail Rate Matters" discussion under OTHER MATTERS for more details.

Depreciation expense increased substantially in 2000 over 1999. As approved by regulators, CP&L recorded an additional $275 million to depreciation expense in 2000 related to accelerated cost recovery of nuclear generating assets. Depreciation expense for 1999 included $68 million of accelerated amortization related to certain regulatory assets. See "Retail Rate Matters" discussion under OTHER MATTERS for more details.

Interest expense increased over 1999 due to higher short-term interest rates and higher debt balances. Debt balances increased to fund construction programs.

FLORIDA POWER

Florida Power, a subsidiary of FPC, is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity in portions of Florida. As of December 31, 2000, Florida Power operated a system of 14 power plants with installed generating capacity of over 8,000 megawatts, of which 61% was gas/oil, 29% was coal and 10% was nuclear.

Progress Energy's operating results include only the month of December 2000 for Florida Power after the acquisition was completed. Electric operating revenues were $241.6 million, while fuel and purchased power expenses were $98.9 million and other operation and maintenance expenses totaled $50.3 million. Revenues and kWh sales in December 2000 were favorably affected by colder-than-normal weather conditions. Florida Power's operations contributed net income of $21.8 million.

NATURAL GAS

On July 15, 1999, the Company acquired NCNG, a natural gas utility. NCNG transports, distributes and sells natural gas to approximately 173,000 residential, commercial, industrial, wholesale and electric power generation customers. NCNG serves 110 towns and cities and four municipal gas distribution systems in south central and eastern North Carolina. Natural gas operations are subject to the rules and regulations of the NCUC.

The ability to offer natural gas to customers furthers Progress Energy's strategy to be a total energy provider while securing fuel supplies for planned gas-fired electric generation. To this end, construction of the 84-mile Sandhills Pipeline in North Carolina, from Iredell County to CP&L's Richmond County combustion turbine generation site, is scheduled to be completed in the spring of 2001 to coincide with the first phase of CP&L's Richmond County Plant.

Another project, Eastern NCNG (ENCNG), is proceeding with construction of a pipeline that will bring natural gas transmission and distribution to 14 eastern North Carolina counties over the next three to five years. CP&L and the Albemarle-Pamlico Economic Development Corporation (APEC) will be the joint owners of the operations of ENCNG, which will be subject to the rules and regulations of the NCUC. On June 15, 2000, the NCUC issued an order awarding ENCNG an exclusive franchise for all 14 counties and granted $38.7 million in state bond funding for phase one of the project. Phase one, which will cost a total of $50.5 million, will bring gas service to 6 of the 14 counties. The NCUC will consider approval of bond funding for subsequent phases of the project at a later date. The Company cannot predict the outcome of this matter.

The natural gas segment only includes NCNG's regulated utility operations. For the year ending December 31, 2000, natural gas revenues totaled $324.5 million, while gas purchased for resale totaled $250.9 million. These amounts reflect increases in the market price of natural gas during 2000. NCNG was able to file four rate increases during 2000 to keep pace with these market price increases and also filed two additional rate increases that were effective on January 1, 2001, and February 1, 2001.

The ability to pass the increases in the market price of gas costs through to the customers on a timely basis reduces NCNG's exposure to market fluctuations. Commodity gas costs tracked in rates are compared to the actual commodity gas costs incurred with the differences either charged to or returned to customers, as appropriate, through NCNG's deferred gas cost mechanism. NCNG defers gas costs incurred in meeting customer demand that exceed, or are less than, a benchmark gas cost rate charged to customers.

It is not anticipated that the recent increases in the market price of gas will have a material adverse effect on the consolidated results of operations, cash flows or financial position of the Company.

The natural gas segment contributed net income of $7.1 million and $1.3 million in 2000 and 1999, respectively.

OTHER

Progress Energy's other segment primarily includes Strategic Resource Solutions Corp. (SRS), Progress Energy Ventures, Inc. (Energy Ventures), Progress Capital Holdings, Inc. (Progress Capital), Progress Telecommunications Corporation (Progress Telecom), and Caronet, Inc. (Caronet). This segment also includes other non-regulated operations of CP&L, FPC and NCNG, as well as holding company results.

SRS serves the educational, governmental, commercial and industrial markets by providing software, systems and services for facility and energy management purposes. In 2000, SRS's operations achieved profitability due to strong revenue growth in the education and federal markets and a continued focus on reducing overhead costs. For the 1999 period, SRS's operating losses were $9.9 million, down from a $34.7 million loss in 1998. This improved performance was attributable to large performance contracts in the education and federal markets, as well as strong sales in commercial and industrial building automation.

Energy Ventures is a subsidiary created in 2000 that is involved in the development and construction of gas-fired merchant generation plants and has an ownership interest in two synthetic fuel facilities. Effective January 1, 2001, Energy Ventures assumed ownership of Monroe Power, a non-regulated merchant plant located in Monroe, Georgia, that began operations in December 1999. Monroe Power contributed operating income of $4.5 million for the year ended December 31, 2000, on contracted

capacity and energy sales. Monroe is adding an additional generating unit in the second quarter of 2001 that will provide additional output and contracted sales in the future.

Progress Capital is a holding company for FPC's diversified operations led by Electric Fuels Corporation (EFC), an energy and transportation company. EFC has three primary business segments: Rail Services, Inland Marine Transportation and Energy & Related Services. Rail Services and Inland Marine Transportation are currently reported as net assets held for sale on the Progress Energy consolidated financial statements and have been excluded from consolidated results of operations. Energy & Related Services' operating results are primarily affected by the supply and demand for low-sulfur coal, natural gas and the demand for a coal-based synthetic fuel. EFC has an ownership interest in nine synthetic fuel facilities that combine a chemical change agent with coal fines to produce a synthetic fuel. EFC is currently responsible for managing all of Progress Energy's synthetic fuel facilities.

Progress Telecom, acquired as part of the FPC acquisition, provides broadband capacity services, dark fiber and wireless services in Florida and the Southeast United States. Progress Telecom's operations for the month of December did not have a significant effect on Progress Energy's results of operations. In December 2000, Progress Telecom signed an important agreement with Emergia, a subsidiary of Telefonica, to be the preferred U.S. provider handling international telecommunications traffic to and from South America. Additionally, Progress Telecom will complete the integration of its fiber network with CP&L's Caronet network (see discussion below) in the first quarter of 2001, giving it a fiber network stretching from southern Florida to Washington, D.C.

Caronet serves the telecommunications industry by providing fiber-optic telecommunications services. Effective June 28, 2000, Caronet, formerly reported as Interpath, contributed the net assets used in its application service provider business to a newly formed company for a 35% ownership interest (10% voting interest). Therefore, the application service provider revenues are not reflected in the Progress Energy consolidated financial statements subsequent to that date. On September 28, 2000, Caronet sold its 10% limited partnership interest in BellSouth Carolinas PCS for a pre-tax gain of $200 million, which is recorded as other income. Caronet's operating losses were $66.1 million and $44.6 million in 2000 and 1999, respectively.

The other segment also includes Progress Energy's holding company results. As part of the acquisition of FPC, goodwill of approximately $3.4 billion was recorded and the amortization of $7.0 million is included in the other segment. As described in Note 11 to the consolidated financial statements, the holding company also recorded an $8.9 million decrease in the liability related to the CVOs. Additionally, interest expense of $28.0 million on the $3.5 billion of short-term debt used to finance the acquisition of FPC is included in these results.

Income taxes fluctuate with changes in income before income taxes. In addition, 2000 income tax expense was decreased by income tax credits generated through the synthetic fuel operations of Energy Ventures and EFC.

LIQUIDITY AND CAPITAL RESOURCES

Progress Energy is a registered holding company and, as such, has no operations of its own. While Progress Energy conducts all of its operations through its subsidiaries, the ability to meet its obligations is dependent on the earnings and cash flows of those subsidiaries and the ability of those subsidiaries to pay dividends or to advance or repay funds to Progress Energy. The following discussion of Progress Energy's liquidity and capital resources is on a consolidated basis. The consolidated results contain information for FPC since the date of acquisition.

Progress Energy continues to focus on its strategy of becoming an integrated energy holding company through its acquisition of FPC and investments in its subsidiaries.

CASH FLOWS FROM OPERATIONS

The cash requirements of Progress Energy arise primarily from the capital-intensive nature of its electric utility operations as well as the expansion of its diversified businesses. Fuel and purchased power expenses are significant operating costs for the two electric utilities, CP&L and Florida Power. Both utilities recover essentially all of these costs from customers through fuel and energy cost recovery clauses.

Cash from operations is the primary source used to meet the net cash requirements; however, approximately 20% of the total capital expenditures in 2000, excluding the acquisition of FPC, were funded by external debt. The increase in cash from operating activities for the 2000 period is largely the result of higher net income and the addition of FPC.

Going forward, cash generated from Progress Energy's regulated businesses (CP&L, Florida Power and NCNG) is expected to provide the majority of the funds for the Company's business needs. In addition, approximately 10%-15% of the Company's total projected capital expenditures for the next three years are expected to be funded by external debt.

INVESTING ACTIVITIES

Cash used in investing activities was $3.5 billion greater in 2000 than in 1999, primarily due to the acquisition of FPC. Progress Energy paid approximately $3.5 billion in cash as part of the total purchase consideration. Progress Energy's property additions increased approximately $261 million in 2000 primarily due to the expansion of the Company's generation fleet. The sale of the

Company's limited partnership interest in BellSouth Carolinas PCS resulted in cash proceeds of approximately $200 million. See Note 2 to the consolidated financial statements. In addition, Progress Energy intends to sell the Rail Services and Inland Marine Transportation business segments and would use any of the proceeds received from the sale to reduce debt.

Estimated capital requirements for 2001 through 2003 primarily reflect construction expenditures to add regulated and non-regulated generation, transmission and distribution facilities, as well as to upgrade existing facilities. Those capital requirements are reflected in the following table (in millions):

	2001	2002	2003
Construction expenditures	$ 1,522	$ 1,512	$ 1,523
Nuclear fuel expenditures	119	60	110
AFUDC	(32)	(38)	(46)
Total	$ 1,609	$ 1,534	$ 1,587

The table includes expenditures of approximately $172 million expected to be incurred at fossil-fueled electric generating facilities to comply with the Clean Air Act and approximately $300 million for the expansion of Progress Telecom's fiber network.

FINANCING ACTIVITIES

Cash provided by financing activities increased approximately $3.5 billion over 1999, primarily due to the proceeds received from the issuance of commercial paper used to fund the FPC acquisition. In addition, financing activities were marginally affected by the issuance and redemption of long-term debt.

During 2000, CP&L issued $300 million principal amount of Senior Notes and $497.6 million principal amount of variable auction-rate First Mortgage Bonds, Pollution Control Series. In addition, CP&L retired or redeemed $47.3 million principal amount of Promissory Notes, $150 million principal amount of First Mortgage Bonds and $497.6 million principal amount of variable rate Pollution Control Obligations. For the period from 2001 to 2003, the Company's mandatory retirements of long-term debt are $184 million, $182 million and $282 million, respectively.

On November 30, 2000, Progress Energy funded 65% of the acquisition cost of FPC with approximately $3.5 billion of commercial paper, backed by its $3.75 billion credit facility. The remaining 35% was funded through the issuance of 46.5 million shares of common stock.

In February 2001, Progress Energy issued $3.2 billion of senior unsecured notes with maturities ranging from three to thirty years. These notes were issued with a weighted-average coupon of 7.06%. Proceeds from this issuance were used to retire commercial paper and other short-term indebtedness issued in connection with the FPC acquisition.

As a registered holding company under PUHCA, Progress Energy obtained approval from the SEC for the issuance and sale of securities as well as the establishment of intracompany extensions of credit. As a result, Progress Energy has approval for the issuance of common stock, preferred securities and short and long-term debt. The total amount of debt of Progress Energy, excluding subsidiaries, cannot exceed $5 billion and it must also maintain a common equity ratio of at least 30%. Progress Energy also has established a utility and non-utility money pool to facilitate the efficient use of cash flows among the Company's utility and non-utility subsidiaries.

At December 31, 2000, the Company had lines of credit totaling $5.5 billion, all of which are used to support its commercial paper borrowings. The available balance of these facilities totaled $4.7 billion. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. See Note 6 to the consolidated financial statements.

Florida Power and Progress Capital have two uncommitted bank bid facilities authorizing them to borrow and re-borrow, and have loans outstanding at any time up to $100 million and $300 million, respectively. At December 31, 2000, there were no outstanding loans against these facilities.

Florida Power and CP&L both have public medium-term note programs providing for the issuance of either fixed or floating interest rate notes. At December 31, 2000, $250 million and $300 million, respectively, were available for issuance. In addition, Progress Capital has a private medium-term note program of $400 million for the issuance of either fixed or floating rate interest notes. At December 31, 2000, there were no medium-term notes outstanding under this program.

Progress Energy has on file with the SEC a shelf registration statement under which senior notes, junior debentures and other trust preferred securities are available for issuance by the Company. As of December 31, 2000, the Company had $4.0 billion available under this shelf registration. Progress Energy's issuance of $3.2 billion of senior unsecured notes in February 2001, as discussed above, reduced the amount available for issuance under this registration statement.

The following table shows Progress Energy's capital structure as of December 31, 2000 and 1999:

	2000	1999
Common Stock Equity	34.9%	49.7%
Preferred Stock of Subsidiaries	0.6%	0.9%
Short and Long-term Debt	64.5%	49.4%

The acquisition of FPC through the issuance of approximately $3.5 billion of commercial paper resulted in an increase in Progress Energy's consolidated total debt to capital ratio. The increase in leverage was the primary reason that the credit ratings of both CP&L and Florida Power were downgraded in the fall of 2000 by Standard & Poor's, Inc. (S&P) and Moody's Investor Service (Moody's).

Current ratings for senior secured, senior unsecured and commercial paper are presented below:

	CP&L	Florida Power	Progress Energy
	Moody's/ S&P	Moody's/ S&P	Moody's/ S&P
Senior Secured Notes	A3/BBB+	A1/BBB+	n/a
Senior Unsecured Notes	Baa1/BBB+	A2/BBB+	Baa1/BBB
Commercial Paper	P-2/A-2	P-1/A-2	P-2/A-2

The amount and timing of future sales of Company securities will depend on market conditions and the specific needs of the Company. The Company may from time to time sell securities beyond the amount needed to meet capital requirements in order to allow for the early redemption of long-term debt, the redemption of preferred stock, the reduction of short-term debt or for other general corporate purposes.

FUTURE OUTLOOK

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of Progress Energy's future earnings depends on numerous factors. See SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS for a discussion of factors to be considered with regard to forward-looking statements.

FPC's future operations will contribute to a substantial increase in Progress Energy's operating income. Progress Energy will also have annual amortization expense of approximately $84 million related to the $3.4 billion of preliminary goodwill recorded for the purchase of FPC. Cost savings from synergies are expected to offset the goodwill amortization. Additionally, the issuance of approximately $3.5 billion in commercial paper to consummate the FPC transaction will increase interest expense. Progress Energy refinanced the majority of this debt in February 2001 to take advantage of lower long-term interest rates.

In February 2001, the Financial Accounting Standards Board (FASB) issued a revised Exposure Draft of its proposed statement, *Business Combinations and Intangible Assets.* The revised Exposure Draft contains the FASB's tentative decisions about requiring the use of a non-amortization approach to account for goodwill. Under that approach, rather than being amortized, goodwill would be reviewed periodically for impairment. The FASB expects to issue a final statement by June 2001. The Company cannot currently predict what impact the final FASB statement will have on the Company's goodwill.

The acquisition of FPC positions Progress Energy as a regional energy company focusing on the high-growth Southeast region of the United States. Progress Energy has more than 19,000 megawatts of generation capacity and serves approximately 2.8 million customers in portions of North Carolina, South Carolina and Florida. CP&L's and Florida Power's utility operations are complementary: CP&L has a summer peaking demand, while Florida Power has a winter peaking demand. In addition, CP&L's greater proportion of commercial and industrial customers combined with Florida Power's greater proportion of residential customers creates a more balanced customer base. Successful integration of FPC and CP&L is the Company's immediate priority. The Company is dedicated to expanding the region's electric generation capacity and delivering reliable, competitively priced energy.

The traditional business of the electric and gas utilities is providing electricity and natural gas to customers within their service areas in the Carolinas and Florida. Prices for electricity provided to retail customers are set by the state regulatory commissions under cost-based regulatory principles. See Note 12 to the consolidated financial statements for additional information about these and other regulatory matters.

Future earnings for the electric and gas utilities will depend upon growth in electric energy and gas sales, which is subject to a number of factors. These factors include weather, competition, energy conservation practiced by customers, the elasticity of demand, and the rate of economic growth in the traditional service area.

Regulatory issues facing Progress Energy are discussed in the "Current Regulatory Environment" discussion under OTHER MATTERS below.

Progress Energy is focused on both regulated and non-regulated generation expansion, power marketing and synthetic fuel production. The Company will continue to prepare for deregulation as it grows Progress Energy's generation fleet. Additional generation capacity is planned to serve the growth expected in the Company's service territories, to increase reserve margins at the regulated subsidiaries, and to take advantage of merchant generation opportunities. The Company will continue to assess the appropriate mix between regulated and non-regulated generation capacity, taking into account anticipated demand within its service territories, financing considerations, regulatory requirements and other factors. The Company is also considering moving generation currently planned for its regulated utilities into a non-regulated entity, which would require regulatory approval.

Progress Energy's electric utilities are involved in the development of the GridSouth Regional Transmission Organization (RTO) with Duke Energy Corporation and South Carolina Electric and Gas Company, and the GridFlorida RTO, with Florida Power & Light Company and Tampa Electric Company. The Company continues to assess the structural options that may be available to maximize the value of its transmission assets. Refer to the "Current Regulatory Environment" discussion under OTHER MATTERS below for further discussion of

transmission and the Company's compliance with Federal Energy Regulatory Commission (FERC) Order No. 2000.

The Company is focused on both the distribution and retail components, delivering a high-level of customer service while offering value-added products and services to its customers. The Company will emphasize maintenance and enhancement of infrastructure, power quality and reliability, and work to establish appropriate codes of conduct to insure efficient recovery of any capital investment in energy delivery.

The fiber assets of Caronet and Progress Telecom are being combined under the management of Progress Telecom with a focus primarily on the carriers' carrier business. Management believes that there are synergies with the infrastructure service capabilities of its core businesses and Progress Telecom. The Company expects to complete the extension of the network within its current "footprint" (from Washington, D.C. to Miami, Florida, including Virginia, North Carolina, South Carolina and Georgia) and partner with others to gain access to capacity outside this region. The Company will focus on lit fiber expansion (with electronics attached), with some expansion of its dark fiber capacity.

Compliance costs related to current and future environmental laws and regulations could affect earnings if such costs are not fully recovered. The Clean Air Act and other important environmental items are discussed in "Environmental Matters" under OTHER MATTERS below.

As regulated entities, both electric utilities and the gas utility are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, the utilities record certain assets and liabilities resulting from the effects of the ratemaking process, which would not be recorded under generally accepted accounting principles for unregulated entities. The utilities' ability to continue to meet the criteria for application of SFAS No. 71 may be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS No. 71 no longer applied to a separable portion of the utilities' operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of utility plant assets as determined pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

OTHER MATTERS

CURRENT REGULATORY ENVIRONMENT

GENERAL

The Company's electric and gas utility operations in North Carolina, South Carolina and Florida are regulated by the NCUC, the Public Service Commission of South Carolina (SCPSC) and the Florida Public Service Commission (FPSC), respectively. The electric businesses are also subject to regulation by FERC, the U.S. Nuclear Regulatory Commission (NRC) and the U.S. Environmental Protection Agency (EPA), and by environmental authorities in the states in which they operate. In addition, the Company is subject to regulation by the SEC as a registered holding company under PUHCA. As a result of regulation, many of the fundamental business decisions, as well as the rate of return the Company is permitted to earn, are subject to the approval of governmental agencies.

FPC has previously entered into a stipulation agreement committing several parties not to seek any reduction in Florida Power's base rates or authorized range of return on equity. That agreement expires on June 30, 2001.

On July 7, 2000, the FPSC opened a docket to review Florida Power's earnings including the effects of the acquisition by Progress Energy. The FPSC's decision is expected by late March 2001.

ELECTRIC INDUSTRY RESTRUCTURING

CP&L and Florida Power continue to monitor progress toward a more competitive environment and have actively participated in regulatory reform deliberations in North Carolina, South Carolina and Florida. Movement toward deregulation in these states has been affected by recent developments related to deregulation of the electric industry in California.

• **North Carolina.** On January 24, 2001, the Commission on the Future of Electric Service in North Carolina announced that it would not recommend any new laws on electricity deregulation to the 2001 session of the North Carolina General Assembly, citing the commission's determination that more research is needed. The commission's initial report to the General Assembly, issued on May 16, 2000, had contained several proposals, including a recommendation that electric retail competition should begin in North Carolina by 2006. In its January 24, 2001 announcement, the commission also requested that the NCUC consider regulatory changes to facilitate the construction of wholesale generation facilities by private companies, including the elimination of requirements that such companies provide proof of a committed customer base and need for additional power in order to obtain operating licenses.

• **South Carolina.** The Company expects the South Carolina General Assembly will continue to monitor the experiences of states that have implemented electric restructuring legislation.

• **Florida.** On January 31, 2001, the Florida 2020 Study Commission voted to forward a "proposed outline for wholesale restructuring" to the Florida legislature for its consideration in the 2001 session. The legislative session begins during the first week of March and concludes during the first week of May. The wholesale restructuring outline is intended to facilitate the evolution of a more robust wholesale marketplace in Florida.

Some of the key provisions proposed include:

- independent power producers, including affiliates of utilities, would be allowed to compete in the Florida wholesale market;
- continued recovery of contract cost under the Public Utilities Regulatory Policies Act of 1978 (current recovery of these costs is made through capacity recovery clauses);
- generating assets owned by regulated utilities would be transferred at net book value to affiliates (nuclear asset transfer would be optional);
- capacity from transferred generating assets would be committed back to the utility using cost-based transition contracts which phase out over a six year period;
- following the transition period, all new capacity, including that acquired from utility affiliates, would be acquired competitively in the open market;
- utilities would continue to have to prove that the means by which they acquire power are prudent and result in the lowest acquisition cost; and
- existing base rates would be frozen for three years (base rates cover costs not recovered through pass-through clauses - fuel, purchased power and energy conservation expenses - and these would continue under the recommendations).

Management cannot predict whether the Florida legislature will act on any of the study commission's recommendations or what impact the recommendations would have on the Company if adopted as proposed. The study commission has a deadline of December 2001 to propose recommendations with respect to retail restructuring, but the Company cannot predict the timing or substance of any such recommendations.

The Company cannot anticipate when, or if, any of these states will move to increase competition in the electric industry.

REGIONAL TRANSMISSION ORGANIZATIONS

On December 20, 1999, FERC issued Order No. 2000 on RTOs. The Order required public utilities that own, operate or control interstate electricity transmission facilities to have filed, by October 2000, either a proposal to participate in an RTO or an alternative filing describing efforts and plans to participate in an RTO. To date, the Company's electric utilities have responded to the order as follows:

- **CP&L.** In October 2000, CP&L, along with Duke Energy Corporation and South Carolina Electric & Gas Company, filed with FERC an application for approval of a for-profit transmission company, currently named GridSouth. The three companies are continuing to make progress in developing GridSouth and are planning to make a supplemental filing to the original GridSouth RTO application in the first quarter of 2001.

- **Florida Power.** In October 2000, Florida Power, along with Florida Power & Light Company and Tampa Electric Company, filed with FERC an application for approval of an RTO for peninsular Florida, currently named GridFlorida. On January 10, 2001, FERC rendered a positive order on certain aspects of the GridFlorida RTO application, specifically governance and certain financial obligations. The three companies are continuing to make progress towards the development of GridFlorida.

ENERGY COSTS PROVISIONS

Operating costs not covered by a utility's base rates include increases in fuel, purchased power and energy conservation expenses. Each state commission allows electric utilities to recover certain of these costs through various cost recovery clauses, to the extent the respective commission determines in an annual hearing that such costs are prudent. Costs recovered by the Company's electric utilities, by state, are as follows:

- **North Carolina** – fuel costs and the fuel portion of purchased power;
- **South Carolina** – fuel costs, purchased power costs, and emission allowance expense; and
- **Florida** – fuel costs, purchased power costs and energy conservation expenses.

Each state commission's determination results in the addition of a rider to a utility's base rates to reflect the approval of these costs and to reflect any past over- or under-recovery. Due to the regulatory treatment of these costs and the method allowed for recovery, changes from year to year have no material impact on operating results.

Additionally, the natural gas utility is allowed to recover the difference between the actual gas costs incurred and the gas costs collected from its customers. Therefore, any past over- or under-recovery is refunded or collected, as applicable, through the use of a deferred gas account.

RETAIL RATE MATTERS

The NCUC and SCPSC approved proposals to accelerate cost recovery of CP&L's nuclear generating assets beginning January 1, 2000, and continuing through 2004. The accelerated cost recovery began immediately after the 1999 expiration of the accelerated amortization of certain regulatory assets. Pursuant to the orders, CP&L's accelerated depreciation expense for nuclear generating assets was set at a minimum of $106 million with a maximum of $150 million per year. In late 2000, CP&L received approval from the NCUC and the SCPSC to further accelerate the cost recovery of its nuclear generation facilities in 2000 by $125 million. This additional depreciation will allow CP&L to reduce the minimum annual depreciation in 2001 through 2004 to $75 million. The resulting total accelerated depreciation in 2000 was $275 million. Recovering the costs of its nuclear generating assets on an accelerated basis will better

position CP&L for the uncertainties associated with potential restructuring of the electric utility industry.

In June 2000, CP&L filed a request with the NCUC seeking approval to defer sulfur dioxide (SO2) emission allowance expenses, effective as of January 1, 2000, for recovery in a future general rate case proceeding or by such other means as the NCUC may find appropriate. On January 5, 2001, the NCUC issued an order authorizing CP&L to defer, effective January 1, 2000, the cost of SO2 emission allowances purchased pursuant to the Clean Air Act. Emission allowance expense of $16 million that was recorded in 2000 was reversed in 2001 and recorded as a regulatory asset. The ratemaking treatment of the regulatory asset has not been determined. CP&L is allowed to recover emission allowance expense through the fuel clause adjustment in its South Carolina retail jurisdiction.

In conjunction with the acquisition of NCNG, CP&L agreed to cap base retail electric rates in North Carolina and South Carolina through December 2004. The cap on base retail electric rates in South Carolina was extended to December 2005 in conjuction with regulatory approval to form a holding company. NCNG also agreed to cap its North Carolina margin rates for gas sales and transportation services, with limited exceptions, through November 1, 2003. Management is of the opinion that this agreement will not have a material effect on the Company's consolidated results of operations or financial position.

In conjunction with the merger with FPC, CP&L reached a settlement with the Public Staff of the NCUC in which it agreed to reduce rates to all of its non-real time pricing customers by $3 million in 2002, $4.5 million in 2003, $6 million in 2004 and $6 million in 2005. CP&L also agreed to write off and forego recovery of $10 million of unrecovered fuel costs in each of its 2000 NCUC and SCPSC fuel cost recovery proceedings. Also in conjunction with the merger, the FPSC opened a docket to review Florida Power's earnings including the effects of the merger. The FPSC's decision is expected by late March 2001. The Company cannot predict the outcome of this matter.

Florida Power, with the approval of the FPSC, established a regulatory liability to defer a portion of 2000 revenues. If an alternative proposal is not filed by April 2, 2001, Florida Power will be directed to apply the deferred revenues of $63 million, plus accrued interest, to offset certain regulatory assets related to deferred purchased power termination costs.

NUCLEAR

In the Company's retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC, the SCPSC and the FPSC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdictions, the provisions for nuclear decommissioning costs are approved by FERC. See Note 1G to the consolidated financial statements for a discussion of Progress Energy's nuclear decommissioning costs.

On December 21, 2000, CP&L received permission from the NRC to double its storage capacity for spent fuel rods in Wake County, North Carolina. The NRC's decision came two years after CP&L asked for permission to open two unused storage pools at the Shearon Harris Nuclear Plant (Harris plant). The approval means CP&L can complete cooling systems and install storage racks in its third and fourth storage pools at the Harris plant. After the NRC rejected a petition for review and motion for stay, counsel for the Board of Commissioners of Orange County, North Carolina, filed a motion for stay in the District of Columbia Circuit Court of Appeals. Orange County is seeking a court order to delay the storage of fuel in the third and fourth pools. The Company cannot predict the outcome of this matter.

As required under the Nuclear Waste Policy Act of 1982, CP&L and Florida Power each entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract. See Note 19 to the consolidated financial statements for a discussion of recent spent nuclear fuel and DOE developments.

SYNTHETIC FUELS

Progress Energy, through its subsidiaries, is a majority owner in seven facilities and a minority owner in two facilities that produce synthetic fuel from coal fines, as defined under the Internal Revenue Service Code (Code). The production and sale of the synthetic fuel from these facilities qualifies for tax credits under Section 29 of the Code (Section 29) if certain requirements are satisfied, including a requirement that the synthetic fuel differs significantly in chemical composition from the coal fines used to produce such synthetic fuel. In 1999, three of the majority-owned facilities applied for and received a Private Letter Ruling (PLR) from the Internal Revenue Service (IRS) regarding several issues relating to the facilities' qualification for tax credits. During 2000, the four other majority-owned facilities applied for PLRs with the IRS. On October 26, 2000, the IRS released Revenue Procedure 2000-47, which notified taxpayers that the IRS National Office will not issue PLRs on the question of whether a solid synthetic fuel produced from coal is a "qualified fuel" under Section 29, except in the case of coke and in the case of solid synthetic fuels produced from "waste coal." The procedure also advised taxpayers, with pending ruling requests, that they can modify their requests to advise the IRS if they are producing solid synthetic fuels from waste coal sources. On December 6, 2000, the Company submitted a letter to advise the IRS that the facilities with pending ruling requests are producing solid synthetic fuel from waste coal sources and requested that they issue favorable rulings. The IRS has yet to act on the PLRs. Should the tax credits be denied on future audits, and Progress Energy fails to prevail through the IRS or legal process, there could be a significant tax liability owed for previously-taken Section 29 credits, with a significant impact on earnings and cash flows. In management's opinion, Progress Energy is complying with all the necessary requirements to be

allowed such credits under Section 29, but cannot predict the outcome of this matter.

ENVIRONMENTAL MATTERS

The Company is subject to federal, state and local regulations addressing air and water quality, hazardous and solid waste management and other environmental matters.

Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. The lead or sole regulatory agency that is responsible for a particular former coal tar site depends largely upon the state in which the site is located. There are several manufactured gas plant (MGP) sites to which both electric utilities and the gas utility have some connection. In this regard, both electric utilities and the gas utility, with other potentially responsible parties, are participating in investigating and, if necessary, remediating former coal tar sites with several regulatory agencies, including, but not limited to, the EPA, the Florida Department of Environment and Protection (DEP) and the North Carolina Department of Environment and Natural Resources, Division of Waste Management (DWM).

Both electric utilities, the gas utility and EFC are periodically notified by regulators such as the EPA and various state agencies of their involvement or potential involvement in sites, other than MGP sites, that may require investigation and/or remediation. Although the Company's subsidiaries may incur costs at the sites about which they have been notified, based upon the current status of these sites, the Company does not expect those costs to be material to the consolidated financial position or results of operations of the Company.

The EPA has been conducting an enforcement initiative related to a number of coal-fired utility power plants in an effort to determine whether modifications at those facilities were subject to New Source Review requirements or New Source Performance Standards under the Clean Air Act. Both electric utilities have recently been asked to provide information to the EPA as part of this initiative and have cooperated in providing the requested information. The EPA has initiated enforcement actions, some of which have resulted in settlement agreements, ranging from $1.0 billion to $1.4 billion, by other companies that have been subject to this initiative. The Company cannot predict the outcome of this matter.

The EPA published a final rule approving petitions under section 126 of the Clean Air Act, which requires certain sources to make reductions in nitrogen oxide emissions by 2003. The final rule also includes a set of regulations that affect nitrogen oxide emissions from sources included in the petitions. The North Carolina fossil-fueled electric generating plants are included in these petitions. CP&L, other utilities, trade organizations and other states are participating in litigation challenging the EPA's action. The Company cannot predict the outcome of this matter.

In 1998, the EPA published a final rule addressing the issue of regional transport of ozone. This rule is commonly known as the NOx SIP Call. The EPA's rule requires 23 jurisdictions, including North and South Carolina, but not Florida, to further reduce nitrogen oxide emissions in order to attain a pre-set state NOx emission level. The EPA's rule also suggests to the states that these additional nitrogen oxide emission reductions be obtained from the utility sector. CP&L is evaluating necessary measures to comply with the rule and estimates its related capital expenditures could be approximately $370 million, which has not been adjusted for inflation. A portion of this amount that is committed to be spent from 2001 to 2003 is discussed in "Investing Activities" under LIQUIDITY AND CAPITAL RESOURCES above. Increased operation and maintenance costs relating to the NOx SIP Call are not expected to be material to the Company's results of operations. Further controls are anticipated as electricity demand increases. CP&L, other utilities, trade organizations and states are participating in litigation challenging the NOx SIP Call. The District of Columbia Circuit Court of Appeals upheld the EPA's NOx SIP Call. Further appeals to the U.S. Supreme Court have been filed. Prior to resolution of a potential appeal, the EPA is requiring regulations in the states involved in the NOx SIP Call including North and South Carolina to comport with the NOx SIP Call. Acceptable state plans can be approved in lieu of the final rules the EPA approved as part of the 126 petitions. North and South Carolina are proceeding to adopt such plans. The Company cannot predict the outcome of this matter.

In July 1997, the EPA issued final regulations establishing a new eight-hour ozone standard. In October 1999, the District of Columbia Circuit Court of Appeals ruled against the EPA with regard to the federal eight-hour ozone standard. CP&L, other utilities, trade organizations and states are participating in a further appeal to the U.S. Supreme Court. North Carolina adopted the federal eight-hour ozone standard and is proceeding with the implementation process. North Carolina has promulgated final regulations, which will require CP&L to install nitrogen oxide controls under the state's eight-hour ozone standard. The cost of those controls are included in the cost estimate of $370 million set forth above.

Both electric utilities and the gas utility have filed claims with the Company's general liability insurance carriers to recover costs arising out of actual or potential liabilities. Some claims have settled and others are still pending. While management cannot predict the outcome of these matters, the outcome is not expected to have a material effect on the consolidated financial position or results of operations.

NEW ACCOUNTING STANDARDS

See Note 1 to the consolidated financial statements for a discussion of the impact of new accounting standards.

Market risk represents the potential loss arising from adverse changes in market rates and prices. Certain market risks are inherent in the Company's financial instruments, which arise from transactions entered into in the normal course of business. The Company's primary exposures are changes in interest rates with respect to its long-term debt and commercial paper, and fluctuations in the return on marketable securities with respect to its nuclear decommissioning trust funds. The Company manages its market risk in accordance with its established risk management policies, which may include entering into various derivative transactions.

These financial instruments are held for purposes other than trading. The risks discussed below do not include the price risks associated with non-financial instrument transactions and positions associated with the Company's operations, such as purchase and sales commitments and inventory.

MARKETABLE SECURITIES PRICE RISK

The Company's electric utility subsidiaries maintain trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning their nuclear plants. These funds are primarily invested in stocks, bonds and cash equivalents, which are exposed to price fluctuations in equity markets and to changes in interest rates. At December 31, 2000 and 1999, the fair values of these funds were $812.0 million and $379.9 million, respectively. The fair value at December 31, 1999 only includes the trust funds of CP&L, as Florida Power was acquired in November 2000. The Company actively monitors its portfolio by benchmarking the performance of its investments against certain indices and by maintaining, and periodically reviewing, target allocation percentages for various asset classes. The accounting for nuclear decommissioning recognizes the costs as recovered through the Company's regulated electric rates and, therefore, fluctuations in trust fund marketable security returns do not affect the earnings of the Company.

CVO MARKET VALUE RISK

In connection with the acquisition of FPC, the Company issued 98.6 million CVOs. Each CVO represents the right to receive contingent payments based on the performance of four synthetic fuel facilities purchased by subsidiaries of FPC in October 1999. The payments, if any, are based on the net after-tax cash flows the facilities generate. These CVOs are valued at fair value and unrealized gains and losses from changes in fair value are recognized in earnings. At December 31, 2000, the fair value of these CVOs was $40.4 million. A hypothetical 10% decrease in market price would result in a $4.0 million decrease in the fair value of the CVOs.

INTEREST RATE RISK

The Company manages its interest rate risks through the use of a combination of fixed and variable rate debt. Variable rate debt has rates that adjust in periods ranging from daily to monthly. Interest rate derivative instruments may be used to adjust interest rate exposures and to protect against adverse movements in rates.

The following tables provide information as of December 31, 2000 and 1999, respectively, about the Company's interest rate risk sensitive instruments. The tables present principal cash flows and weighted-average interest rates by expected maturity dates for the fixed and variable rate long-term debt, commercial paper, FPC obligated mandatorily redeemable securities of trust, and other short-term indebtedness. For interest-rate swaps and interest-rate forward contracts, the tables present notional amounts and weighted-average interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual cash flows to be exchanged under the interest-rate swaps and the settlement amounts under the interest-rate forward contracts.

DECEMBER 31, 2000

	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value Dec. 31, 2000
(Dollars in millions)								
Fixed rate long-term debt	$ 184	$ 182	$ 282	$ 368	$ 348	$2,319	$3,683	$3,636
Average interest rate	6.84%	6.45%	6.42%	6.83%	7.40%	7.03%	6.96%	–
Variable rate long-term debt	–	–	–	–	–	$ 620	$ 620	$ 621
Average interest rate	–	–	–	–	–	4.72%	4.72%	–
Commercial paper	–	–	$ 986	–	–	–	$ 986	$ 986
Average interest rate	–	–	7.25%	–	–	–	7.25%	–
Extendible notes	–	$ 500	–	–	–	–	$ 500	$ 500
Average interest rate	–	6.76%	–	–	–	–	6.76%	–
FPC mandatorily redeemable securities of trust	–	–	–	–	–	$ 300	$ 300	$ 272
Fixed rate	–	–	–	–	–	7.10%	7.10%	–
Interest-rate swaps:								
Pay fixed/receive variable(1)	–	$ 500	–	–	–	–	$ 500	$ (9.1)
Interest rate forward contracts related to anticipated long-term debt issuances (2)	$1,125	–	–	–	–	–	$1,125	$(37.5)

(1) Receives floating rate based on three-month LIBOR and pays fixed rate of 7.17%.
(2) Receives floating rate based on three-month LIBOR and pays weighted-average fixed rates of approximately 6.77%.

DECEMBER 31, 1999

	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value Dec. 31, 1999
(Dollars in millions)								
Fixed rate long-term debt	$ 197	–	$ 100	$ 7	$ 300	$1,319	$1,923	$1,845
Average interest rate	6.15%	–	7.17%	12.88%	6.88%	7.09%	7.01%	–
Variable rate long-term debt	–	–	–	–	–	$ 620	$ 620	$ 622
Average interest rate	–	–	–	–	–	3.32%	3.32%	–
Commercial paper	$ 363	–	–	–	–	–	$ 363	$ 363
Average interest rate	6.07%	–	–	–	–	–	6.07%	–
Extendible notes	$ 332	–	–	–	–	–	$ 332	$ 332
Average interest rate	5.88%	–	–	–	–	–	5.88%	–

The matters discussed throughout this annual report that are not historical facts are forward-looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Examples of forward-looking statements include, but are not limited to, statements under the following headings in Management's Discussion and Analysis: 1) "Liquidity and Capital Resources" about estimated capital requirements through the year 2003 and future financing plans, 2) "Future Outlook" about the Company's future earnings potential, and 3) "Other Matters" about the effects of new environmental regulations, nuclear decommissioning costs and the effect of electric utility industry restructuring.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.

Examples of factors that you should consider with respect to any forward-looking statements made throughout this document include, but are not limited to, the following: governmental policies and regulatory actions (including those of the Federal Energy Regulatory Commission, the Environmental Protection Agency, the Nuclear Regulatory Commission, the Department of Energy, the North Carolina Utilities Commission, the Public Service Commission of South Carolina and the Florida Public Service Commission), particularly legislative and regulatory initiatives that may impact the speed and degree of the restructuring of the electricity industry; the outcome of legal and administrative proceedings before our principal regulators; risks associated with operating nuclear power facilities, availability of nuclear waste storage facilities, and nuclear decommissioing costs; changes in the economy of areas served by CP&L, Florida Power or NCNG; the extent to which we are able to obtain adequate and timely rate recovery of costs, including potential stranded costs arising from the restructuring of the electricity industry; weather conditions and catastrophic weather-related damage; general industry trends, increased competition from energy and gas suppliers, and market demand for energy; inflation and capital market conditions; the extent to which we are able to realize the potential benefits of our recent acquisition of Florida Progress Corporation and successfully integrate it with the remainder of our business; the extent to which we are able to realize the potential benefits of the conversion of Carolina Power & Light Company to a non-regulated holding company structure and the success of our direct and indirect subsidiaries; the extent to which we are able to use tax credits associated with the operations of the synthetic fuel facilities; the extent to which we are able to reduce our capital expenditures through the utilization of the natural gas expansion fund established by the North Carolina Utilities Commission; and unanticipated changes in operating expenses and capital expenditures.

All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond the control of the Company. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the effect of each such factor on the Company.

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF PROGRESS ENERGY, INC.:

We have audited the accompanying consolidated balance sheets and schedules of capitalization of Progress Energy, Inc. and its subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Florida Progress Corporation (a consolidated subsidiary since November 30, 2000) for the year ended December 31, 2000, which statements reflect total assets constituting 31% of the related consolidated total assets at December 31, 2000. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as is relates to the amounts included for Florida Progress Corporation for the year ended December 31, 2000, is based solely on the report of such other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Raleigh, North Carolina
February 15, 2001

MANAGEMENT REPORT

PROGRESS ENERGY, INC.

The management of Progress Energy, Inc. is responsible for the information and representations contained in the financial statements and other sections of this annual report. The financial statements are prepared in conformity with generally accepted accounting principles, using informed judgments and estimates where appropriate. The information in other sections of this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and the financial statements are reliable. This system is augmented by a strong program of internal audit.

The Board of Directors pursues its oversight role for financial reporting and accounting through its audit committee. The committee, which is composed entirely of outside directors, meets periodically with management and the Company's internal auditors, who have free access to the committee without management present, to discuss auditing, internal accounting control and financial reporting matters.

The independent auditors, Deloitte & Touche LLP, are engaged to express an opinion on the Company's financial statements. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the financial statements do not contain material misstatements.

Peter M. Scott III

Peter M. Scott III
Executive Vice President and Chief Financial Officer
Financial Services

(In thousands except per share data)	YEARS ENDED DECEMBER 31 2000	1999	1998
OPERATING REVENUES			
Electric	$ 3,565,281	$ 3,138,846	$ 3,130,045
Natural gas	324,499	98,903	–
Diversified businesses	229,093	119,866	61,623
Total Operating Revenues	4,118,873	3,357,615	3,191,668
OPERATING EXPENSES			
Fuel used in electric generation	686,754	581,340	571,419
Purchased power	364,977	365,425	382,547
Gas purchased for resale	250,902	67,465	–
Other operation and maintenance	823,549	682,407	642,478
Depreciation and amortization	740,470	495,670	487,097
Taxes other than on income	165,393	142,741	141,504
Harris Plant deferred costs, net	14,278	7,435	7,489
Diversified businesses	352,992	174,589	111,584
Total Operating Expenses	3,399,315	2,517,072	2,344,118
OPERATING INCOME	719,558	840,543	847,550
OTHER INCOME (EXPENSE)			
Interest income	26,984	10,336	9,526
Gain on sale of assets	200,000	–	–
Other, net	(3,122)	(33,706)	(29,075)
Total Other Income (Expense)	223,862	(23,370)	(19,549)
INCOME BEFORE INTEREST CHARGES AND INCOME TAXES	943,420	817,173	828,001
INTEREST CHARGES			
Long-term debt	237,494	180,676	169,901
Other interest charges	45,459	10,298	11,156
Allowance for borrowed funds used during construction	(20,668)	(11,510)	(6,821)
Total Interest Charges, Net	262,285	179,464	174,236
INCOME BEFORE INCOME TAXES	681,135	637,709	653,765
INCOME TAXES	202,774	258,421	257,494
NET INCOME	$ 478,361	$ 379,288	$ 396,271
AVERAGE COMMON SHARES OUTSTANDING	157,169	148,344	143,941
BASIC EARNINGS PER COMMON SHARE	$ 3.04	$ 2.56	$ 2.75
DILUTED EARNINGS PER COMMON SHARE	$ 3.03	$ 2.55	$ 2.75
DIVIDENDS DECLARED PER COMMON SHARE	$ 2.075	$ 2.015	$ 1.955

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(In thousands)	DECEMBER 31 2000	1999
ASSETS		
Utility Plant		
Electric utility plant in service	$ 18,124,036	$ 10,633,823
Gas utility plant in service	378,464	354,773
Accumulated depreciation	(9,350,235)	(4,975,405)
Utility plant in service, net	9,152,265	6,013,191
Held for future use	16,302	11,282
Construction work in progress	1,043,439	536,017
Nuclear fuel, net of amortization	224,692	204,323
Total Utility Plant, Net	10,436,698	6,764,813
Current Assets		
Cash and cash equivalents	101,296	79,871
Accounts receivable	925,911	446,367
Inventory	420,985	247,913
Deferred fuel cost	217,806	81,699
Prepayments	50,040	42,631
Assets held for sale, net	747,745	–
Other current assets	192,347	180,852
Total Current Assets	2,656,130	1,079,333
Deferred Debits and Other Assets		
Income taxes recoverable through future rates	208,997	229,008
Deferred purchased power contract termination costs	226,656	–
Harris Plant deferred costs	44,813	56,142
Unamortized debt expense	38,771	10,924
Nuclear decommissioning trust funds	811,998	379,949
Diversified businesses property, net	729,662	239,982
Miscellaneous other property and investments	510,935	252,454
Goodwill, net	3,652,429	288,970
Prepaid pension costs	373,151	–
Other assets and deferred debits	400,772	192,444
Total Deferred Debits and Other Assets	6,998,184	1,649,873
TOTAL ASSETS	$ 20,091,012	$ 9,494,019
CAPITALIZATION AND LIABILITIES		
Capitalization (SEE CONSOLIDATED SCHEDULES OF CAPITALIZATION)		
Common stock equity	$ 5,424,201	$ 3,412,647
Preferred stock of subsidiaries- not subject to mandatory redemption	92,831	59,376
Long-term debt, net	5,890,099	3,028,561
Total Capitalization	11,407,131	6,500,584
Current Liabilities		
Current portion of long-term debt	184,037	197,250
Accounts payable	828,568	269,053
Interest accrued	121,433	47,607
Dividends declared	107,645	80,939
Short-term obligations	3,972,674	168,240
Other current liabilities	448,302	130,036
Total Current Liabilities	5,662,659	893,125
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes	1,807,192	1,632,778
Accumulated deferred investment tax credits	261,255	203,704
Postretirement benefit obligation	273,671	109,859
Other liabilities and deferred credits	679,104	153,969
Total Deferred Credits and Other Liabilities	3,021,222	2,100,310
COMMITMENTS AND CONTINGENCIES (NOTE 19)		
TOTAL CAPITALIZATION AND LIABILITIES	$ 20,091,012	$ 9,494,019

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(In thousands)	YEARS ENDED DECEMBER 31 2000	1999	1998
OPERATING ACTIVITIES			
Net income	$ 478,361	$ 379,288	$ 396,271
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	834,950	588,123	578,348
Harris Plant deferred costs	11,329	3,878	3,704
Deferred income taxes	(73,446)	(32,495)	(38,517)
Investment tax credit	(5,261)	(10,299)	(10,206)
Deferred fuel credit	(76,704)	(39,052)	(22,017)
Gain on sale of assets	(200,000)	–	–
Net increase in receivables, inventories, prepaid expenses and other current assets	(48,187)	(168,148)	(62,351)
Net (decrease) increase in payables and accrued expenses	(12,214)	31,991	43,652
Other	(48,920)	75,867	2,330
Net Cash Provided by Operating Activities	859,908	829,153	891,214
INVESTING ACTIVITIES			
Gross property additions	(950,198)	(689,054)	(424,263)
Nuclear fuel additions	(59,752)	(75,641)	(102,511)
Acquisition of Florida Progress Corporation	(3,461,917)	–	–
Proceeds from sale of assets	212,825	–	–
Contributions to nuclear decommissioning trust	(32,391)	(30,825)	(30,848)
Net cash flow of company-owned life insurance program	(4,291)	(6,542)	(1,954)
Investments in non-utility activities	(242,688)	(199,525)	(103,543)
Net Cash Used in Investing Activities	(4,538,412)	(1,001,587)	(663,119)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	783,052	400,970	6,255
Net increase in short-term indebtedness	3,782,071	339,100	242,100
Net increase (decrease) in outstanding payments	193,107	(117,643)	26,211
Retirement of long-term debt	(710,373)	(113,335)	(208,050)
Dividends paid on common stock	(368,004)	(293,704)	(279,717)
Other	(66)	6,169	(448)
Net Cash Provided by (Used in) Financing Activities	3,679,787	221,557	(213,649)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,283	49,123	14,446
INCREASE IN CASH FROM ACQUISITION (SEE NONCASH ACTIVITIES)	20,142	1,876	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	79,871	28,872	14,426
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 101,296	$ 79,871	$ 28,872
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year - interest	$ 244,224	$ 174,101	$ 171,946
income taxes	$ 367,665	$ 284,535	$ 329,739

Noncash Activities

On July 15, 1999, the Company purchased all outstanding shares of North Carolina Natural Gas Corporation (NCNG). In conjunction with the purchase of NCNG, the Company issued approximately $360 million in common stock.

On June 28, 2000, Caronet, a wholly-owned subsidiary of the Company, contributed net assets in the amount of $93.0 million in exchange for a 35% ownership interest (10% voting interest) in a newly formed company.

On November 30, 2000, the Company purchased all outstanding shares of Florida Progress Corporation (FPC). In conjunction with the purchase of FPC, the Company issued approximately $1.9 billion in common stock and approximately $49.3 million in contingent value obligations.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

(Dollars in thousands except per share data)		DECEMBER 31 2000	1999
COMMON STOCK EQUITY			
Common stock without par value, authorized 500,000,000 shares, issued and outstanding 206,089,047 and 159,599,650 shares, respectively		$ 3,621,610	$ 1,754,187
Unearned restricted stock awards		(12,708)	(7,938)
Unearned ESOP common stock		(127,211)	(140,153)
Capital stock issuance expense		–	(794)
Retained earnings		1,942,510	1,807,345
Total Common Stock Equity		$ 5,424,201	$ 3,412,647
PREFERRED STOCK OF SUBSIDIARIES- NOT SUBJECT TO MANDATORY REDEMPTION			
Carolina Power & Light Company: Authorized - 300,000 shares $5.00 cumulative, $100 par value Preferred Stock; 20,000,000 shares cumulative, $100 par value Serial Preferred Stock			
$5.00 Preferred - 236,997 and 237,259 shares, respectively (redemption price $110.00)		$ 24,349	$ 24,376
$4.20 Serial Preferred - 100,000 shares (redemption price $102.00)		10,000	10,000
$5.44 Serial Preferred - 249,850 and 250,000 shares, respectively (redemption price $101.00)		24,985	25,000
		59,334	59,376
Florida Power Corporation: Authorized – 4,000,000 shares cumulative, $100 par value Preferred Stock; 5,000,000 shares cumulative, no par value Preferred Stock; 1,000,000 shares, $100 par value Preference Stock			
$100 Par Value Preferred Stock:			
4.00% - 39,980 shares outstanding (redemption price $104.25)		3,998	–
4.40% - 75,000 shares outstanding (redemption price $102.00)		7,500	–
4.58% - 99,990 shares outstanding (redemption price $101.00)		9,999	–
4.60% - 39,997 shares outstanding (redemption price $103.25)		4,000	–
4.75% - 80,000 shares outstanding (redemption price $102.00)		8,000	–
		33,497	–
Total Preferred Stock of Subsidiaries- Not Subject to Mandatory Redemption		$ 92,831	$ 59,376
LONG-TERM DEBT (maturities and weighted average interest rates as of December 31, 2000)			
Carolina Power & Light Company:			
First mortgage bonds, maturing 2002-2024	7.02%	$ 1,800,000	$ 1,866,130
Pollution control obligations, maturing 2014-2024	4.99%	713,770	497,640
Unsecured subordinated debentures, maturing 2025	8.55%	125,000	125,000
Extendible notes, maturing 2002	6.76%	500,000	331,760
Commercial paper reclassified to long-term debt	7.40%	486,297	362,600
Miscellaneous notes		8,360	54,846
Unamortized premium and discount, net		(12,407)	(12,165)
		3,621,020	3,225,811
Florida Power Corporation:			
First mortgage bonds, maturing 2003-2023	6.94%	510,000	–
Pollution control revenue bonds, maturing 2014-2027	6.59%	240,865	–
Medium-term notes, maturing 2001-2028	6.69%	531,100	–
Commercial paper reclassified to long-term debt	6.89%	200,000	–
Unamortized premium and discount, net		(2,849)	–
		1,479,116	–
Florida Progress Funding Corporation:			
Mandatorily redeemable preferred securities, maturing 2039	7.10%	300,000	–
		300,000	–
Progress Capital Holdings:			
Medium-term notes, maturing 2001-2008	6.85%	374,000	–
Commercial paper reclassified to long-term debt	7.24%	300,000	–
		674,000	–
Current portion of long-term debt		(184,037)	(197,250)
Total Long-Term Debt, Net		$ 5,890,099	$ 3,028,561
TOTAL CAPITALIZATION		$ 11,407,131	$ 6,500,584

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

PROGRESS ENERGY, INC.

(In thousands except per share data)	2000	1999	1998
	YEARS ENDED DECEMBER 31		
RETAINED EARNINGS AT BEGINNING OF YEAR	$ 1,807,345	$ 1,728,301	$ 1,613,881
Net income	478,361	379,288	396,271
Common stock dividends at annual per share rate of $2.075, $2.015 and $1.955, respectively	(343,196)	(300,244)	(281,851)
RETAINED EARNINGS AT END OF YEAR	$ 1,942,510	$ 1,807,345	$ 1,728,301

CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

PROGRESS ENERGY, INC.

(In thousands except per share data)	1st Quarter (a)	2nd Quarter (a)	3rd Quarter (a)	4th Quarter (a)
YEAR ENDED DECEMBER 31, 2000				
Operating revenues	$ 877,140	$ 892,304	$ 1,084,200	$ 1,265,229
Operating income	185,110	214,184	296,592	23,672 (c)
Net income	85,261	107,460	297,083 (b)	(11,443)(c)
Common stock data:				
Basic earnings per common share	.56	.70	1.94 (b)	(0.07)(c)
Diluted earnings per common share	.56	.70	1.93 (b)	(0.07)(c)
Dividends paid per common share	.515	.515	.515	.515
Price per share - high	37.00	38.00	41.94	49.38
low	28.25	31.00	31.50	38.00
YEAR ENDED DECEMBER 31, 1999				
Operating revenues	$ 762,902	$ 762,822	$ 1,024,756	$ 807,135
Operating income	199,361	157,371	308,963	174,848
Net income	91,470	62,417	147,112	78,289
Common stock data:				
Basic and diluted earnings per common share	.63	.43	.97	.51
Dividends paid per common share	.50	.50	.50	.50
Price per share - high	47.88	45.00	43.25	36.81
low	37.63	36.63	34.13	29.25

(a) In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year.
(b) Includes gain on sale of BellSouth Carolinas PCS Partnership interest.
(c) Includes approved further accelerated depreciation of $125 million on nuclear generating assets.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

Progress Energy, Inc. (the Company) is a registered holding company under the Public Utility Holding Company Act (PUHCA) of 1935. Both the Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. The Company was formed as a result of the reorganization of Carolina Power & Light Company (CP&L) into a holding company structure on June 19, 2000. All shares of common stock of CP&L were exchanged for an equal number of shares of the Company. On December 4, 2000, the Company changed its name from CP&L Energy, Inc. to Progress Energy, Inc. Through its wholly-owned subsidiaries, CP&L, Florida Power Corporation (Florida Power) and North Carolina Natural Gas Corporation (NCNG), the Company is primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina, South Carolina and Florida and the transport, distribution and sale of natural gas in portions of North Carolina. The Company also engages in business areas such as telecommunications, coal and synthetic fuel operations, energy management and related services and merchant energy generation.

The Company's results of operations include the results of Florida Progress Corporation for the period subsequent to November 30, 2000, and of North Carolina Natural Gas Corporation for the periods subsequent to July 15, 1999 (See Note 2).

B. BASIS OF PRESENTATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the activities of the Company and its majority-owned subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation except as permitted by Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," which provides that profits on intercompany sales to regulated affiliates are not eliminated if the sales price is reasonable and the future recovery of the sales price through the rate making process is probable. The accounting records of CP&L, Florida Power and NCNG (collectively, the utilities) are maintained in accordance with uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC), the Public Service Commission of South Carolina (SCPSC) and the Florida Public Service Commission (FPSC). Certain amounts for 1999 and 1998 have been reclassified to conform to the 2000 presentation.

C. USE OF ESTIMATES AND ASSUMPTIONS

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

D. UTILITY PLANT

The cost of additions, including betterments and replacements of units of property, is charged to utility plant. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense. The cost of units of property replaced, renewed or retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation. Subsequent to the acquisition of Florida Progress Corporation, Florida Power's utility plant continues to be presented on a gross basis to reflect the treatment of such plant in cost-based regulation. Generally, electric utility plant, other than nuclear fuel is pledged as collateral for the first mortgage bonds of CP&L and Florida Power. Gas utility plant is not currently pledged as collateral for such bonds.

The balances of utility plant in service at December 31 are listed below with a range of depreciable lives for each:

(In thousands)	2000	1999
Electric		
Production plant (7–33 years)	$ 10,014,635	$ 6,413,121
Transmission plant (30–75 years)	1,964,652	1,018,114
Distribution plant (12–50 years)	5,292,134	2,676,881
General plant and other (8–75 years)	852,615	525,707
Total electric utility plant	$18,124,036	$10,633,823
Gas plant (10–40 years)	378,464	354,773
Utility plant in service	$18,502,500	$10,988,596

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

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(a) In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year.
(b) Includes gain on sale of BellSouth Carolinas PCS Partnership interest.
(c) Includes approved further accelerated depreciation of $125 million on nuclear generating assets.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

As prescribed in the regulatory uniform systems of accounts, an allowance for the cost of borrowed and equity funds used to finance utility plant construction (AFUDC) is charged to the cost of the plant. Regulatory authorities consider AFUDC an appropriate charge for inclusion in the rates charged to customers by the utilities over the service life of the property. The equity funds portion of AFUDC is credited to other income and the borrowed funds portion is credited to interest charges. The total equity funds portion of AFUDC was $15.5 million and $3.9 million in 2000 and 1999, respectively. There were no amounts credited to other income for AFUDC during 1998. The composite AFUDC rate for CP&L's electric utility plant was 8.16%, 6.4% and 5.6% in 2000, 1999 and 1998, respectively. The composite AFUDC rate for Florida Power's electric utility plant was 7.8% in 2000. The composite AFUDC rate for NCNG's gas utility plant was 10.09% in 2000 and 1999.

E. DIVERSIFIED BUSINESS PROPERTY

The following is a summary of diversified business property:

(In thousands)	2000	1999
Property, plant and equipment	$566,972	$ 195,892
Construction work in progress	188,584	65,848
Accumulated depreciation	(25,894)	(21,758)
Diversified business property, net	$729,662	$ 239,982

Diversified business property is stated at cost. Depreciation is computed on a straight-line basis using the following estimated useful lives: telecommunications equipment - 5 to 20 years; computers, office equipment and software - 3 to 10 years; merchant generation and synthetic fuel facilities - 7 to 25 years. Depletion of coal reserves is provided on the units-of-production method based upon the estimates of recoverable tons of clean coal.

F. DEPRECIATION AND AMORTIZATION

For financial reporting purposes, substantially all depreciation of utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated net salvage. Depreciation provisions, including decommissioning costs (See Note 1G) and excluding accelerated cost recovery of nuclear generating assets as a percent of average depreciable property other than nuclear fuel, were approximately 4.1% in 2000 and 3.9% in 1999 and 1998. Depreciation provisions totaled $721.0 million, $409.6 million and $394.4 million in 2000, 1999 and 1998, respectively.

Depreciation and amortization expense also includes amortization of deferred operation and maintenance expenses associated with Hurricane Fran, which struck significant portions of CP&L's service territory in September 1996. In 1996, the NCUC authorized CP&L to defer these expenses (approximately $40 million) with amortization over a 40-month period, which expired in December 1999.

With approval from the NCUC and the SCPSC, CP&L accelerated the cost recovery of its nuclear generating assets beginning January 1, 2000 and continuing through 2004. Also in 2000, CP&L received approval from the commissions to further accelerate the cost recovery of its nuclear generation facilities in 2000. The accelerated cost recovery of these assets resulted in additional depreciation expense of approximately $275 million during 2000 (See Note 12B). Pursuant to authorizations from the NCUC and the SCPSC, CP&L accelerated the amortization of certain regulatory assets over a three-year period beginning January 1997 and expiring December 1999. The accelerated amortization of these regulatory assets resulted in additional depreciation and amortization expenses of approximately $68 million in 1999 and 1998.

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

Goodwill, the excess of purchase price over fair value of net assets of businesses acquired, is being amortized on a straight-line basis over periods ranging from 7 to 40 years. Accumulated amortization was $24.5 million and $11.5 million at December 31, 2000 and 1999, respectively. The recoverability of goodwill is reviewed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Such evaluation is based on various analyses, including undiscounted cash flows of the acquired operation.

The Financial Accounting Standards Board (FASB) is proceeding with its project related to business combinations and accounting for goodwill. This project, as proposed, would eliminate the amortization of goodwill and, instead, would require goodwill to be reviewed periodically for impairment. The FASB plans to issue a final statement in June 2001.

G. DECOMMISSIONING AND DISMANTLEMENT PROVISIONS

In the Company's retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC, the SCPSC and the FPSC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdictions, the provisions for nuclear decommissioning costs are approved by FERC. Decommissioning cost provisions, which are included in depreciation and amortization expense, were $32.5 million in 2000 and $33.3 million in 1999 and 1998.

Accumulated decommissioning costs, which are included in accumulated depreciation, were $1.0 billion and $568.0 million at December 31, 2000 and 1999, respectively. These costs include amounts retained internally and amounts funded in externally managed decommissioning trusts. Trust earnings increase the trust balance with a corresponding increase in the accumulated decommissioning balance. These balances are adjusted for net unrealized gains and losses related to changes in the fair value of trust assets.

CP&L's most recent site-specific estimates of decommissioning costs were developed in 1998, using 1998 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1998 dollars, are $281.5 million for Robinson Unit No. 2, $299.6 million for Brunswick Unit No. 1, $298.7 million for Brunswick Unit No. 2 and $328.1 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for CP&L's nuclear units expire in the year 2010 for Robinson Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

Florida Power's most recent site-specific estimate of decommissioning costs for the Crystal River Nuclear Plant (CR3) was developed in 2000 based on prompt dismantlement decommissioning. The estimate, in 2000 dollars, was $515.8 million and is subject to change based on the same factors as discussed above for CP&L's estimates. The cost estimate excludes the portion attributable to other co-owners of CR3. CR3's operating license expires in 2016.

Management believes that the decommissioning costs being recovered through rates by CP&L and Florida Power, when coupled with reasonable assumed after-tax fund earnings rates, are currently sufficient to provide for the costs of decommissioning.

Florida Power maintains a reserve for fossil plant dismantlement. At December 31, 2000, this reserve was approximately $134.6 million and was included in accumulated depreciation.

The FASB is proceeding with its project regarding accounting practices related to obligations associated with the retirement of long-lived assets. An exposure draft was issued in February 2000 and a final statement is expected to be issued during the second quarter of 2001. It is uncertain what effects it may ultimately have on the Company's accounting for decommissioning, dismantlement and other retirement costs.

H. OTHER POLICIES

The Company recognizes electric utility revenues as service is rendered to customers. Operating revenues include unbilled electric utility revenues earned when service has been delivered but not billed by the end of the accounting period.

Fuel expense includes fuel costs or recoveries that are deferred through fuel clauses established by the electric utilities' regulators. These clauses allow the utilities to recover fuel costs and portions of purchased power costs through surcharges on customer rates. NCNG is also allowed to recover the costs of gas purchased for resale through customer rates.

Other property and investments are stated principally at cost. The Company maintains an allowance for doubtful accounts receivable, which totaled approximately $28.1 million and $16.8 million at December 31, 2000 and 1999, respectively. Inventory, which includes fuel, materials and supplies, and gas in storage, is carried at average cost. Long-term debt premiums, discounts and issuance expenses for the utilities are amortized over the life of the related debt using the straight-line method. Any expenses or call premiums associated with the reacquisition of debt obligations by the utilities are amortized over the remaining life of the original debt using the straight-line method, except that the balance existing at December 31, 1996, was amortized on a three-year accelerated basis. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

I. IMPACT OF NEW ACCOUNTING STANDARD

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. The Company estimates that the transition adjustment to implement this new standard will be a decrease in other comprehensive income of $23.6 million, net of tax. This adjustment will be recognized as of January 1, 2001, as a cumulative effect of a change in accounting principle. There will not be a significant transition adjustment affecting the consolidated statement of income. The ongoing effects of SFAS No. 133 will depend on future market conditions and the Company's positions in derivative instruments and hedging activities.

NOTE 2. ACQUISITIONS AND DISPOSITIONS

A. FLORIDA PROGRESS CORPORATION

On November 30, 2000, the Company completed its acquisition of Florida Progress Corporation (FPC) for an aggregate purchase price of approximately $5.4 billion. The Company paid cash consideration of approximately $3.5 billion and issued 46.5 million common shares valued at approximately $1.9 billion. In addition, the Company issued 98.6 million contingent value obligations (CVO) valued at approximately $49.3 million (See Note 11). The purchase price includes $18.6 million in direct transaction costs.

FPC is a diversified, exempt electric utility holding company. Florida Power, FPC's largest subsidiary is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity. FPC also has diversified non-utility operations owned through Progress Capital Holdings, Inc. Included in the diversified operations is Electric Fuels Corporation, an energy and transportation company. The primary segments of Electric Fuels are energy and related services, rail services, and inland marine transportation.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the results of operations for FPC have been included in the Company's consolidated financial statements since the date of acquisition. Identifiable assets acquired and liabilities assumed have been recorded at their estimated fair values of $6.9 billion and $4.9 billion, respectively. The excess of the purchase price over the estimated fair value of the net identifiable assets and liabilities acquired has been recorded as goodwill. The goodwill, of approximately $3.4 billion, is being amortized on a straight-line basis over a period of primarily 40 years.

The fair values of FPC's rate-regulated net assets acquired were considered to be equivalent to book value since book value represents the amount that will be recoverable through regulated rates. The allocation of the purchase price included estimated amounts expected to be realized from the sale of FPC's Rail Services and Inland Marine Transportation business segments which are classified as net assets held for sale (See Note 4). The SEC order approving the merger requires the Company to divest of certain other immaterial non-regulated investments of Florida Power.

The allocation of purchase price includes the assumption of liabilities associated with change in control payments triggered by the acquisition and executive termination benefits, totaling approximately $50.8 million. Substantially all change in control and executive termination payments had been paid as of December 31, 2000. In addition, the Company began the implementation of a plan to combine operations of the companies resulting in a non-executive involuntary termination cost accrual of approximately $52.2 million. Approximately $41.8 million is attributable to Florida Power employees and has been reflected as part of the purchase price allocation, while approximately $10.4 million attributable to acquiring company employees was charged to operating results. The Company expects to complete the implementation of the plan by the end of June 2001.

Preliminary actuarial valuations resulted in adjustments to increase the other postretirement benefits liability by $16.8 million and the prepaid pension asset by $222.0 million. These preliminary adjustments were substantially offset by the establishment of an other postretirement benefits regulatory asset of approximately $15.9 million and a pension regulatory liability of $207.2 million. In addition, an adjustment increased the supplementary defined benefit retirement plan liability by $24.4 million.

The final purchase price allocation and estimated life of goodwill are subject to adjustment for changes in the Company's preliminary assumptions and analyses, pending additional information concerning asset and liability valuations and the evaluation of certain pre-acquisition contingent liabilities, including but not limited to:

- final actuarial valuations of pension and other postretirement benefit plan obligations
- proceeds realized from the disposition of assets held for sale
- valuations of non-regulated businesses and individual assets and liabilities

The following unaudited pro forma combined results of operations for the years ended December 31, 2000 and 1999, have been prepared assuming the acquisition of FPC had occurred at the beginning of each period. The pro forma results are provided for information only. The results are not necessarily indicative of the actual results that would have been realized had the acquisition occurred on the indicated date, nor are they necessarily indicative of future results of operations of the combined companies.

(In thousands, except per share data)	2000	1999
Revenues	$ 7,087,543	$ 6,181,494
Net income	$ 585,863	$ 445,570
Basic and diluted earnings per share	$ 2.93	$ 2.29
Average shares	199,722	194,591

B. NORTH CAROLINA NATURAL GAS CORPORATION

On July 15, 1999, the Company completed the acquisition of NCNG for an aggregate purchase price of approximately $364 million, resulting in the issuance of approximately 8.3 million shares. The acquisition was accounted for as a purchase and, accordingly, the operating results of NCNG were included in the Company's consolidated financial statements beginning with the date of acquisition. The excess of the aggregate purchase price over the fair value of net assets acquired, approximately $240 million, was recorded as goodwill of the acquired business and is being amortized primarily over a period of 40 years.

C. BELLSOUTH CAROLINAS PCS PARTNERSHIP INTEREST

In September 2000, Caronet, Inc., a wholly-owned subsidiary of CP&L, sold its 10% limited partnership interest in BellSouth Carolinas PCS for $200 million. The sale resulted in an after-tax gain of $121.1 million.

NOTE 3. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Effective with the acquisition of FPC on November 30, 2000, the Company has changed the basis of segment reporting and measurement of segment profitability beginning with the fourth quarter of 2000. Prior periods have been restated to reflect this change. The Company currently provides services through the following business segments: CP&L electric, Florida Power electric, natural gas and other.

FPC's operations consisted mainly of the Florida Power electric segment and certain other subsidiaries, which have been included in the other segment.

The electric segments (CP&L and Florida Power) generate, transmit, distribute and sell electric energy in portions of North Carolina, South Carolina and Florida. Electric operations are subject to the rules and regulations of FERC, NCUC, SCPSC and FPSC.

The natural gas segment transports, distributes and sells gas in portions of North Carolina. Gas operations are subject to the rules and regulations of the NCUC.

The other segment is primarily made up of merchant energy generation, coal and synthetic fuel operations and holding company operations. The other segment also includes telecommunication services, energy management services and miscellaneous non-regulated activities and elimination entries.

For reportable segments presented in the accompanying table, segment income includes intersegment revenues accounted for at prices representative of unaffiliated party transactions.

(In thousands)	CP&L Electric	Florida Power Electric	Natural Gas	Other	Segment Totals
FOR THE YEAR ENDED 12/31/00					
Revenues:					
Unaffiliated	$3,323,676	$ 241,606	$ 318,602	$ 229,092	$ 4,112,976
Intersegment	–	–	5,897	–	5,897
Total Revenues	$3,323,676	$ 241,606	$ 324,499	$ 229,092	$ 4,118,873
Depreciation and Amortization	$ 684,356	$ 28,873	$ 18,984	$ 22,911	$ 755,124
Net Interest Charges	$ 221,856	$ 9,777	$ 7,122	$ 24,572	$ 263,327
Segment Income	$ 458,062	$ 21,765	$ 7,066	$ (8,532)	$ 478,361
Total Segment Assets	$9,247,479	$4,918,776	$ 673,124	$5,251,633	$20,091,012
Capital and Investment Expenditures	$ 805,489	$ 49,805	$ 94,899	$ 242,693	$ 1,192,886

(In thousands)	CP&L Electric	Florida Power Electric	Natural Gas	Other	Segment Totals
FOR THE YEAR ENDED 12/31/99					
Revenues:					
Unaffiliated	$3,138,846	$ –	$ 97,886	$ 119,866	$3,356,598
Intersegment	–	–	1,017	–	1,017
Total Revenues	$3,138,846	$ –	$ 98,903	$ 119,866	$ 3,357,615
Depreciation and Amortization	$ 486,502	$ –	$ 9,168	$ 16,804	$ 512,474
Net Interest Charges	$ 183,098	$ –	$ 3,225	$ (5,456)	$ 180,867
Segment Income	$ 379,288	$ –	$ 1,284	$ (1,284)	$ 379,288
Total Segment Assets	$8,705,547	$ –	$ 550,132	$ 238,340	$9,494,019
Capital and Investment Expenditures	$ 671,401	$ –	$ 24,047	$ 193,131	$ 888,579

(In thousands)	CP&L Electric	Florida Power Electric	Natural Gas	Other	Segment Totals
FOR THE YEAR ENDED 12/31/98					
Revenues:					
Unaffiliated	$3,130,045	$ –	$ –	$ 61,623	$3,191,668
Intersegment	–	–	–	–	–
Total Revenues	$3,130,045	$ –	$ –	$ 61,623	$3,191,668
Depreciation and Amortization	$ 487,097	$ –	$ –	$ 2,951	$ 490,048
Net Interest Charges	$ 174,433	$ –	$ –	$ (48)	$ 174,385
Segment Income	$ 396,272	$ –	$ –	$ (1)	$ 396,271
Total Segment Assets	$ 8,211,372	$ –	$ –	$ 190,034	$8,401,406
Capital and Investment Expenditures	$ 463,729	$ –	$ –	$ 64,077	$ 527,806

Segment totals for depreciation and amortization expense include expenses related to the other segments that are included in diversified business operating expenses on a consolidated basis. Segment totals for interest expense include expenses related to the other segments that are included in other, net on a consolidated basis.

NOTE 4. NET ASSETS HELD FOR SALE

At December 31, 2000, the Company's net assets held for sale reflect management's estimate of the proceeds expected to be realized from the disposal of FPC's Rail Services and Inland Marine Transportation business segments. Rail Services' operations include railcar repair, rail parts reconditioning and sales, scrap metal recycling and other rail related services. Inland Marine Transportation provides transportation of coal, agriculture and other dry-bulk commodities as well as fleet management services. The Company intends to sell these business lines during 2001 in order to focus on growing core businesses.

The Company's post-acquisition results of operations exclude a $0.7 million net loss from the FPC's Rail Services and Inland Marine Transportation businesses and allocated interest expense, net of tax, totaling approximately $1 million. Both the expected earnings from these businesses and allocated interest expense, net of tax, during the holding period on the incremental debt incurred to finance the purchase of these business segments has been included in the determination of net assets held for sale.

Net assets held for sale related to the Inland Marine Transportation segment are subject to certain commitments under operating leases (See Note 8).

NOTE 5. RELATED PARTY TRANSACTIONS

The Company operates two internal money pools, one for the utilities and one for the non-utility subsidiaries, to more effectively utilize cash resources and to reduce outside short-term borrowings. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowing companies pay interest at a rate designed to approximate the cost of outside short-term borrowings. Subsidiaries which invest in the money pool earn interest on a basis proportionate to their average monthly investment. The interest rate used to calculate earnings approximates external interest rates. Funds may be withdrawn from or repaid to the pool at any time without prior notice. The Company can loan money to either of these two pools but is not allowed to borrow from either pool.

Prior to the acquisition of FPC, the Company purchased a 90% membership interest in two synfuel related limited liability companies from a wholly-owned subsidiary of FPC. Interest expense incurred during the pre-acquisition period was approximately $3.3 million. Subsequent to the acquisition date, intercompany amounts have been eliminated in consolidation.

See Note 3 for NCNG gas sales to CP&L.

NOTE 6. DEBT AND CREDIT FACILITIES

At December 31, 2000, the Company had lines of credit totaling $5.5 billion, all of which are used to support its commercial paper borrowings. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. The following table summarizes the Company's credit facilities used to support the issuance of commercial paper.

(In thousands)	Description	Short-term	Long-term	Total
Progress Energy	364-Day	$ 3,750	–	$ 3,750
CP&L	364-Day	–	375	375
CP&L	5-Year (4 years remaining)	–	375	375
Florida Power	364-Day	200	–	200
Florida Power	5-Year (4 years remaining)	–	200	200
Progress Capital	364-Day	100	–	100
Progress Capital	364-Day	200	–	200
Progress Capital	5-Year (3 years remaining)	–	300	300
		$ 4,250	$ 1,250	$ 5,500

As of December 31, 2000, $845 million was drawn under Progress Energy's credit facility. There were no loans outstanding under the other facilities. CP&L's 364-day revolving credit agreement is considered a long-term commitment due to an option to convert to a one-year term loan at the expiration date.

Based on the available balances on the long-term facilities, commercial paper of approximately $986 million has been reclassified to long-term debt at December 31, 2000. Commercial paper, pollution control bonds, and other short-term indebtedness of approximately $363 million, $56 million, and $331 million, respectively, were reclassified to long-term debt at December 31, 1999. As of December 31, 2000 and 1999, the Company had an additional $4 billion and $168 million, respectively of outstanding commercial paper and other short-term debt classified as short-term obligations. The weighted-average interest rates of such short-term obligations at December 31, 2000 and 1999 were 7.4% and 6.1%, respectively.

Florida Power and Progress Capital Holdings, Inc. (Progress Capital), subsidiaries of FPC, have two uncommitted bank bid facilities authorizing them to borrow and re-borrow, and have loans outstanding at any time, up to $100 million and $300 million, respectively. These bank bid facilities were not drawn as of December 31, 2000.

Florida Power and CP&L both have public medium-term note programs providing for the issuance of either fixed or floating interest rate notes. These notes may have maturities ranging from 9 months to 30 years. Florida Power and CP&L have balances of $250 million and $300 million, respectively, available for issuance at December 31, 2000. In addition, Progress Capital has a private medium-term note program with essentially the same terms as the other programs. A balance of $400 million is available for issuance under this program.

The combined aggregate maturities of long-term debt for 2001 through 2005 are approximately $184 million, $682 million, $1.3 billion, $368 million and $348 million, respectively.

NOTE 7. FPC-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES (QUIPS) OF A SUBSIDIARY HOLDING SOLELY FPC GUARANTEED NOTES

In April 1999, FPC Capital I (the Trust), an indirect wholly-owned subsidiary of FPC, issued 12 million shares of $25 par cumulative FPC-obligated mandatorily redeemable preferred securities (Preferred Securities) due 2039, with an aggregate liquidation value of $300 million and a quarterly distribution rate of 7.10%. Currently, all 12 million shares of the Preferred Securities that were issued are outstanding. Concurrent with the issuance of the Preferred Securities, the Trust issued to Florida Progress Funding Corporation (Funding Corp.) all of the common securities of the Trust (371,135 shares) for $9.3 million. Funding Corp. is a direct wholly-owned subsidiary of FPC.

The existence of the Trust is for the sole purpose of issuing the Preferred Securities and the common securities and using the proceeds thereof to purchase from Funding Corp. its 7.10% Junior Subordinated Deferrable Interest Notes (subordinated notes) due 2039, for a principal amount of $309.3 million. The subordinated notes and the Notes Guarantee (as discussed below) are the sole assets of the Trust. Funding Corp.'s proceeds from the sale of the subordinated notes were advanced to Progress Capital and used for general corporate purposes including the repayment of a portion of certain outstanding short-term bank loans and commercial paper.

FPC has fully and unconditionally guaranteed the obligations of Funding Corp. under the subordinated notes (the Notes Guarantee). In addition, FPC has guaranteed the payment of all distributions required to be made by the Trust, but only to the extent that the Trust has funds available for such distributions (Preferred Securities Guarantee). The Preferred Securities Guarantee, considered together with the Notes Guarantee, constitutes a full and unconditional guarantee by FPC of the Trust's obligations under the Preferred Securities.

The subordinated notes may be redeemed at the option of Funding Corp. beginning in 2004 at par value plus accrued interest through the redemption date. The proceeds of any redemption of the subordinated notes will be used by the Trust to redeem proportional amounts of the Preferred Securities and common securities in accordance with their terms. Upon liquidation or dissolution of Funding Corp., holders of the Preferred Securities would be entitled to the liquidation preference of $25 per share plus all accrued and unpaid dividends thereon to the date of payment.

NOTE 8. LEASES

The Company leases office buildings, computer equipment, vehicles, and other property and equipment with various terms and expiration dates. Some rental payments for transportation equipment include minimum rentals plus contingent rentals based on mileage. Contingent rentals are not significant. Rent expense (under operating leases) totaled $26.8 million, $21.3 million and $20.0 million for 2000, 1999 and 1998, respectively.

Assets recorded under capital leases at December 31 consist of:

(In thousands)	2000	1999
Buildings	$ 27,626	$ 27,626
Equipment	9,366	–
Less: Accumulated amortization	(8,018)	(6,760)
Total	$ 28,974	$ 20,866

Minimum annual rental payments, excluding executory costs such as property taxes, insurance and maintenance, under long-term noncancelable leases, including the synthetic lease described below, as of December 31, 2000 are:

(In thousands)	Capital Leases	Operating Leases
2001	$ 3,441	$ 96,433
2002	3,233	73,985
2003	3,233	69,998
2004	3,233	76,184
2005	3,233	59,084
Thereafter	35,330	251,808
Total	$ 51,703	$ 627,492
Less amount representing imputed interest	(22,729)	
Present value of net minimum lease payments under capital leases	$ 28,974	

On August 6, 1998, MEMCO Barge Line, Inc. (MEMCO), an indirect, wholly-owned subsidiary of FPC, entered into a synthetic lease financing, accomplished via a sale and leaseback, for an aggregate of approximately $175 million in inland river barges and $25 million in towboats (vessels). MEMCO sold and leased back $153 million of vessels as of December 31, 1998, and the remaining $47 million of vessels in May 1999. The lease (charter) is an operating lease for financial reporting purposes and a secured financing for tax purposes.

The term of the noncancelable charter expires on December 30, 2012, and provides MEMCO one 18-month renewal option on the same terms and conditions. MEMCO is responsible for all executory costs, including insurance, maintenance and taxes, in addition to the charter payments. MEMCO has options to purchase the vessels throughout the term of the charter, as well as an option to purchase at the termination of the charter. Assuming MEMCO exercises no purchase options during the term of the charter, the purchase price for all vessels totals $141.8 million at June 30, 2014. In the event that MEMCO does not exercise its purchase option for all vessels, it will be obligated to remarket the vessels and, at the expiration of the charter, pay a maximum residual guarantee amount of $89.3 million.

The minimum future charter payments as of December 31, 2000, are $15.4 million, $15.4 million, $15.8 million, $15.8 million and $16.0 million for 2001 through 2005, respectively, and $140.4 million thereafter (excluding the purchase option payment). All MEMCO payment obligations under the transaction documents are unconditionally guaranteed by Progress Capital; those obligations are guaranteed by FPC.

The Company is also a lessor of land and/or buildings and other types of properties it owns under operating leases with various terms and expiration dates. The leased buildings are depreciated under the same terms as other buildings included in diversified business property. Minimum rentals receivable under noncancelable leases as of December 31, 2000, are:

(In thousands)	Amounts
2001	$ 40,999
2002	31,743
2003	21,962
2004	16,396
2005	13,336
Thereafter	38,062
Total	$ 162,498

NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents and short-term obligations approximate fair value due to the short maturities of these instruments. At December 31, 2000 and 1999, there were miscellaneous investments with carrying amounts of approximately $61 million and $60 million, respectively, included in miscellaneous other property and investments. The carrying amount of these investments approximates fair value due to the short maturity of certain instruments and certain instruments are presented at fair value. The carrying amount of the Company's long-term debt, including current maturities, was $6.1 billion and $3.2 billion at December 31, 2000 and 1999, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was $6.0 billion and $3.2 billion at December 31, 2000 and 1999, respectively.

External funds have been established as a mechanism to fund certain costs of nuclear decommissioning (See Note 1G). These nuclear decommissioning trust funds are invested in stocks, bonds and cash equivalents. Nuclear decommissioning trust funds are presented at amounts that approximate fair value. Fair value is obtained from quoted market prices for the same or similar investments.

NOTE 10. CAPITALIZATION

As of December 31, 2000, the Company had 227,647,066 shares of authorized but unissued common stock reserved and available for issuance, primarily to satisfy the requirements of the Company's stock plans. The Company intends, however, to meet the requirements of these stock plans with issued and outstanding shares presently held by the Trustee of the Stock Purchase-Savings Plan or with open market purchases of common stock shares, as appropriate. During 2000 and 1999, the Company issued common stock in conjunction with the FPC and NCNG acquisitions, respectively (See Note 2).

There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. As of December 31, 2000, there were no significant restrictions on the use of retained earnings.

NOTE 11. CONTINGENT VALUE OBLIGATIONS

In connection with the acquisition of FPC, the Company issued 98.6 million CVOs. Each CVO represents the right to receive contingent payments based on the performance of four synthetic fuel facilities purchased by subsidiaries of FPC in October 1999. The payments, if any, would be based on the net after-tax cash flows the facilities generate. The initial liability recorded at the acquisition date was approximately \$49.3 million (See Note 2A). The CVO liability was marked-to-market based on the year-end market price. The liability, included in other liabilities and deferred credits, at December 31, 2000, was \$40.4 million.

NOTE 12. REGULATORY MATTERS

A. REGULATORY ASSETS AND LIABILITIES

As regulated entities, the utilities are subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, the utilities record certain assets and liabilities resulting from the effects of the ratemaking process, which would not be recorded under generally accepted accounting principles for non-regulated entities. The utilities' ability to continue to meet the criteria for application of SFAS No. 71 may be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS No. 71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of utility plant assets as determined pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

At December 31, 2000 and 1999, the balances of the utilities' regulatory assets (liabilities) were as follows:

(In thousands)	2000	1999
Income taxes recoverable through future rates*	$208,997	$229,008
Harris Plant deferred costs	44,813	56,142
Loss on reacquired debt*	25,495	4,719
Other postretirement benefits	15,670	–
Deferred fuel	217,806	81,699
Abandonment costs*	–	1,675
Deferred DOE enrichment facilities-related costs	36,027	40,897
Deferred purchased power contract termination costs	226,656	–
Defined benefit retirement plan	(203,137)	–
Deferred revenues	(63,000)	–
Other regulatory assets and liabilities, net	2,477	–
Total	$ 511,804	$ 414,140

*All or certain portions of these regulatory assets have been subject to accelerated amortization (See Note 1F).

B. RETAIL RATE MATTERS

The NCUC and SCPSC approved proposals to accelerate cost recovery of CP&L's nuclear generating assets beginning January 1, 2000, and continuing through 2004. The accelerated cost recovery began immediately after the 1999 expiration of the accelerated amortization of certain regulatory assets (See Note 1F). Pursuant to the orders, the accelerated depreciation expense for nuclear generating assets was set at a minimum of $106 million with a maximum of $150 million per year. In late 2000, CP&L received approval from the NCUC and the SCPSC to further accelerate the cost recovery of its nuclear generation facilities by $125 million in 2000. This additional depreciation will allow CP&L to reduce the minimum accelerated annual depreciation in 2001 through 2004 to $75 million. The resulting total accelerated depreciation in 2000 was $275 million. Recovering the costs of its nuclear generating assets on an accelerated basis will better position CP&L for the uncertainties associated with potential restructuring of the electric utility industry.

In June 2000, CP&L filed a request with the NCUC seeking approval to defer sulfur dioxide (SO2) emission allowance expenses, effective as of January 1, 2000, for recovery in a future general rate case proceeding or by such other means as the NCUC may find appropriate. On January 5, 2001, the NCUC issued an order authorizing CP&L to defer, effective January 1, 2000, the cost of SO2 emission allowances purchased pursuant to the Clean Air Act. Emission allowance expense of $16 million that was recorded in 2000 will be reversed in 2001 and recorded as a regulatory asset. The ratemaking treatment of the regulatory asset has not been determined. CP&L is allowed to recover emission allowance expense through the fuel clause adjustment in its South Carolina retail jurisdiction.

In conjunction with the acquisition of NCNG, CP&L agreed to cap base retail electric rates in North Carolina and South Carolina through December 2004. The cap on base retail electric rates in South Carolina was extended to December 2005 in conjunction with regulatory approval to form a holding company. NCNG also agreed to cap its North Carolina margin rates for gas sales and transportation services, with limited exceptions, through November 1, 2003. Management is of the opinion that this agreement will not have a material effect on the Company's consolidated results of operations or financial position.

In conjunction with the FPC merger, CP&L reached a settlement with the Public Staff of the NCUC in which it agreed to reduce rates to all of its non-real time pricing customers by $3 million in 2002, $4.5 million in 2003, $6 million in 2004 and $6 million in 2005. CP&L also agreed to write off and forego recovery of $10 million of unrecovered fuel costs in each of its 2000 NCUC and SCPSC fuel cost recovery proceedings. Also in conjunction with the merger, the FPSC opened a docket to review Florida Power's earnings including the effects of the merger. The FPSC's decision is expected by late March 2001.

Florida Power, with the approval of the FPSC, established a regulatory liability to defer a portion of 2000 revenues. If an alternative proposal is not filed by April 2, 2001, Florida Power will be directed to apply the deferred revenues at December 31, 2000, of $63 million, plus accrued interest, to offset certain regulatory assets related to deferred purchased power termination costs.

In compliance with a regulatory order, Florida Power accrues a reserve for maintenance and refueling expenses anticipated to be incurred during scheduled nuclear plant outages. The balance of this reserve at December 31, 2000, was approximately $11 million.

C. PLANT-RELATED DEFERRED COSTS

In 1988 rate orders, CP&L was ordered to remove from rate base and treat as abandoned plant certain costs related to the Harris Plant. Abandoned plant amortization related to the 1988 rate orders was completed in 1998 for the wholesale and North Carolina retail jurisdictions and in 1999 for the South Carolina retail jurisdiction. Amortization of plant abandonment costs is included in depreciation and amortization expense and totaled $15.0 million and $24.2 million in 1999 and 1998, respectively.

NOTE 13. RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS

The Company uses a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. The Company minimizes such risk by performing credit reviews using, among other things, publicly available credit ratings of such counterparties. Potential non-performance by counterparties is not expected to have a material effect on the consolidated financial position or consolidated results of operations of the Company.

A. COMMODITY DERIVATIVES – NON-TRADING

The Company enters into certain forward contracts involving cash settlements or physical delivery that reduce the exposure to market fluctuations relative to the price and delivery of electric products. During 2000, 1999 and 1998, the Company principally sold electricity forward contracts, which can reduce price risk on the Company's available but unsold generation. While such contracts are

deemed to be economic hedges, the Company no longer designates such contracts as hedges for accounting purposes; therefore, these contracts are carried on the consolidated balance sheet at fair value, with changes in fair value recognized in earnings. Gains and losses from such contracts were not material during 2000, 1999 and 1998. Also, the Company did not have material outstanding positions in such contracts at December 31, 2000 or 1999.

B. COMMODITY DERIVATIVES – TRADING

The Company from time to time engages in the trading of electricity commodity derivatives and, therefore, experiences net open positions. The Company manages open positions with strict policies which limit its exposure to market risk and require daily reporting to management of potential financial exposures. When such instruments are entered into for trading purposes, the instruments are carried on the consolidated balance sheet at fair value, with changes in fair value recognized in earnings. The net results of such contracts have not been material in any year and the Company did not have material outstanding positions in such contracts at December 31, 2000 or 1999.

C. OTHER DERIVATIVE INSTRUMENTS

The Company may from time to time enter into derivative instruments to hedge interest rate risk or equity securities risk.

The Company has interest rate swap agreements to hedge its exposure on variable rate debt positions. The agreements, with a total notional amount of $500 million, were effective in July 2000 and mature in July 2002. Under these agreements, the Company receives a floating rate based on the three-month London Interbank Offered Rate (LIBOR) and pays a weighted-average fixed rate of approximately 7.17%. The fair value of the swaps was a $9.1 million liability position at December 31, 2000. Interest rate swaps are accounted for using the settlement basis of accounting. As such, payments or receipts on interest rate swap agreements are recognized as adjustments to interest expense.

During 2000, the Company entered into forward starting swap agreements to hedge its exposure to interest rates with regard to future issuances of fixed-rate debt. The agreements, with a total notional amount of $1.125 billion, will be cash settled at the time that the hedged debt is issued. These agreements have computational periods of two, five and ten years, with $375 million notional amount for each computational period. Under the agreements, the Company receives a floating rate based on the three-month LIBOR and pays weighted-average fixed rates of approximately 6.65%, 6.76% and 6.89% for the two, five and ten year computational periods, respectively. The fair value of the swaps was a $37.5 million liability position at December 31, 2000. Forward starting swaps are carried on the consolidated balance sheet at fair value, with corresponding deferred gains or losses. The resulting deferred losses or gains will be amortized and recorded as adjustments to interest expense over the life of the related debt issuances.

The notional amounts of the interest rate swaps and the forward starting swaps are not exchanged and do not represent exposure to credit loss. In the event of default by a counterparty, the risk in these transactions is the cost of replacing the agreements at current market rates.

NOTE 14. STOCK-BASED COMPENSATION PLANS

A. EMPLOYEE STOCK OWNERSHIP PLAN

The Company sponsors the Stock Purchase-Savings Plan (SPSP) for which substantially all full-time employees and certain part-time employees of the former CP&L Energy, Inc. (See Note 1A) are eligible. The SPSP, which has Company matching and incentive goal features, encourages systematic savings by employees and provides a method of acquiring Company common stock and other diverse investments. The SPSP, as amended in 1989, is an Employee Stock Ownership Plan (ESOP) that can enter into acquisition loans to acquire Company common stock to satisfy SPSP common share needs. Qualification as an ESOP did not change the level of benefits received by employees under the SPSP. Common stock acquired with the proceeds of an ESOP loan is held by the SPSP Trustee in a suspense account. The common stock is released from the suspense account and made available for allocation to participants as the ESOP loan is repaid. Such allocations are used to partially meet common stock needs related to Company matching and incentive contributions and/or reinvested dividends. All or a portion of the dividends paid on ESOP suspense shares and on ESOP shares allocated to participants may be used to repay ESOP acquisition loans. To the extent used to repay such loans, the dividends are deductible for income tax purposes.

There were 5,782,376 and 6,365,364 ESOP suspense shares at December 31, 2000 and 1999, respectively, with a fair value of $284.4 million and $193.7 million, respectively. ESOP shares allocated to plan participants totaled 13,549,257 and 12,966,269 at December 31, 2000 and 1999, respectively. The Company's matching and incentive goal compensation cost under the SPSP is determined based on matching percentages and incentive goal attainment as defined in the plan. Such compensation cost is allocated to participants' accounts in the

form of Company common stock, with the number of shares determined by dividing compensation cost by the common stock market value at the time of allocation. The Company currently meets common stock share needs with open market purchases and with shares released from the ESOP suspense account. Matching and incentive cost met with shares released from the suspense account totaled approximately $15.6 million, $16.3 million and $15.3 million for the years ended December 31, 2000, 1999 and 1998, respectively. The Company has a long-term note receivable from the SPSP Trustee related to the purchase of common stock from the Company in 1989. The balance of the note receivable from the SPSP Trustee is included in the determination of unearned ESOP common stock, which reduces common stock equity. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. Interest income on the note receivable and dividends on unallocated ESOP shares are not recognized for financial statement purposes.

B. OTHER STOCK-BASED COMPENSATION PLANS

The Company has compensation plans for officers and key employees of the Company that are stock-based in whole or in part. The two primary active stock-based compensation programs are the Performance Share Sub-Plan (PSSP) and the Restricted Stock Awards program (RSA), both of which were established pursuant to the Company's 1997 Equity Incentive Plan.

Under the terms of the PSSP, officers and key employees of the Company are granted performance shares that vest over a three-year consecutive period. Each performance share has a value that is equal to, and changes with, the value of a share of the Company's common stock, and dividend equivalents are accrued on, and reinvested in, the performance shares. The PSSP has two equally weighted performance measures, both of which are based on the Company's results as compared to a peer group of utilities. Compensation expense is recognized over the vesting period based on the expected ultimate cash payout. Compensation expense is reduced by any forfeitures.

The RSA, which began in 1998, allows the Company to grant shares of restricted common stock to key employees of the Company. The restricted shares vest on a graded vesting schedule over a minimum of three years. Compensation expense, which is based on the fair value of common stock at the grant date, is recognized over the applicable vesting period, with corresponding increases in common stock equity. The weighted average price of restricted shares at the grant date was $36.97, $36.63 and $42.03 in 2000, 1999 and 1998, respectively. Compensation expense is reduced by any forfeitures. Restricted shares are not included as shares outstanding in the basic earnings per share calculation until the shares are no longer forfeitable. Changes in restricted stock shares outstanding were:

	2000	1999	1998
Beginning balance	331,900	265,300	–
Granted	359,844	66,600	274,800
Forfeited	(38,400)	–	(9,500)
Ending balance	653,344	331,900	265,300

The total amount expensed for other stock-based compensation plans was $15.6 million, $2.2 million and $1.3 million in 2000, 1999 and 1998, respectively.

NOTE 15. POSTRETIREMENT BENEFIT PLANS

The Company and some of its subsidiaries have a noncontributory defined benefit retirement (pension) plan for substantially all full-time employees. The Company also has supplementary defined benefit pension plans that provide benefits to higher-level employees.

The components of net periodic pension benefit are:

(In thousands)	2000	1999	1998
Expected return on plan assets	$ (87,628)	$ (75,124)	$ (69,920)
Service cost	22,123	20,467	18,357
Interest cost	56,924	46,846	45,877
Amortization of transition obligation	125	106	106
Amortization of prior service benefit	(1,314)	(1,314)	(158)
Amortization of actuarial gain	(5,721)	(3,932)	(6,440)
Net periodic pension benefit	$ (15,491)	$ (12,951)	$ (12,178)

In addition to the net periodic benefit reflected above, in 2000 the Company recorded a charge of approximately $21.5 million to adjust one of its supplementary defined benefit pension plans. The effect of the adjustment for this plan is reflected in the actuarial loss (gain) line in the pension obligation reconciliation below.

Prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants. Actuarial gains and losses in excess of 10% of the greater of the pension obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

Reconciliations of the changes in the plan's benefit obligations and the plan's funded status are:

(In thousands)	2000	1999
Pension obligation		
Pension obligation at January 1	$ 688,124	$ 678,210
Interest cost	56,924	46,846
Service cost	22,123	20,467
Benefit payments	(55,291)	(41,585)
Actuarial loss (gain)	39,798	(50,120)
Plan amendments	–	5,546
Acquisitions	625,181	28,760
Pension obligation at December 31	$ 1,376,859	$ 688,124
Fair value of plan assets at December 31	1,843,410	947,143
Funded status	$ 466,551	$ 259,019
Unrecognized transition obligation	495	582
Unrecognized prior service benefit	(16,861)	(18,175)
Unrecognized actuarial gain	(158,541)	(245,343)
Prepaid (accrued) pension cost at December 31, net	$ 291,644	$ (3,917)

The net prepaid pension cost of $291.6 million at December 31, 2000 is recognized in the accompanying consolidated balance sheet as prepaid pension cost of $373.2 million and accrued benefit cost of $81.6 million, which is included in other liabilities and deferred credits. The accrued pension cost at December 31, 1999 did not have prepaid components and, therefore, is reflected in other liabilities and deferred credits. The aggregate benefit obligation for those plans where the accumulated benefit obligation exceeded the fair value of plan assets was $83.6 million at December 31, 2000, and those plans have no plan assets.

Reconciliations of the fair value of pension plan assets are:

(In thousands)	2000	1999
Fair value of plan assets at January 1	$ 947,143	$ 830,213
Actual return on plan assets	24,840	127,167
Benefit payments	(55,291)	(41,585)
Employer contributions	1,329	–
Acquisitions	925,389	31,348
Fair value of plan assets at December 31	$ 1,843,410	$ 947,143

The weighted-average discount rate used to measure the pension obligation was 7.5% in 2000 and 1999. The weighted-average rate of increase in future compensation for non-bargaining unit employees used to measure the pension obligation was 4.0% in 2000 and 4.2% in 1999. The corresponding rate of increase in future compensation for bargaining unit employees was 3.5% in 2000. There were no bargaining unit employees in 1999. The expected long-term rate of return on pension plan assets used in determining the net periodic pension cost was 9.25% in 2000, 1999 and 1998.

In addition to pension benefits, the Company and some of its subsidiaries provide contributory postretirement benefits (OPEB), including certain health care and life insurance benefits, for retired employees who meet specified criteria.

The components of net periodic OPEB cost are:

(In thousands)	2000	1999	1998
Expected return on plan assets	$ (4,045)	$ (3,378)	$ (3,092)
Service cost	10,067	7,936	7,182
Interest cost	15,446	13,914	13,402
Amortization of prior service cost	107	–	–
Amortization of transition obligation	5,878	5,760	5,641
Amortization of actuarial gain	(819)	(1)	(549)
Net periodic OPEB cost	$ 26,634	$ 24,231	$ 22,584

Prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants. Actuarial gains and losses in excess of 10% of the greater of the OPEB obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

Reconciliations of the changes in the plan's benefit obligations and the plan's funded status are:

(In thousands)	2000	1999
OPEB obligation		
OPEB obligation at January 1	$ 213,488	$ 196,846
Interest cost	15,446	13,914
Service cost	10,067	7,936
Benefit payments	(7,258)	(5,769)
Actuarial gain	(12,590)	(7,307)
Plan amendment	–	1,062
Acquisitions	155,770	6,806
OPEB obligation at December 31	$ 374,923	$ 213,488
Fair value of plan assets at December 31	54,642	43,235
Funded status	$(320,281)	$(170,253)
Unrecognized transition obligation	70,715	76,593
Unrecognized prior service cost	955	1,062
Unrecognized actuarial gain	(25,060)	(17,261)
Accrued OPEB cost at December 31	$(273,671)	$(109,859)

Reconciliations of the fair value of OPEB plan assets are:

(In thousands)	2000	1999
Fair value of plan assets at January 1	$ 43,235	$ 37,304
Actual return on plan assets	124	5,931
Acquisition	11,283	–
Employer contribution	7,258	5,769
Benefits paid	(7,258)	(5,769)
Fair value of plan assets at December 31	$ 54,642	$ 43,235

The assumptions used to measure the OPEB obligation are:

(In thousands)	2000	1999
Weighted-average discount rate	7.50%	7.50%
Initial medical cost trend rate for pre-Medicare benefits	7.2%-7.5%	7.50%
Initial medical cost trend rate for post-Medicare benefits	6.2%-7.5%	7.25%
Ultimate medical cost trend rate	5.0%-5.3%	5.00%
Year ultimate medical cost trend rate is achieved	2005-2009	2006

The expected weighted-average long-term rate of return on plan assets used in determining the net periodic OPEB cost was 9.20% in 2000 and 9.25% in 1999 and 1998. The medical cost trend rates were assumed to decrease gradually from the initial rates to the ultimate rates.

Assuming a 1% increase in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 2000 would increase by $4.3 million, and the OPEB obligation at December 31, 2000, would increase by $36.0 million. Assuming a 1% decrease in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 2000 would decrease by $3.6 million and the OPEB obligation at December 31, 2000, would decrease by $34.5 million.

During 1999, the Company completed the acquisition of NCNG (See Note 2). During 2000, the Company completed the acquisition of FPC (See Note 2). NCNG's and FPC's pension and OPEB liabilities, assets and net periodic costs are reflected in the above information as appropriate. Effective January 1, 2000, NCNG's benefit plans were merged with those of the Company. FPC's benefit plans are expected to be merged with those of the Company effective January 1, 2002.

NOTE 16. EARNINGS PER COMMON SHARE

Basic earnings per common share is based on the weighted-average of common shares outstanding. Diluted earnings per share includes the effect of the non-vested portion of restricted stock. Restricted stock awards and contingently issuable shares had a dilutive effect on earnings per share for 2000 and 1999 and increased the weighted-average number of common shares outstanding for dilutive purposes by 454,924 in 2000, 290,474 in 1999 and 250,660 in 1998. The weighted-average number of common shares outstanding for dilutive purposes was 157.6 million, 148.6 million and 144.2 million for 2000, 1999 and 1998, respectively.

NOTE 17. INCOME TAXES

Deferred income taxes are provided for temporary differences between book and tax bases of assets and liabilities. Investment tax credits related to regulated operations are amortized over the service life of the related property. A regulatory asset or liability has been recognized for the impact of tax expenses or benefits that are recovered or refunded in different periods by the utilities pursuant to rate orders.

Net accumulated deferred income tax liabilities at December 31 are:

(In thousands)	2000	1999
Accelerated depreciation and property cost differences	$2,054,509	$ 1,583,610
Deferred costs, net	63,085	70,478
Income tax credit carry forward	(103,754)	–
Miscellaneous other temporary differences, net	(150,969)	26,403
Valuation allowance	10,868	–
Net accumulated deferred income tax liability	$1,873,739	$1,680,491

Total deferred income tax liabilities were $2.79 billion and $2.20 billion at December 31, 2000 and 1999, respectively. Total deferred income tax assets were $919 million and $519 million at December 31, 2000 and 1999, respectively. The net of deferred income tax liabilities and deferred income tax assets is included on the consolidated balance sheets under the captions other current liabilities and accumulated deferred income taxes.

The Company has established a valuation allowance of $10.9 million due to the uncertainty of realizing future tax benefits from certain state net operating loss carryforwards.

Reconciliations of the Company's effective income tax rate to the statutory federal income tax rate are:

	2000	1999	1998
Effective income tax rate	29.7%	40.3%	39.2%
State income taxes, net of federal income tax benefit	(4.8)	(4.6)	(4.7)
Income tax credits	12.2	–	–
Investment tax credit amortization	4.2	1.6	1.5
Harris accelerated depreciation	(1.9)	–	–
Other differences, net	(4.4)	(2.3)	(1.0)
Statutory federal income tax rate	35.0%	35.0%	35.0%

The provisions for income tax expense are comprised of:

(In thousands)	2000	1999	1998
Income tax expense (credit):			
Current– federal	$ 254,967	$ 253,140	$ 254,400
state	61,309	48,075	51,817
Deferred–federal	(84,605)	(30,011)	(34,842)
state	(10,761)	(2,484)	(3,675)
Investment tax credit	(18,136)	(10,299)	(10,206)
Total income tax expense	$ 202,774	$ 258,421	$ 257,494

The Company is a majority owner in seven facilities and a minority owner in two facilities that produce synthetic fuel from fine coal feedstock, as defined under the Internal Revenue Service Code Section 29 (Section 29). The production and sale of the synthetic fuel from these facilities qualifies for tax credits under Section 29 if certain requirements are satisfied. Should the tax credits be denied on future audits, and the Company fails to prevail through the Internal Revenue Service or legal process, there could be significant tax liability owed for previously-taken Section 29 credits, with a significant impact on consolidated results of operations and cash flows. In management's opinion, the Company is complying with all necessary requirements to be allowed such credits under Section 29, but cannot predict the outcome of this matter.

NOTE 18. JOINT OWNERSHIP OF GENERATING FACILITIES

CP&L and Florida Power hold undivided ownership interests in certain jointly owned generating facilities, excluding related nuclear fuel and inventories. Each is entitled to shares of the generating capability and output of each unit equal to their respective ownership interests. Each also pays its ownership share of additional construction costs, fuel inventory purchases and operating expenses. CP&L's and Florida Power's share of expenses for the jointly owned facilities is included in the appropriate expense category.

CP&L's and Florida Power's ownership interest in the jointly owned generating facilities are listed below with related information as of December 31, 2000 (dollars in thousands):

Subsidiary	Facility	Megawatt Capability	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Under Construction
CP&L	Mayo Plant	745	83.83%	$ 451,769	$ 218,029	$ 12,248
CP&L	Harris Plant	860	83.83%	3,026,074	1,255,008	71,250
CP&L	Brunswick Plant	1,631	81.67%	1,422,640	1,121,880	12,555
CP&L	Roxboro Unit No. 4	700	87.06%	242,605	122,651	57,190
Florida Power	Crystal River Plant	782	91.78%	773,300	754,100	14,100

In the table above, plant investment and accumulated depreciation, which includes accumulated nuclear decommissioning, are not reduced by the regulatory disallowances related to the Harris Plant.

NOTE 19. COMMITMENTS AND CONTINGENCIES

A. PURCHASED POWER

Pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between CP&L and Power Agency, CP&L is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Harris Plant. In 1993, CP&L and Power Agency entered into an agreement to restructure portions of their contracts covering power supplies and interests in jointly owned units. Under the terms of the 1993 agreement, CP&L increased the amount of capacity and energy purchased from Power Agency's ownership interest in the Harris Plant, and the buyback period was extended six years through 2007. The estimated minimum annual payments for these purchases, which reflect capacity costs, total approximately $32 million. These contractual purchases totaled $33.9 million, $36.5 million and $34.4 million for 2000, 1999 and 1998, respectively. In 1987, the NCUC ordered CP&L to reflect the recovery of the capacity portion of these costs on a levelized basis over the original 15-year buyback period, thereby deferring for future recovery the difference between such costs and amounts collected through rates. In 1988, the SCPSC ordered similar treatment, but with a 10-year levelization period. At December 31, 2000 and 1999, CP&L had deferred purchased capacity costs, including carrying costs accrued on

the deferred balances, of $44.8 million and $56.1 million, respectively. Increased purchases (which are not being deferred for future recovery) resulting from the 1993 agreement with Power Agency were approximately $26 million, $23 million and $19 million for 2000, 1999 and 1998, respectively.

During 2000, CP&L had a long-term agreement for the purchase of power and related transmission services from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The agreement provides for the purchase of 250 megawatts of capacity through 2009 with an estimated minimum annual payment of approximately $31 million, representing capital-related capacity costs. Total purchases (including transmission use charges) under the Rockport agreement amounted to $61 million, $59.2 million and $59.3 million for 2000, 1999 and 1998, respectively. During 1998 and part of 1999, CP&L had an additional long-term agreement to purchase power and related transmission services from Duke Energy. Total purchases under this agreement amounted to $33.8 million and $75.5 million for 1999 and 1998, respectively.

Florida Power has long-term contracts for approximately 460 megawatts of purchased power with other utilities, including a contract with The Southern Company for approximately 400 megawatts of purchased power annually through 2010. Florida Power can lower these purchases to approximately 200 megawatts annually with a three-year notice. Total purchases under these agreements amounted to $104.5 million for 2000. Minimum purchases under these contracts, representing capital-related capacity costs, are approximately $50 million annually through 2003 and $30 million annually during 2004 and 2005.

B. OTHER COMMITMENTS

The Company has certain future commitments related to synthetic fuel facilities purchased. These agreements require payments to the seller based on the tons of coal produced and sold. During 2000, payments made under these agreements amounted to $42 million.

C. INSURANCE

The Company is a member of Nuclear Electric Insurance Limited (NEIL), which provides primary and excess insurance coverage against property damage to members' nuclear generating facilities. Under the primary program, the Company is insured for $500 million at each of its nuclear plants. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with limits of $1 billion on the Brunswick Plant, $1 billion on the Harris Plant, $800 million on the Robinson Plant, and $1.1 billion on CR3. An additional shared limit policy of $1 billion in excess of $1 billion is also provided through NEIL on the Brunswick and Harris Plants for decontamination, premature decommissioning and excess property.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. The Company is insured thereunder, following a twelve week deductible period, for 52 weeks in weekly amounts of $2.25 million at Brunswick Unit No. 1, $2.25 million at Brunswick Unit No. 2, $2.4 million at the Harris Plant, $1.96 million at Robinson Unit No. 2 and $2.1 million at CR3. An additional 104 weeks of coverage is provided at 80% of the above weekly amounts. For the current policy period, the Company is subject to retrospective premium assessments of up to approximately $13.5 million with respect to the primary coverage, $15.4 million with respect to the decontamination, decommissioning and excess property coverage, $2.6 million with respect to the shared limit excess coverage and $7.1 million for the incremental replacement power costs coverage, in the event covered expenses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. These resources as of December 31, 2000 totaled approximately $4.6 billion. Pursuant to regulations of the NRC, the Company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontamination costs, before any proceeds can be used for decommissioning, plant repair or restoration. The Company is responsible to the extent losses may exceed limits of the coverage described above.

The Company is insured against public liability for a nuclear incident up to $9.54 billion per occurrence. In the event that public liability claims from an insured nuclear incident exceed $200 million, CP&L and Florida Power would be subject to a pro rata assessment of up to $83.9 million and $88.1 million, respectively, for each reactor owned per occurrence. Payment of such assessment would be made over time as necessary to limit the payment in any one year to no more than $10 million per reactor owned.

Florida Power self-insures its transmission and distribution lines against loss due to storm damage and other natural disasters. Pursuant to a regulatory order, Florida Power is accruing $6 million annually to a storm damage reserve and may defer any losses in excess of the reserve. The reserve balance at December 31, 2000 was $29.5 million.

D. CLAIMS AND UNCERTAINTIES

1. The Company is subject to federal, state and local regulations addressing air and water quality, hazardous and solid waste management and other environmental matters.

Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. The lead or sole regulatory agency that is responsible for a particular former coal tar site depends largely upon the state in which the site is located. There are several manufactured gas plant (MGP) sites to which both electric utilities and the gas utility have some connection. In this regard, both electric utilities and the gas utility, with other potentially responsible parties, are participating in investigating and, if necessary, remediating former coal tar sites with several regulatory agencies, including, but not limited to, the U.S. Environmental Protection Agency (EPA), the Florida Department of Environment and Protection (DEP) and the North Carolina Department of Environment and Natural Resources, Division of Waste Management (DWM).

Both electric utilities, the gas utility and Electric Fuels are periodically notified by regulators such as the EPA and various state agencies of their involvement or potential involvement in sites, other than MGP sites, that may require investigation and/or remediation. Although the Company's subsidiaries may incur costs at the sites about which they have been notified, based upon the current status of these sites, the Company does not expect those costs to be material to the consolidated financial position or results of operations of the Company.

The EPA has been conducting an enforcement initiative related to a number of coal-fired utility power plants in an effort to determine whether modifications at those facilities were subject to New Source Review requirements or New Source Performance Standards under the Clean Air Act. Both electric utilities have recently been asked to provide information to the EPA as part of this initiative and have cooperated in providing the requested information. The EPA has initiated enforcement actions, some of which have resulted in settlement agreements, ranging from $1.0 billion to $1.4 billion, by other companies that have been subject to this initiative. The Company cannot predict the outcome of this matter.

The EPA published a final rule approving petitions under section 126 of the Clean Air Act, which requires certain sources to make reductions in nitrogen oxide emissions by 2003. The final rule also includes a set of regulations that affect nitrogen oxide emissions from sources included in the petitions. The North Carolina fossil-fueled electric generating plants are included in these petitions. CP&L, other utilities, trade organizations and other states are participating in litigation challenging the EPA's action. The Company cannot predict the outcome of this matter.

In 1998, the EPA published a final rule addressing the issue of regional transport of ozone. This rule is commonly known as the NOx SIP Call. The EPA's rule requires 23 jurisdictions, including North and South Carolina, but not Florida, to further reduce nitrogen oxide emissions in order to attain a pre-set state NOx emission level. The EPA's rule also suggests to the states that these additional nitrogen oxide emission reductions be obtained from the utility sector. CP&L is evaluating necessary measures to comply with the rule and estimates its related capital expenditures could be approximately $370 million, which has not been adjusted for inflation. Increased operation and maintenance costs relating to the NOx SIP Call are not expected to be material to the Company's results of operations. Further controls are anticipated as electricity demand increases. CP&L, other utilities, trade organizations and states are participating in litigation challenging the NOx SIP Call. The District of Columbia Circuit Court of Appeals upheld the EPA's NOx SIP Call. Further appeals to the U.S. Supreme Court have been filed. Prior to resolution of a potential appeal, the EPA is requiring regulations in the states involved in the NOx SIP Call including North and South Carolina to comport with the NOx SIP Call. Acceptable state plans can be approved in lieu of the final rules the EPA approved as part of the 126 petitions. North and South Carolina are proceeding to adopt such plans. The Company cannot predict the outcome of this matter.

In July 1997, the EPA issued final regulations establishing a new eight-hour ozone standard. In October 1999, the District of Columbia Circuit Court of Appeals ruled against the EPA with regard to the federal eight-hour ozone standard. CP&L, other utilities, trade organizations and states are participating in a further appeal to the U.S. Supreme Court. North Carolina adopted the federal eight-hour ozone standard and is proceeding with the implementation process. North Carolina has promulgated final regulations, which will require CP&L to install nitrogen oxide controls under the State's eight-hour standard. The cost of those controls are included in the cost estimate of $370 million set forth above.

Both electric utilities and the gas utility have filed claims with the Company's general liability insurance carriers to recover costs arising out of actual or potential liabilities. Some claims have settled and others are still pending. While management cannot predict the outcome of these matters, the outcome is not expected to have a material effect on the consolidated financial position or results of operations.

2. As required under the Nuclear Waste Policy Act of 1982, CP&L and Florida Power each entered into a contract with the DOE under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract.

In April 1995, the DOE issued a final interpretation that it did not have an unconditional obligation to take spent nuclear fuel by January 31, 1998. In Indiana & Michigan Power v. DOE, the Court of Appeals vacated the DOE's final interpretation and ruled that the DOE had an unconditional obligation to begin taking spent nuclear fuel. The Court did not specify a remedy because the DOE was not yet in default.

After the DOE failed to comply with the decision in Indiana & Michigan Power v. DOE, a group of utilities petitioned the Court of Appeals in Northern States Power (NSP) v. DOE, seeking an order requiring the DOE to begin taking spent nuclear fuel by January 31, 1998. The DOE took the position that their delay was unavoidable, and the DOE was excused from performance under the terms and conditions of the contract. The Court of Appeals did not order the DOE to begin taking spent nuclear fuel, stating that the utilities had a potentially adequate remedy by filing a claim for damages under the contract.

After the DOE failed to begin taking spent nuclear fuel by January 31, 1998, a group of utilities filed a motion with the Court of Appeals to enforce the mandate in NSP v. DOE. Specifically, this group of utilities asked the Court to permit the utilities to escrow their waste fee payments, to order the DOE not to use the waste fund to pay damages to the utilities, and to order the DOE to establish a schedule for disposal of spent nuclear fuel. The Court denied this motion based primarily on the grounds that a review of the matter was premature, and that some of the requested remedies fell outside of the mandate in NSP v. DOE.

Subsequently, a number of utilities each filed an action for damages in the Court of Claims. In a recent decision, the U.S. Circuit Court of Appeals (Federal Circuit) ruled that utilities may sue the DOE for damages in the Federal Court of Claims instead of having to file an administrative claim with DOE. CP&L and Florida Power are in the process of evaluating whether they should each file a similar action for damages.

CP&L and Florida Power also continue to monitor legislation that has been introduced in Congress which might provide some limited relief. CP&L and Florida Power cannot predict the outcome of this matter.

With certain modifications and additional approval by the NRC, CP&L's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent fuel generated on CP&L's system through the expiration of the current operating licenses for all of CP&L's nuclear generating units. Subsequent to the expiration of these licenses, dry storage may be necessary. CP&L has obtained NRC approval to use additional storage space at the Harris Plant. Florida Power currently is storing spent nuclear fuel onsite in spent fuel pools. If Florida Power does not seek renewal of the CR3 operating license, with certain modifications to its storage pools currently underway, CR3 will have sufficient storage capacity in place for fuel consumed through the end of the expiration of the license in 2016. If Florida Power extends the CR3 operating license, CR3 will have sufficient wet storage capacity until 2013, at which time dry storage may be necessary.

3. The Company and its subsidiaries are involved in various litigation matters in the ordinary course of business, some of which involve substantial amounts. Where appropriate, accruals have been made in accordance with SFAS No. 5, "Accounting for Contingencies," to provide for such matters. In the opinion of management, the final disposition of pending litigation would not have a material adverse effect on the Company's consolidated results of operations or financial position.

NOTE 20. SUBSEQUENT EVENT

In February 2001, the Company issued $3.2 billion of senior unsecured notes with maturities ranging from three to thirty years. Proceeds from this issuance were used to retire short-term obligations issued in connection with the FPC acquisition.

(Dollars in thousands except per share data)	2000	1999	1998	1997	1996	1995
RESULTS OF OPERATIONS[1]						
Operating revenues	$ 4,118,873	$ 3,357,615	$ 3,191,668	$ 3,036,587	$ 2,999,273	$ 3,006,553
Operating expenses	(3,399,315)	(2,517,072)	(2,344,118)	(2,250,610)	(2,214,225)	(2,215,030)
Other income (expense)	223,862	(23,370)	(19,549)	7,292	37,906	20,330
Interest charges, net	(262,285)	(179,464)	(174,236)	(177,288)	(185,370)	(208,175)
Income taxes	(202,774)	(258,421)	(257,494)	(233,716)	(255,916)	(240,683)
Net income	$ 478,361	$ 379,288	$ 396,271	$ 382,265	$ 381,668	$ 362,995
BALANCE SHEET DATA AT YEAR-END						
Total utility plant, net	$10,436,698	$ 6,764,813	$ 6,299,540	$ 6,293,510	$ 6,399,919	$ 6,328,508
Total assets	$20,091,012	$ 9,494,019	$ 8,401,406	$ 8,220,728	$ 8,364,862	$ 8,199,655
Capitalization:						
Common stock equity	$ 5,424,201	$ 3,412,647	$ 2,949,305	$ 2,818,807	$ 2,690,454	$ 2,574,743
Preferred stock-redemption not required	92,831	59,376	59,376	59,376	143,801	143,801
Long-term debt, net	5,890,099	3,028,561	2,614,414	2,415,656	2,525,607	2,610,343
Total capitalization	$ 11,407,131	$ 6,500,584	$ 5,623,095	$ 5,293,839	$ 5,359,862	$ 5,328,887
OTHER FINANCIAL DATA						
Return on average common stock equity (percent)	13.04	11.89	13.82	13.89	14.44	13.87
Ratio of earnings to fixed charges	3.28	4.12	4.38	4.17	4.12	3.67
Number of common shareholders of record	80,289	67,221	67,519	71,697	61,828	66,364
Book value per common share	$ 26.32	$ 22.31	$ 20.47	$ 19.60	$ 18.77	$ 17.95
Basic earnings per common share	$ 3.04	$ 2.56	$ 2.75	$ 2.66	$ 2.66	$ 2.48
Diluted earnings per common share	$ 3.03	$ 2.55	$ 2.75	$ 2.66	$ 2.66	$ 2.48
Dividends declared per common share	$ 2.075	$ 2.015	$ 1.955	$ 1.895	$ 1.835	$ 1.775
Dividend payout (percent)	68.3	78.7	71.1	71.2	69.0	71.6
ENERGY SUPPLY (MILLIONS OF KWH)[1]						
Generated:						
coal	31,132	28,260	27,576	25,545	24,859	23,517
nuclear	23,857	22,451	22,014	21,690	20,284	19,949
hydro	441	520	790	799	882	824
combustion turbines	1,337	435	386	189	68	56
Purchased	5,724	5,132	5,675	6,318	7,292	7,433
Total energy supply (Company share)	62,491	56,798	56,441	54,541	53,385	51,779
Power Agency share [2]	4,505	4,353	4,349	4,101	3,616	3,828
Total system energy supply	66,996	61,151	60,790	58,642	57,001	55,607

(1) Results of operations and energy supply data includes information for Florida Progress Corporation since November 30, 2000, the date of acquistion.
(2) Net of CP&L's purchases from Power Agency.

NOTICE OF ANNUAL MEETING

Progress Energy's 2001 annual meeting of shareholders will be held on May 9 at 10 a.m. at the North Carolina Museum of Art in Raleigh, North Carolina. A formal notice of the meeting with a proxy statement and a form of proxy will be mailed to all shareholders in early April.

TRANSFER AGENT AND REGISTRAR

EquiServe, L.P.
P O Box 43012
Providence, RI 02940-3012
Toll-free phone number: 1-800-633-4236

INVESTOR INFORMATION AND SHAREHOLDER INQUIRIES

Investor information is available 24 hours a day, seven days a week by calling Progress Energy's Shareholder Information Line. This automated system features earnings and dividend information, news releases and stock transfer information. Call (919) 546-2300 or toll-free 1-800-718-3132 depending on your location. Company information is also available on the Internet at **www.progress-energy.com.**

Other questions concerning stock ownership may be directed to Progress Energy's Shareholder Relations. Call toll-free 1-800-662-7232 or write to the following address:

Progress Energy, Inc.
Shareholder Relations
P O Box 1551
Raleigh, NC 27602-1551

SECURITIES ANALYST INQUIRIES

Securities analysts, portfolio managers and representatives of financial institutions seeking information about Progress Energy should contact Robert F. Drennan, Jr., Manager- Investor Relations and Funds Management, at the corporate headquarters address, or call (919) 546-7474.

COMMON STOCK LISTING

Progress Energy's common stock is listed and traded under the symbol PGN on the New York Stock Exchange in addition to regional stock exchanges across the United States.

SHAREHOLDER PROGRAMS

Progress Energy offers the Progress Energy Investor Plus Plan, a direct stock purchase and dividend reinvestment plan, and direct deposit of cash dividends to bank accounts for the convenience of shareholders. For information on these programs, contact Shareholder Relations at the above address or call us toll-free at 1-800-662-7232.

Proxy material, including the Annual Report, can be electronically delivered to shareholders. Electronic delivery provides immediate access to proxy material and allows Internet voting while saving printing and mailing costs. To take advantage of electronic delivery of proxy material, go to **www.econsent.com/pgn** and follow the instructions.

We also offer online access to shareholder accounts via the Internet. To obtain online access to your shareholder account, go to **www.equiserve.com.** If you have access to Progress Energy, Inc.'s Annual Report at your address, and do not want to receive a copy for your shareholder account, please call our transfer agent, EquiServe, toll-free at 1-800-633-4236 to discontinue receiving an Annual Report by mail.

ADDITIONAL INFORMATION

Progress Energy files periodic reports with the Securities and Exchange Commission that contain additional information about the company. Copies are available to shareholders upon written request to the company's Treasurer at the corporate headquarters address.

This annual report is submitted for shareholders' information. It is not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, securities.

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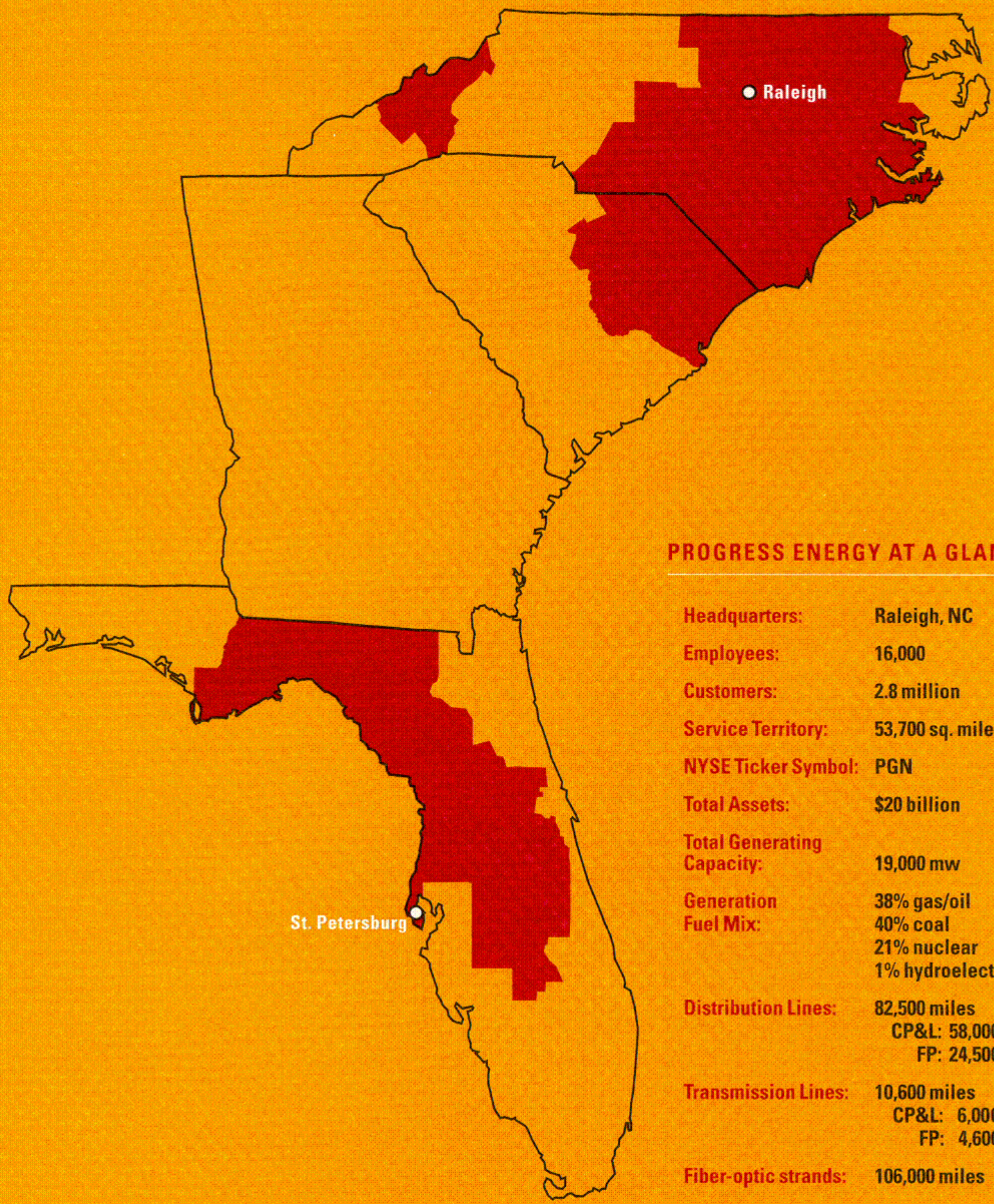
SERVICE AREA MAP



PROGRESS ENERGY AT A GLANCE

Headquarters:	Raleigh, NC
Employees:	16,000
Customers:	2.8 million
Service Territory:	53,700 sq. miles
NYSE Ticker Symbol:	PGN
Total Assets:	$20 billion
Total Generating Capacity:	19,000 mw
Generation Fuel Mix:	38% gas/oil 40% coal 21% nuclear 1% hydroelectric
Distribution Lines:	82,500 miles CP&L: 58,000 miles FP: 24,500 miles
Transmission Lines:	10,600 miles CP&L: 6,000 miles FP: 4,600 miles
Fiber-optic strands:	106,000 miles
Web site:	www.progress-energy.com

ACKNOWLEDGEMENTS

Many thanks to the CP&L and Florida Power employees who appeared in this report: (p.7) Sam W. Garner, (p.10) Joyce Smith, (p. 10-11) John Pitkevitsch, (p.12-13) Kevin J. Kelly, Gary E. Johnson, Timothy H. Stocks, Brian Meadows, Jean McCormack, (p.15) Milan B. Moore. Special thanks to the North Carolina State Museum of Natural Sciences for their photo contribution (p.11).

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Purvis
Gray &
Company

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS

CITY OF ALACHUA
ALACHUA, FLORIDA

SEPTEMBER 30, 2000

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS

CITY OF ALACHUA
ALACHUA, FLORIDA
SEPTEMBER 30, 2000

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CITY OF ALACHUA
ALACHUA, FLORIDA
SEPTEMBER 30, 2000

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Purvis Gray & Company

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Commission
City of Alachua
Alachua, Florida

We have audited the accompanying general-purpose financial statements of the City of Alachua, Florida as of and for the year ended September 30, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Alachua, Florida's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not obtain sufficient evidential matter to determine if property, plant and equipment recorded in the proprietary fund types is fairly presented at cost or estimated historical cost, due to insufficient detail within the City of Alachua, Florida's property records.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to determine the propriety of amounts recorded as property, plant and equipment in the proprietary fund types, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Alachua, Florida as of September 30, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor and City Commission
City of Alachua
Alachua, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2001, on our consideration of the City of Alachua, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund statements listed in the table of contents, as well as the schedule of federal awards and state financial assistance are the responsibility of the management of the City of Alachua, Florida, and are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole.

March 30, 2001
Gainesville, Florida

Purvis, Gray and Company

GENERAL-PURPOSE FINANCIAL STATEMENTS

These basic statements provide a summary overview of the financial position of all funds and account groups as well as the operating results of all funds and cash flows of the proprietary fund types. They also serve as an introduction to and summary of the more detailed statements included in the accompanying information section.

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 2000,
WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	2000	1999
Assets											
Cash and Cash Equivalents	$ 168,212	$ 154,567	$ 176,017	$ 418,769	$ 1,825,356	$ 27,581				$ 2,770,502	$ 3,386,345
Investments			92,922		30,000		$ 443,181			566,103	432,738
Receivables (Net of Allowances For Uncollectibles Parenthetically Indicated):											
Accounts ($36,098)	16,084				249,421					265,505	312,223
Other Receivables	52,875				16,902					69,777	92,518
Due From Other Funds	29,991				1,803,937					1,833,928	721,247
Due From Other Governments	411,879	30,035			70,131					512,045	141,829
Inventory of Utility Supplies					199,063					199,063	230,447
Prepaids	24,715				97,043					121,758	143,239
Unbilled Revenue					471,259					471,259	612,963
Restricted Assets:											
Cash and Cash Equivalents					1,714,309					1,714,309	1,673,127
Investments					885,450					885,450	839,090
Property, Plant and Equipment - Cost Less Accumulated Depreciation For Proprietary Fund Types; Cost For General Fixed Assets Account Group					12,164,833	22,033		$ 3,489,133		15,675,999	14,739,622
Unamortized Bond Issue Costs					350,775					350,775	371,676
Amount Available For Retirement of General Long-Term Debt									$ 268,939	268,939	149,585
Amount to be Provided For Retirement of General Long-Term Debt									2,230,939	2,230,939	2,450,763
Total Assets	$ 703,756	$ 184,602	$ 268,939	$ 418,769	$ 19,878,479	$ 49,614	$ 443,181	$ 3,489,133	$ 2,499,878	$ 27,936,351	$ 26,297,412

See accompanying notes.

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 2000,
WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA
(Concluded)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	2000	1999
Liabilities and Fund Equity											
Liabilities											
Accounts Payable	$ 127,955	$ 170		$ 65	$ 831,948	$ 2,773				$ 962,911	$ 386,193
Other Accrued Expenses	76,832				57,656	8,251				142,739	98,787
Due to Other Funds		29,991		1,485,550	318,387					1,833,928	721,247
Payable From Restricted Assets:											
Accrued Interest					414,047					414,047	425,397
Current Portion of Bonds Payable					329,000					329,000	313,000
Customer Deposits					190,173					190,173	166,532
Deferred Revenues and Credits	7,698				198,236					205,934	177,047
Note Payable - Other					46,798					46,798	45,564
Note Payable - Arcadia									$ 945,000	945,000	980,000
Notes Payable - Sales Tax									1,444,544	1,444,544	1,512,161
Revenue Bonds Payable					12,966,062					12,966,062	13,286,258
Accrued Compensated Absences					40,364	21,510			110,334	172,208	175,563
Total Liabilities	212,485	30,161	$ 0	1,485,615	15,392,671	32,534	$ 0	$ 0	2,499,878	19,653,344	18,287,749
Fund Equity											
Contributed Capital					3,170,600					3,170,600	2,306,081
Investment in General Fixed Assets								3,489,133		3,489,133	3,191,827
Retained Earnings (Deficit):											
Reserved							443,181			443,181	309,816
Unreserved					1,315,208	17,080				1,332,288	884,146
Fund Balances (Deficit):											
Reserved	14,348	154,441								168,789	917,725
Undesignated	476,923		268,939	(1,066,846)						(320,984)	400,068
Total Fund Equity	491,271	154,441	268,939	(1,066,846)	4,485,808	17,080	443,181	3,489,133	0	8,283,007	8,009,663
Total Liabilities and Fund Equity	$ 703,756	$ 184,602	$ 268,939	$ 418,769	$ 19,878,479	$ 49,614	$ 443,181	$ 3,489,133	$ 2,499,878	$ 27,936,351	$ 26,297,412

See accompanying notes.

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED SEPTEMBER 30, 2000, WITH COMPARATIVE TOTALS FOR 1999 CITY OF ALACHUA, FLORIDA

	Governmental Fund Types				Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	2000	1999
Revenues						
Taxes	$ 2,003,522	$ 52,500	$ 0	$ 0	$ 2,056,022	$ 1,742,445
Licenses and Permits	235,909	0	0	0	235,909	118,920
Intergovernmental	817,660	61,350	0	0	879,010	846,637
Charges For Services	370,450	0	0	0	370,450	408,821
Fines and Forfeitures	89,543	0	0	0	89,543	91,241
Interest and Miscellaneous	105,858	4,014	4,223	15,528	129,623	106,689
Total Revenues	3,622,942	117,864	4,223	15,528	3,760,557	3,314,753
Expenditures						
Current:						
General Government	929,545	0	0	0	929,545	545,077
Public Safety	1,800,699	0	0	0	1,800,699	1,471,849
Physical Environment	286,184	0	0	0	286,184	297,512
Transportation	410,777	0	83,930	0	494,707	433,110
Economic Environment	0	64,936	0	1,740,200	1,805,136	811,216
Parks and Recreation	400,690	0	0	0	400,690	263,568
(Total Expenditures)	(3,827,895)	(64,936)	(83,930)	(1,740,200)	(5,716,961)	(3,822,332)
(Deficiency) Excess of Revenues (Under) Over Expenditures	(204,953)	52,928	(79,707)	(1,724,672)	(1,956,404)	(507,579)
Other Financing Sources (Uses)						
Transfers In	401,666	0	199,061	0	600,727	249,499
Transfers Out	(199,061)	0	0	0	(199,061)	(65,503)
Proceeds From Debt	84,750	0	0	0	84,750	1,211,267
Total Other Financing Sources (Uses)	287,355	0	199,061	0	486,416	1,395,263
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	82,402	52,928	119,354	(1,724,672)	(1,469,988)	887,684
Fund Balances, Beginning of Year	408,869	101,513	149,585	657,826	1,317,793	430,109
Fund Balances (Deficit), End of Year	$ 491,271	$ 154,441	$ 268,939	$ (1,066,846)	$ (152,195)	$ 1,317,793

See accompanying notes.

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL AND DEBT SERVICE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2000, WITH COMPARATIVE TOTALS FOR 1999 CITY OF ALACHUA, FLORIDA

	General Fund			Debt Service Fund			Totals (Memorandum Only)	
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	2000	1999
Revenues								
Taxes	$ 1,818,843	$ 2,003,522	$ 184,679	$ 0	$ 0	$ 0	$ 2,003,522	$ 1,699,714
Licenses and Permits	195,000	235,909	40,909	0	0	0	235,909	118,920
Intergovernmental	468,071	817,660	349,589	0	0	0	817,660	616,262
Charges For Services	401,000	370,450	(30,550)	0	0	0	370,450	408,821
Fines and Forfeitures	78,000	89,543	11,543	0	0	0	89,543	91,241
Interest and Miscellaneous	34,700	105,858	71,158	0	4,223	4,223	110,081	96,728
Total Revenues	2,995,614	3,622,942	627,328	0	4,223	4,223	3,627,165	3,031,686
Expenditures								
Current:								
General Government	681,598	929,545	(247,947)	0	0	0	929,545	545,077
Public Safety	1,701,752	1,800,699	(98,947)	0	0	0	1,800,699	1,471,849
Physical Environment	303,368	286,184	17,184	0	0	0	286,184	297,512
Transportation	388,296	410,777	(22,481)	199,061	83,930	115,131	494,707	433,110
Parks and Recreation	312,801	400,690	(87,889)	0	0	0	400,690	263,568
(Total Expenditures)	(3,387,815)	(3,827,895)	(440,080)	(199,061)	(83,930)	115,131	(3,911,825)	(3,011,116)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(392,201)	(204,953)	187,248	(199,061)	(79,707)	119,354	(284,660)	20,570
Other Financing Sources (Uses)								
Debt Proceeds	85,000	84,750	(250)	0	0	0	84,750	0
Transfers In	401,666	401,666	0	199,061	199,061	0	600,727	249,499
Transfers Out	(199,061)	(199,061)	0	0	0	0	(199,061)	(65,503)
Total Other Financing Sources (Uses)	287,605	287,355	(250)	199,061	199,061	0	486,416	183,996
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(104,596)	82,402	$ 186,998	$ 0	119,354	$ 119,354	201,756	204,566
Fund Balances, Beginning of Year	104,596	408,869			149,585		558,454	353,888
Fund Balances, End of Year	$ 0	$ 491,271			$ 268,939		$ 760,210	$ 558,454

See accompanying notes.

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ALL PROPRIETARY FUND TYPES FOR THE YEAR ENDED SEPTEMBER 30, 2000, WITH COMPARATIVE TOTALS FOR 1999 CITY OF ALACHUA, FLORIDA

	Enterprise	Internal Service	Totals (Memorandum Only) 2000	Totals (Memorandum Only) 1999
Operating Revenues				
Utility Service Fees	$ 7,388,618	$ 0	$ 7,388,618	$ 7,326,940
Interfund Charges	0	483,401	483,401	428,268
Total Operating Revenues	7,388,618	483,401	7,872,019	7,755,208
Operating Expenses				
Power Production Expense	3,747,799	0	3,747,799	3,431,679
Personal Services	607,573	378,007	985,580	903,164
Contractual Services	155,444	17,479	172,923	240,643
Supplies	99,557	26,517	126,074	69,643
Repairs and Maintenance	161,431	10,627	172,058	237,033
Billing and Administrative	444,730	0	444,730	385,439
Depreciation	524,041	4,389	528,430	517,219
Other Expenses	263,541	40,733	304,274	245,485
(Total Operating Expenses)	(6,004,116)	(477,752)	(6,481,868)	(6,030,305)
Operating Income	1,384,502	5,649	1,390,151	1,724,903
Nonoperating Revenue (Expenses)				
Connection Charges	138,453	0	138,453	145,768
Interest Income	189,973	2,492	192,465	156,589
Interest on Long-Term Debt	(851,440)	0	(851,440)	(880,529)
Amortization of Bond Issue Costs	(20,900)	0	(20,900)	(20,945)
Miscellaneous Income	1,079	0	1,079	120,359
Total Nonoperating (Expenses) Revenue	(542,835)	2,492	(540,343)	(478,758)
Income Before Operating Transfers	841,667	8,141	849,808	1,246,145
(Operating Transfers Out)	(401,666)	0	(401,666)	(183,996)
Net Income	440,001	8,141	448,142	1,062,149
Retained Earnings (Deficit), Beginning of Year	875,207	8,939	884,146	(178,003)
Retained Earnings, End of Year	$ 1,315,208	$ 17,080	$ 1,332,288	$ 884,146

See accompanying notes.

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED SEPTEMBER 30, 2000, WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA

	Enterprise	Internal Service	Totals (Memorandum Only) 2000	1999
Cash Flows From Operating Activities				
Operating Income	$ 1,384,502	$ 5,649	$ 1,390,151	$ 1,724,903
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:				
Depreciation of Plant	524,041	4,389	528,430	517,219
Change in Current Assets - (Increase) Decrease:				
Accounts Receivable and Unbilled Revenue	203,414	0	203,414	75,501
Due To/From Other Funds	(1,231,047)	(1,484)	(1,232,531)	(253,019)
Due From Other Governments	(20,040)	0	(20,040)	(50,091)
Inventory	31,384	0	31,384	(8,151)
Prepaid Expenses	45,042	0	45,042	(111,454)
Change in Current Liabilities - Increase (Decrease):				
Accounts Payable and Other Accrued Expenses	525,486	(7,926)	517,560	(121,301)
Customer Deposits	23,641	0	23,641	22,879
Net Cash Provided By Operating Activities	1,486,423	628	1,487,051	1,796,486
Cash Flows From Noncapital Financing Activities				
Connection Charges	138,453	0	138,453	145,768
Operating Transfers Out to Other Funds	(401,666)	0	(401,666)	(183,996)
Net Cash (Used In) Noncapital Financing Activities	(263,213)	0	(263,213)	(38,228)
Cash Flows From Capital and Related Financing Activities				
Extension and Replacement of Plant - Net of Contributions Received in Aid of Construction	(293,286)	(8,864)	(302,150)	(292,241)
Principal Payments on Bonds	(313,000)	0	(313,000)	(288,000)
Note Proceeds	1,234	0	1,234	0
Principal Payments on Notes	0	0	0	(7,925)
Interest Paid	(862,790)	0	(862,790)	(890,894)
Miscellaneous Income	1,079	0	1,079	120,359
Net Cash (Used In) Capital and Related Financing Activities	(1,466,763)	(8,864)	(1,475,627)	(1,358,701)
Cash Flows From Investing Activities				
Investments Purchased	(30,000)	0	(30,000)	(147,130)
Investments Matured	30,000	0	30,000	30,000
Interest Income	189,973	2,492	192,465	156,589
Net Cash Provided By Investing Activities	189,973	2,492	192,465	39,459
Net (Decrease) Increase in Cash and Cash Equivalents	(53,580)	(5,744)	(59,324)	439,016
Cash and Cash Equivalents, Beginning of Year	3,593,245	33,325	3,626,570	3,187,554
Cash and Cash Equivalents, End of Year	$ 3,539,665	$ 27,581	$ 3,567,246	$ 3,626,570

Reconciliation of Cash and Cash Equivalents (Above) to Combined Balance Sheet

	Enterprise	Internal Service	2000	1999
Captions on Combined Balance Sheet				
Cash and Cash Equivalents	$ 1,825,356	$ 27,581	$ 1,852,937	$ 1,953,443
Restricted Assets - Cash and Cash Equivalents	1,714,309	0	1,714,309	1,673,127
Total	$ 3,539,665	$ 27,581	$ 3,567,246	$ 3,626,570

See accompanying notes.

COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2000,
WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA

			Totals (Memorandum Only)	
	General	**Police**	**2000**	**1999**
Additions				
Employer's Contributions	$ 52,247	$ 23,022	$ 75,269	$ 68,805
Employee's Contributions	0	1,945	1,945	3,501
State Contributions	0	0	0	162,393
Earnings on Investments	10,542	46,407	56,949	3,919
Total Additions	62,789	71,374	134,163	238,618
Deductions				
Retirement Benefits and Refunds	0	0	0	1,247
Administrative Fees	363	435	798	398
(Total Deductions)	(363)	(435)	(798)	(1,645)
Net Increase	62,426	70,939	133,365	236,973
Net Assets Held in Trust For Pension Benefits, Beginning of Year	55,291	254,525	309,816	72,843
Net Assets Held in Trust For Pension Benefits, End of Year	$ 117,717	$ 325,464	$ 443,181	$ 309,816

See accompanying notes.

Note 1 - Summary of Significant Accounting Policies

The City of Alachua, Florida (the City) is a political subdivision of the State of Florida located in Alachua County. The legislative branch of the City is composed of a five-member elected commission. The City Commission is governed by the City Charter and by state and local laws and regulations. The City Commission is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Commission-appointed City Manager.

The City's major operations include various utility services - electric, water and wastewater as well as police protection, road and street maintenance, parks, recreation and other general government services. The City contracts with Alachua County for the provision of fire service at a fixed cost to the City which is renegotiated annually. The City leases the fire station and equipment to Alachua County at no cost. Sanitation services are provided by a private company, but billed by the City to its customers. The City retains an administrative fee on sanitation services.

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

Reporting Entity
As outlined in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity,* effective for financial statements for periods beginning after December 15, 1992, the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in GASB Statement No. 14, to determine whether the entity is: a) part of the primary government; b) a component unit which should be included in the reporting entity (blended or discretely presented); or c) an organization which should be excluded from the reporting entity entirely. The principal criteria for classifying a potential component unit include: a) the legal separateness of the organization; and b) the financial accountability of the primary government for the potential component unit resulting from either the primary government's ability to impose its will on the potential component unit or the potential component unit's fiscal dependency on the primary government. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

- **Community Redevelopment Agency**
  The Community Redevelopment Agency (the Agency) was created by the City Commission in 1982. In evaluating this potential component unit, it was determined that the Agency is not a separate legal entity as it generally cannot transact business in its own name and, therefore, should be included as part of the primary government for reporting purposes. The Agency is presented in the general-purpose financial statements of the City as a special revenue fund.

Note 1 - **Summary of Significant Accounting Policies** ***(Continued)***

Reporting Entity ***(Concluded)***

- **Public Finance Authority For Affordable Housing (the Authority)**
  This potential component unit was created by the City Commission in 1992. The Authority is a separate legal entity capable of suing and being sued, and able to purchase property in its own name. By charter, the Authority's Board is composed of the City Commission and the City Commission has oversight over all financial activities. Accordingly, the Authority is a component unit of the City. There have been no financial transactions in the Authority during 2000, or since its creation; therefore, no amounts related to the Authority are reported in the accompanying general-purpose financial statements.

Fund Accounting

The City's accounting records are organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity, with a self-balancing set of accounts recording all financial resources with all related liabilities, reserves and residual entities, or balances or changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives. Amounts received from or payable to other funds are shown in the accounts of an individual fund and separately presented in the accompanying general-purpose financial statements until liquidated by payment or an interfund transfer.

The following fund types and account groups are used in accounting for the financial operations of the City.

- **Governmental Fund Types**
  - **General Fund** - to account for all financial resources not properly accounted for in another fund.

  - **Special Revenue Funds** - to account for the proceeds of specific revenue resources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The City uses these funds to account for the activities of the Agency and to account for certain grant-funded projects.

  - **Debt Service Fund** - to account for the accumulation of resources and payment of general obligation bond principal and interest from these resources. The City uses the debt service fund to account for the accumulation of resources and the payment of principal and interest on the City of Arcadia loan.

  - **Capital Projects Fund** - to account for the financial resources used in the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

Note 1 - Summary of Significant Accounting Policies *(Continued)*

Fund Accounting ***(Concluded)***

- **Proprietary Fund Types**
  - **Enterprise Funds** - to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's electric, water and wastewater utility services and mosquito control activities are accounted for in these funds.

  - **Internal Service Fund** - to account for the financing of goods or services provided by central services departments to other departments of the City on a cost-reimbursement basis. The City uses this fund to account for utility billing and administration.

- **Fiduciary Fund Types**
  - **Pension Trust Funds** - to account for pension assets held on behalf of employees and former employees. The City's defined contribution plan for general employees and defined benefit plan for police are accounted for in these funds.

- **Account Groups**
  - The account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. These account groups are not considered funds since they do not reflect available financial resources and related liabilities.

Measurement Focus

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. Governmental fund types are accounted for on a "spending" or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund type operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, such statements are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds, and long-term liabilities expected to be financed from governmental fund types are accounted for in the general long-term debt account group.

The proprietary fund types are accounted for on a "cost of services" or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activity are included on the balance sheet. The reported fund

Note 1 - **Summary of Significant Accounting Policies** ***(Continued)***

Measurement Focus *(Concluded)*
equity (net total assets) is segregated into contributions and retained earnings components. The proprietary fund types operating statements present increases (revenues) and decreases (expenses) in net total assets.

Basis of Accounting
The governmental fund types are maintained on the modified accrual basis of accounting. Under this method of accounting, revenues are generally recognized when they become measurable and available as net current assets. Revenues which are susceptible to accrual, i.e., being recorded when earned, include property and utility taxes, refuse collection fees and lot clearing, and certain other fees. Expenditures are generally recorded on an accrual basis, i.e., when incurred, except as follows:

- Principal and interest on long-term debt are recognized when due; and
- accumulated vacation and sick pay is not recorded in the general fund since the current amount is immaterial.

The proprietary fund types are maintained on the accrual basis of accounting. This method of accounting relates costs and expenditures to the period in which benefits of the outlays are received. It is intended to provide an accurate matching of these benefits with associated revenues. Under the accrual basis of accounting, revenues are recognized when earned and measurable, and expenses are recognized when incurred.

Proprietary fund types follow all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations;
- Accounting Principles Board (APB) Opinions; and
- Accounting Research Bulletins.

Pursuant to GASB Statement No. 20, the City has elected not to apply all FASB Statements and Interpretations issued after November 30, 1989, to its proprietary fund type activities.

Budgeting
The City's procedures in preparing and adopting the annual budget are as follows:

- The City Manager is responsible for preparing a proposed operating budget for the upcoming year prior to September 30 that includes estimated revenues, proposed expenditures, and other financing sources and uses.
- Public hearings are held to obtain taxpayer comments and suggestions. The budget is enacted through passage of a resolution, which sets spending limits by department.

Note 1 - Summary of Significant Accounting Policies *(Continued)*

Budgeting ***(Concluded)***

- The City Manager is authorized to transfer budgeted amounts within any department in any fund, but may not revise total departmental expenditures without the approval of the City Commission. The budgetary information for the general and debt service fund types in the combined statement of revenues, expenditures and changes in fund balances is reported as amended.
- Budgets are adopted on a basis consistent with generally accepted accounting principles. Appropriations lapse at the end of the year. Encumbrances are not recorded.
- The budgets for the general and debt service funds that were adopted during the year by the City Commission were prepared on the same basis of accounting utilized by those specific fund types. Comparisons of budgetary data to actual are not required to be reported for proprietary fund types. There were no budgets adopted for the special revenue and capital projects funds.

Receivables

Customer accounts receivable are recorded at their net realizable value reduced by an allowance for uncollectible accounts.

Inventory

Inventory in the general fund is charged to expenditures when purchased. Inventory in the proprietary fund types consists of supplies held for repairs or capital improvements, plus nuclear fuel.

Property, Plant and Equipment and Depreciation

Property, plant and equipment in the proprietary fund types are recorded at historical cost or at fair market value on the date donated. Ordinary maintenance and repairs are charged to expenses as incurred.

Provision has been made for the depreciation of such property, plant and equipment using the straight-line method. The straight-line rate is computed using the period of years considered as the normal service life of the property. Such rates are as follows:

Nuclear Plant and Equipment	2.7% to 3.6%
Electric Distribution Plan	2% to 4%
Water Plant	3% to 10%
Wastewater Plant	2.5%
Other Equipment	10% to 20%

Note 1 - <u>Summary of Significant Accounting Policies</u> *(Continued)*

Property, Plant and Equipment and Depreciation ***(Concluded)***
Construction work in progress is not depreciated until completed and placed into service. Utility plant acquired through grants is depreciated along with other utility plant purchased or constructed.

All other property and equipment owned by the City is reflected at cost in the general fixed assets account group and shown as an expenditure in the fund purchasing the property or equipment. Certain improvements such as streets, sidewalks and other infrastructure assets are not capitalized along with other general fixed assets. No provision for depreciation is made for any general fixed assets.

Bond Discount and Issue Costs Amortization
The bond issue costs are being amortized over the lives of the bonds using the straight-line method. The bond discounts are being amortized over the life of the bonds using the effective interest method.

Capitalized Interest During Construction
The City accounts for capitalized interest during construction in accordance with Statement of Financial Accounting Standards No. 34, *Capitalization of Interest Costs*, and Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. No interest expense was capitalized during 2000 on construction-in-progress in any fund or account group.

Long-Term Liabilities
Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type liabilities. They are instead reported as liabilities in the general long-term debt account group.

Compensated Absences
The City accrues accumulated unpaid vacation and sick pay when incurred, if material, in the proprietary funds and the general long-term debt account group. Amounts representing the current liability for unused annual and sick leave in governmental fund types are immaterial. Therefore, the entire liability for governmental fund types is recorded in the general long-term debt account group.

Personnel policies allow permanent, full-time employees to accumulate a maximum of twenty-five days vacation leave. One week of vacation time is granted if sixty days sick leave is accumulated. Employees are paid the balance of their accumulated vacation leave, in full, upon termination. Also upon termination, employees are paid the balance of their accumulated sick leave, up to a maximum of eighty hours.

Note 1 - **Summary of Significant Accounting Policies** *(Continued)*

Revenue Recognition
Utility revenues are recognized when customers are billed unless there has been a significant change in meter reading dates. In that event, unbilled or deferred revenues are recorded for consistency.

Restricted grant revenues which are received, but not expended, are recorded as deferred revenues in the liability section of the balance sheet.

Property Taxes
Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessments are also designed to assure a consistent property valuation method statewide. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10.00 mills. The City's millage rate for the 2000 fiscal year was 5.50 mills.

The tax levy of the City is established by the City Commission prior to October 1 of each year and the Alachua County Property Appraiser incorporates the City millages into the total tax levy, which includes the County and the County School Board tax requirements.

All property is reassessed according to its fair market value January 1 of each year. Each assessment roll is submitted to the Executive Director of the Florida Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of Florida Statutes.

All taxes are levied on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. The taxes paid in March are without discount.

On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest of 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold certificates are held by the County.

Delinquent taxes on personal property bear interest at 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations.

Note 1 - Summary of Significant Accounting Policies *(Concluded)*

Total Columns on the Combined Statements
Total columns on the combined statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. The data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. The totals for 1999 are presented for the purpose of additional analysis and are not a required part of the general-purpose financial statements.

Note 2 - Deposits and Investments

All monies collected by the City are required to be deposited in accordance with the laws of the State of Florida. Florida Statutes authorize the City to invest in the following:

- Direct obligations of, or obligations guaranteed by, the U.S. Government;
- Interest-bearing time deposits or savings accounts in qualified institutions;
- Obligations of the Federal Farm Credit Banks;
- Obligations of the Federal National Mortgage Association; and
- The Local Government Surplus Funds Trust Fund.

Deposits
At year end, the carrying amount of the City's deposits was $2,829,121 and the bank balance was $3,401,476. Deposits include $30,000 of certificates of deposit, which are classified as "investments" on the balance sheet because the original maturities exceed ninety days. All deposits of the City are maintained in qualified public depositories. In addition, the City had $430,978 deposited with fiscal agents as of September 30, 2000, for the payment of revenue bonds on October 1.

The Florida Security for Public Deposits Act; Chapter 280 of the Florida Statutes, provides that qualified public depositories must maintain eligible collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held by the depository during the twelve months immediately preceding the date of any computation of the balance. As such, the depository is not required to hold collateral in the City's name nor specify which collateral is held for the City's benefit. In the event of default, the Public Deposit Security Trust Fund, as created under the laws of the State of Florida, would be required to pay the City for any deposits not covered by depository insurance or collateral pledged by the depository as previously described.

Note 2 - Deposits and Investments *(Concluded)*

Investments

The carrying amount and market value of investments owned by the City at September 30, 2000, was as follows:

Type of Investment	Balance 9/30/00
State Board of Administration of Florida Local Government Pooled Investment Account, Variable Interest Rate (6.64% at September 30, 2000)	$ 1,372,835
Florida Municipal Power Agency (FMPA) CR-3 Pooled Investment Account	198,236
United States Treasury Bonds, $575,000 Par Value, 7.625% Interest, Maturing February 15, 2007	569,091
City of Arcadia - Debt Service Reserve	92,922
Florida Municipal Pension Trust Fund	443,181
Total	$ 2,676,265

The State Board of Administration's deposits in Tallahassee are maintained in an investment pool which invests primarily in commercial paper, repurchase agreements, bankers' acceptance notes and U.S. Government obligations. The FMPA account represents a 2.087% interest in an investment pool which invests primarily in mid- and long-term U.S. Government obligations. The securities in the pool are registered in the name of SunTrust, N.A., as trustee for the FMPA (CR-3) participants. The U.S. Treasury Bonds are insured or registered, or held by the City or its agent in the City's name. The City of Arcadia debt service reserve account is an investment pool held by the Trustee for the City of Arcadia bond issue, which is invested in FNMA mortgage notes. The Florida Municipal Pension Trust Fund is an investment pool managed by the Florida League of Cities.

Note 3 - Inventory

Inventory in the proprietary fund types at September 30, 2000, consists of the following:

Electric Utility Supplies	$ 128,396
Water/Sewer Supplies	17,308
Nuclear Fuel	37,687
Nuclear Plant Materials Inventory	15,672
Total	$ 199,063

The utility supplies and plant inventory are valued at cost as determined by the average unit cost method. The City's portion of nuclear fuel inventory at the CR-3 nuclear generating facility is recorded at amortized cost.

Note 4 - Detail of Property, Plant and Equipment

General Fixed Assets Account Group

A summary of changes in general fixed assets for the year follows:

	Balance 10/1/99	Additions	(Removals and Adjustments)	Balance 9/30/00
City Park - Structures and Improvements	$ 18,774	$ 3,554	$ 0	$ 22,328
City Hall - Building	157,625	1,464	0	159,089
City Hall - Equipment, Furnishings and Vehicles	95,308	12,710	(14,334)	93,684
Fire Station	129,249	0	0	129,249
Fire Trucks and Other Equipment	90,652	0	0	90,652
Police Station	66,497	0	0	66,497
Police Department - Vehicles and Equipment	354,960	63,430	0	418,390
Rolling Green - Land and Buildings	698,624	0	0	698,624
Rolling Green - Improvements	14,653	0	0	14,653
Parking Lots - Land	43,189	0	0	43,189
Street Paving and Sidewalks	1,027,056	20,149	0	1,047,205
Mosquito Spraying Equipment	8,725	0	(8,725)	0
Land - Other	171,791	0	0	171,791
Streets and Roads Equipment and Vehicles	102,277	0	0	102,277
Miscellaneous	11,326	0	0	11,326
Parks and Recreation - Buildings and Improvements	46,827	184,697	0	231,524
Parks and Recreation - Equipment	53,986	0	(6,414)	47,572
Public Works - Vehicles	13,175	0	(13,175)	0
Physical Environment - Equipment	51,899	0	(3,554)	48,345
Building Department - Building	0	85,000	0	85,000
Building Department - Equipment	0	7,738	0	7,738
CWIP - Economic Development Project	35,234	0	(35,234)	0
Total Property, Plant and Equipment - At Cost	$ 3,191,827	$ 378,742	$ (81,436)	$ 3,489,133

Note 4 - Detail of Property, Plant and Equipment *(Concluded)*

Proprietary Fund Types

A summary of property, plant and equipment in the proprietary fund types at September 30, 2000, follows:

Nuclear Generating Plant and Equipment	$ 651,961
Electric Distribution Plant and Equipment	6,672,161
Water Plant and Equipment	3,897,775
Wastewater Plant and Equipment	5,681,528
Turkey Creek Water and Wastewater Plant and Equipment	2,207,556
Utility Billing and Administration Equipment	30,811
	19,141,792
(Accumulated Depreciation)	(7,103,199)
	12,038,593
Wastewater Improvements - Construction in Progress	148,273
Total Utility Plant - Cost Less Accumulated Depreciation	$ 12,186,866

Nuclear generating plant and equipment represents the cost of the City's 0.0779% undivided interest in Florida Power Corporation's Crystal River III (CR-3) Nuclear Plant.

Note 5 - Long-Term Debt

Listed below is a summary of all outstanding debt issues of the City at September 30, 2000, by issue and by fund:

Description	Interest Rate	Principal Balance 9/30/00	Final Maturity
1993 City of Arcadia Revenue Bonds	5.375%	$ 945,000	2015
1995 First National Bank Note	5.20%	288,983	2010
1993 Utility Acquisition Bonds	7.0%	1,155,000	2019
1993 Utility Refunding Bonds	3.0% - 5.5%	8,875,000	2020
1986 Utility Refunding Bonds	6.15% - 7.8%	2,750,000	2008
1979 Utilities Revenue Bond	5.0%	596,000	2019
1998 State Revolving Fund Loan	2.70%	46,798	2021
1999A Sales Tax Revenue Note	8.00%	274,966	2002
1999B Sales Tax Revenue Note	5.50%	798,767	2006
2000 Sales Tax Revenue Note	6.00%	81,828	2010
Total Debt		15,812,342	
(Unamortized Discounts)		(80,938)	
Net Carrying Amount		$ 15,731,404	

Note 5 - **Long-Term Debt** ***(Continued)***

Total long-term debt by fund/account group:

General Long-Term Debt	$ 2,389,544
Electric	7,545,035
Water	596,000
Wastewater	2,946,932
Turkey Creek	2,253,893
Total Debt	$ 15,731,404

General Long-Term Debt

The following tabulation summarizes the changes in the City's general long-term debt account group during the year ended September 30, 2000:

	Balance 10/1/99	New Debt	(Principal Paid)	Balance 9/30/00
City of Arcadia, Florida, Dedicated Pool Local Government Revenue Bonds, Series 1993	$ 980,000	$ 0	$ (35,000)	$ 945,000
Sales Tax Revenue Note, Series 1995 - First National Bank of Alachua	311,092	0	(22,109)	288,983
Sales Tax Revenue Note, Series 1999A - First National Bank of Alachua	402,302	0	(127,336)	274,966
Sales Tax Revenue Note, Series 1999B - First National Bank of Alachua	798,767	0	0	798,767
Sales Tax Revenue Note, Series 2000 - First National Bank of Alachua	0	85,000	(3,172)	81,828
Compensated Absences	108,187	2,147	0	110,334
Totals	$ 2,600,348	$ 87,147	$ (187,617)	$ 2,499,878

- **City of Arcadia, Florida - Dedicated Pool Local Government Revenue Bonds, Series 1993**

  On July 1, 1993, the City executed a loan agreement with the City of Arcadia, Florida (the Sponsor), and NationsBank of Florida, N.A. (the Trustee), to borrow $1,200,000 from the Sponsor's $45,455,000 Local Government Revenue Bonds, Series 1993, Dedicated Pool. The Sponsor issued the bonds on August 10, 1993, and deposited the proceeds with the Trustee to fund the pool, available to governmental entities for financing and refinancing certain qualified projects. During 1996, the Trustee was changed to Bank of New York.

Note 5 - <u>Long-Term Debt</u> *(Continued)*

General Long-Term Debt ***(Continued)***

- **City of Arcadia, Florida - Dedicated Pool Local Government Revenue Bonds, Series 1993** ***(Concluded)***
  The City used the proceeds to refinance the balance due on a loan from the City of Gulf Breeze, originally issued to finance street and drainage improvements. The City of Arcadia loan is evidenced by a Governmental Unit Note, which is payable solely from the City's local option gas tax revenues and guaranteed entitlement revenues (the Pledged Revenues).

- **Sales Tax Revenue Note, Series 1995**
  On May 24, 1995, the City adopted Resolution R-95-9, authorizing the issuance of a $400,000 Sales Tax Revenue Note, Series 1995. The note was issued at the par amount of $393,000, and used to refinance the City's outstanding FLGFA loan, plus pay note issuance and loan redemption costs.

  The note is secured by a lien upon the pledge of the City's local government half-cent sales tax. Principal and interest are payable on the first of each month in level monthly installments for fifteen years. Interest accrues at a fixed rate of 5.20% (based on a 360-day year) for the first five years of the note, and is reset on June 1, 2000 and June 1, 2005, to the five-year U.S. Treasury index on those dates. The City may prepay the note in whole or in part, at any time, without penalty.

- **Taxable Sales Tax Revenue Note, Series 1999A**
  On September 1, 1999, the City issued a $412,500 Taxable Sales Tax Revenue Note, Series 1999A to finance the City's purchase of land and other costs for economic development.

  The note is secured by a lien upon the pledge of the City's local government half-cent sales tax. Principal and interest are payable on the first of each month in level monthly installments for three years. Interest accrues at a fixed rate of 8.00% (based on a 360-day year) The City may prepay the note in whole or in part, at any time, without penalty.

- **Sales Tax Revenue Note, Series 1999B**
  On September 1, 1999, the City issued a $798,676 Sales Tax Revenue Note, Series 1999B, to finance certain water and wastewater infrastructure improvements. The note is secured by a lien upon the pledge of the City's local government half-cent sales tax. Interest only is payable on the first of each month for the first three years. Thereafter, principal and interest are payable on the first of each month in level monthly installments for the next four years. Interest accrues at a fixed rate of 5.50% (based on a 360-day year) for the first five years of the note, and is reset on September 1, 2004, to the five-year U.S. Treasury index on that date. The City may prepay the note in whole or in part, at any time, without penalty.

Note 5 - **Long-Term Debt** *(Continued)*

General Long-Term Debt *(Concluded)*

- **Sales Tax Revenue Note, Series 2000**
  On April 4, 2000, the City issued a $85,000 Sales Tax Revenue Note, Series 2000, to finance a capital project.

  The note is secured by a lien upon the pledge of the City's local government half-cent sales tax, which is junior and subordinate to the lien and pledge in favor of the City's outstanding Sales Tax Revenue Note, Series 1995, and Sales Tax Revenue Notes, Series 1999A and 1999B. Principal and interest are payable on the first of each month for the ten-year term of the note. Interest accrues at a fixed rate of 6.00%.

General Long-Term Debt - Summary
The following tabulation indicates the principal retirement of general long-term debt by fiscal year (excluding compensated absences):

Fiscal Year Ending September 30,	City of Arcadia Loan	1995 Sales Tax Revenue Note	1999A Sales Tax Revenue Note	1999B Sales Tax Revenue Note	2000 Sales Tax Revenue Note	Total Principal
2001	$ 40,000	$ 23,303	$ 138,142	$ 0	$ 6,567	$ 208,012
2002	40,000	24,561	136,824	14,944	6,978	223,307
2003	45,000	25,888	0	184,211	7,414	262,513
2004	45,000	27,256	0	194,665	7,868	274,789
2005	50,000	28,759	0	205,887	8,370	293,016
Thereafter	725,000	159,216	0	199,060	44,631	1,127,907
Totals	$ 945,000	$ 288,983	$ 274,966	$ 798,767	$ 81,828	$ 2,389,544

Proprietary Fund Types

- **Utility Acquisition Bonds, Series 1993**
  On October 18, 1993, the City adopted Resolution R-93-24 authorizing the issuance of $1,300,000 Utility Acquisition Bonds, Series 1993 (the 1994 bonds) to provide the necessary funds for the acquisition of the private water and wastewater systems in the Turkey Creek recreational residential community in the City. The bonds are secured by the gross revenues of the combined electric, water and wastewater utility systems of the City, but is subordinate to the secured interests of the bondholders in the other outstanding revenue bonds of the City.

  The bonds were issued without premium or discount and are payable at 7% interest, with interest payable semiannually beginning April 1, 1994, and principal payable annually beginning October 1, 1994.

Note 5 - **Long-Term Debt** ***(Continued)***

Proprietary Fund Types ***(Continued)***

- **Utility Refunding Revenue Bonds, Series 1993**
  On March 31, 1993, the City adopted Resolution R-93-3, authorizing the issuance of $9,500,000 Utility Refunding Revenue Bonds, Series 1993. The bonds were issued at a par amount of $9,000,000 to provide a portion of the funds required: a) to advance refund the City's outstanding Utility Revenue Bonds, Series 1990 and a portion of the City's outstanding Utility Refunding Revenue Bonds, Series 1986; b) to construct and install certain facilities constituting water and wastewater capital improvements; and c) to pay a portion of the costs of issuance.

  Gross revenues of the system, plus utilities service taxes are pledged as collateral for the revenue bonds on a parity and rank equally as to lien on, and source and security for payment with the City's outstanding Series 1979 bonds and the remaining Series 1986 bonds.

  The $9,000,000 issue consists of $1,355,000 of serial bonds maturing from 1994 to 2009, with stated interest rates of 3% to 5.5%; $1,635,000—5.625% Term Bonds due April 1, 2012, sold at a price of 98.5% of par; and $6,010,000—5.75% Term Bonds, due April 1, 2020, at 99% of par.

- **Utility Refunding Revenue Bonds of 1986**
  On May 19, 1986, the City adopted a resolution to issue the Utilities Refunding Revenue Bonds, Series 1986. These bonds were issued pursuant to a multipurpose plan including the advance refunding of certain of the City's utility refunding and revenue bonds. The refunding portion of the proceeds was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the 1983 bonds and all other refunded bonds are considered to be defeased, and the trust account assets and liabilities of the defeased bonds are not included in the financial statements of the City.

  The 1986 bonds were issued on a parity and rank equally as to lien on and source and security for payment from gross revenues and excise taxes as the Utilities Revenue Bond of 1979. Gross revenues of the electric, water and wastewater utility systems, plus utilities service taxes are pledged as collateral for the refunding bonds which have a coupon rate ranging from 6.15% to 7.80%.

  The $7,750,000 issue consisted of $1,795,000 of serial bonds maturing from 1991 to 2000, and $5,955,000 of term bonds; $2,495,000 due in 2007 and $3,460,000 due in 2016, but which are subject to mandatory redemption in earlier years. All of the outstanding term bonds due in 2016, with the exception of $255,000, subject to mandatory redemption in 2008, were advance refunded through the issuance of the $9,000,000 Utility Refunding Revenue Bonds, Series 1993.

Note 5 - Long-Term Debt *(Concluded)*

Proprietary Fund Types *(Concluded)*

- **Utilities Revenue Bond of 1979**
  On August 6, 1979, the City adopted a resolution to issue the Utilities Revenue Bond of 1979. The bond was issued on December 17, 1979, to partially finance the cost of the construction of additions to the utility system.

  Net utility revenues and utilities service taxes are pledged as collateral for the revenue bond which has a coupon rate of 5%. The lien on revenues by the 1979 bond is equal to the Utilities Refunding Revenue Bonds of 1986 and 1993.

- **State Revolving Fund Loan - State of Florida Department of Environmental Protection**
  This loan is to finance preconstruction wastewater control facility costs. The total loan available is $125,732, of which $46,798 had been drawn as of September 30, 2000. Repayment commences in May 2001, and is over a term of twenty years bearing a 2.70% interest rate.

Fiscal Year Ending September 30,	Utility Acquisition Bonds, Series 1993	Utility Refunding Revenue Bonds, Series 1993	Utility Refunding Revenue Bonds of 1986	Utility Revenue Bond of 1979	State Revolving Fund Loan	Totals
2001	$ 30,000	$ 25,000	$ 255,000	$ 19,000	$ 2,500	$ 331,500
2002	35,000	25,000	275,000	21,000	2,500	358,500
2003	35,000	20,000	300,000	21,000	2,500	378,500
2004	40,000	25,000	320,000	23,000	2,500	410,500
2005	40,000	25,000	350,000	24,000	2,500	441,500
Thereafter	975,000	8,755,000	1,250,000	488,000	34,298	11,502,298
Totals	$ 1,155,000	$ 8,875,000	$ 2,750,000	$ 596,000	$ 46,798	$ 13,422,798

- **Interest**
  Interest paid (governmental fund types) or accrued (enterprise funds) amounted to $48,930 in the debt service fund, $85,008 in the general fund and $851,440 in the proprietary fund types (including amortization of bond discounts) for the fiscal year ended September 30, 2000. All interest in the proprietary fund types was charged to interest expense.

Note 6 - Restricted Assets

Actual balances of the restricted cash and investment accounts in the enterprise funds at September 30, 2000, are as follows:

Note 6 - Restricted Assets *(Concluded)*

	Electric	Water	Wastewater	Turkey Creek	Totals
Revenue Bond Accounts:					
Sinking Fund	$ 309,184	$ 24,350	$ 156,527	$ 101,877	$ 591,938
Debt Service Reserve	217,995	43,320	731,841	57,165	1,050,321
Bond Amortization Account	0	0	569,091	0	569,091
Customer Deposits	140,002	25,263	24,908	0	190,173
CR-3 Decommissioning Account	198,236	0	0	0	198,236
Total	$ 865,417	$ 92,933	$ 1,482,367	$ 159,042	$ 2,599,759

The CR-3 Decommissioning Account is required by state law to accumulate funds for the City's share of the decommissioning costs of the CR-3 nuclear power plant. The City's contribution to this account was $27,600 including interest during 2000. The required cash balance in the decommissioning account is offset by a deferred credit on the balance sheet.

Note 7 - Interfund Receivables and Payables

Interfund transactions are normally recorded through a consolidated cash account instead of interfund receivables and payables. Following is a summary of interfund receivables and payables at September 30, 2000:

Due From	Due To	Amount
Wastewater Fund	Electric Fund	$ 318,387
Capital Projects Fund	Electric Fund	1,485,550
Neighborhood Revitalization CDBG Fund	General Fund	21,406
El Niño CDBG Fund	General Fund	8,585
Total		$ 1,833,928

Following is a summary of interfund transfers during 2000:

Transfers Out	Amount	Fund Receiving Transfer
General Fund	$ 199,061	Debt Service Fund
Electric Fund	119,754	Wastewater Fund
Electric Fund	401,666	General Fund
Electric Fund	195,099	Turkey Creek Water/Wastewater
Total	$ 915,580	

Note 8 - Fund Balances - Reserved

Fund balances are reserved within the governmental fund types as follows:

	General	Special Revenue
Reserved		
Economic Development	$ 0	$ 154,441
Police Department Operations	14,348	0

Reserves earmark a portion of fund equity as: 1) not available for appropriation or expenditure; or 2) legally restricted to a specific future use.

Note 9 - Changes in Contributed Capital

Following is a summary of the changes in contributed capital for the year ended September 30, 2000:

Contributed Capital - October 1, 1999	$ 2,306,081
Current Year Additions	864,519
Contributed Capital - September 30, 2000	$ 3,170,600

Note 10 - Excess of Expenditures Over Budget and Deficit Equity Balances

For excesses of actual expenditures over budgeted appropriations for governmental fund types, please see page 6 of the financial statements.

The following individual funds show deficit equity balances at September 30, 2000, in the amounts shown:

Fund	Type	Deficit 2000
Wastewater	Unreserved Retained Earnings	$ 310,293
El Niño Grant	Reserved Fund Balance	280
Capital Projects Funds	Unreserved Fund Balance	1,066,846

Note 11 - Segment Information - Proprietary Fund Types

The City maintains enterprise funds to account for the activities of its electric, water, wastewater and Turkey Creek water/wastewater utilities and mosquito control. In addition, the City maintains an internal service fund to account for its utility billing and administration activities. Segment information for the year ended September 30, 2000, is disclosed on the face of the financial statements and the accompanying notes, except for the following.

	Electric Fund	Water Fund	Wastewater Fund	Turkey Creek Water/ Wastewater Fund	Mosquito Control	Internal Service
Property, Plant and Equipment Additions	$ 148,538	$ 38,146	$ 923,433	$ 47,688	$ 0	$ 8,864
Contributions - Current Year	0	0	864,519	0	0	0
Net Working Capital (Deficit)	3,269,707	169,426	(243,085)	311,552	7,157	(4,953)

Note 12 - Electric Power Agreements

City of Gainesville

The City entered into a wholesale electric service contract with the City of Gainesville, Florida, on January 21, 1987, for the purchase of the majority of the City's electric power requirements beginning January 6, 1988. The City constructed a 138 x 69 - 12.47Y/7.2kV substation to receive the power, which was placed into operation on that date. The substation is located in such a manner that the City has reasonable access to the transmission lines of both the City of Gainesville and Florida Power Corporation. A portion of the substation is owned by the City of Gainesville. The initial term of the contract was five years, with options for additional annual extensions. The contract was renegotiated on October 2, 1992, and extended for an additional fifteen years, beginning on December 31, 1992. Provisions in the contract allow for price adjustments for increases and decreases in the City of Gainesville's fuel and operating costs. Total payments to the City of Gainesville for 2000 were $3,399,620.

Crystal River Unit #3 Participation Agreement

The City is a participant in an agreement with Florida Power Corporation which was entered into on July 31, 1975. Under terms of the agreement, the City acquired an 0.0779% ownership interest and generation entitlement share in the nuclear steam electric generating unit. Participants are entitled to energy output of the unit based upon their respective generation entitlement share.

Note 12 - Electric Power Agreements *(Concluded)*

Crystal River Unit #3 Participation Agreement
Florida Power Corporation has been appointed by the participants to act as their agent and has sole authority to manage, control, maintain and operate the unit. Operating costs of the unit, in general, are shared in proportion to each generation entitlement share on a monthly basis. Common and external facilities of the generating unit are solely owned by Florida Power Corporation and participants share in the operating and maintenance expenses of such facilities. Nuclear fuel payments and capital acquisition costs are required of participants in advance. Total payments for 2000 were $142,675.

The City's share of plant decommissioning costs to be paid during the years 2015 through 2022 is being accumulated in an account administered by the FMPA. FMPA has determined the appropriate account balance to be $198,236 at September 30, 2000. The cash account is offset by a deferred credit on the balance sheet of $198,236 at September 30, 2000.

St. Lucie No. 2 Power Purchase Agreement
The City has negotiated a long-term agreement with Florida Power and Light Corporation through FMPA to purchase .3044 megawatts of generating capacity and a corresponding amount of energy monthly from the St. Lucie No. 2 nuclear generating plant. The plant became operational in 1984. Total payments for 2000 were $164,653.

The City has signed certain documents with FMPA relating to the St. Lucie Project that provide that if the agency defaults on certain bond payments, the City would be required to satisfy payment on their share (.431%) of the bonds. The par amount of the outstanding bonds at September 30, 2000, was approximately $291 million.

Note 13 - Pension Plans

All full-time employees of the City hired prior to January 1, 1996, participate in the Florida State Retirement System, a multiple-employer defined benefit public retirement system. Full-time employees hired on January 1, 1996, or later, participate in a retirement system administered by the Florida League of Cities, Inc.

Florida Retirement System
The Florida State Retirement System (the System) was created by the Florida Legislature and is administered by the State of Florida, Department of Administration, Division of Retirement and is a cost-sharing, multiple-employer defined benefit public retirement plan available to governmental units within the state of Florida. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Florida Retirement System, Division of Retirement, 2639-C North Monroe Street, Tallahassee, Florida 32399-1560, or by calling (850) 488-5706. At September 30, 2000, the City had thirty active participants in the System.

Note 13 - **Pension Plans** *(Continued)*

Florida Retirement System ***(Concluded)***
The System provides vesting of benefits after ten years of creditable service. Members are eligible for normal retirement after they have met one of the following: 1) after thirty years of service, regardless of age (twenty-five years if special risk); or 2) age 62 and ten years of service (age 55 and ten years if special risk).

Early retirement may be taken any time after completing ten years of service; however, there is a 5% benefit reduction for each year prior to normal retirement. Benefits are computed on the basis of age, average final compensation and service credit. Average final compensation is the average of the five highest years of earnings. The System also provides death and disability benefits. Benefits are estimated by Florida Statutes and include cost-of-living adjustments.

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts provide that employers, such as the City are required to contribute 9.15% of the compensation for regular members, 11.13% for senior management and 20.29% for special risk as of September 30, 2000. The City's contribution to the System for the years ended September 30, 2000, 1999, and 1998, were $149,701, $184,512, and $211,831, respectively.

Florida League of Cities Plans
There are two retirement plans for employees hired on or after January 1, 1996: a defined contribution plan for general employees, and a Police Officers' Pension Plan, a local-law plan that follows chapter 185 of the Florida State Statutes. Both plans are administered by the Florida League of Cities. At September 30, 2000, the City had 25 general employees and 8 police officers participating in these plans.

The *Retirement Plan and Trust for the General Employees of the City of Alachua* is a defined contribution plan with a vesting schedule between five and ten years of service. The amount contributed to the plan by the City is at the City Commission's discretion, 11% for fiscal year 2000. The vesting schedules are as follows:

Years of Service	Percent Vested
0 - 4 Years	0%
5 Years	50%
6 Years	60%
7 Years	70%
8 Years	80%
9 Years	90%
10 or More Years	100%

Note 13 - Pension Plans *(Concluded)*

Florida League of Cities Plans *(Concluded)*
The normal retirement date from this plan is the first day of the month coincident with or next following attainment of age 62. Distributions may be made at the participant's election on or after the anniversary date following termination of employment and a one year break in service. The administrator and the investment manager of this plan is the Florida League of Cities' Florida Municipal Pension Trust Fund (FMPTF). The City's contributions to this plan for the years ended September 30, 2000, 1999, and 1998, were $52,247, $33,959, and $12,663, respectively.

The *Retirement Plan and Trust for the Police Officers of the City of Alachua* is a defined-benefit plan established under Chapter 185 of the Florida Statutes. Benefits are determined by the number of years of credited service multiplied by 2% and multiplied by final monthly compensation. Final monthly compensation is one-twelfth of the highest average earnings during the five best years out of the last ten years of creditable service prior to separation, or the career average, whichever is greater.

The normal retirement date is the first day of the month coincident with, or next following attainment of age 55 and 10 years of service or earlier attainment of age 52 and 25 years of service. The amount of accrued benefits will be reduced a maximum of 3% for each year before the normal retirement age. This plan requires a 1% contribution by all participants. If a member terminates before completing 10 years of credited service, all employee contributions are returned to the member, with no other benefits. Employees are 100% vested after ten years. The City's contributions are based on an actuarial study, 12.17% for fiscal year 2000. The administrator and investment manager is the Florida League of Cities' FMPTF. Claims procedures and plan administration is supervised by the City of Alachua Police Officers' Pension Trust Fund Board of Trustees. The Florida League of Cities, Inc. issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Florida League of Cities, Inc., P.O. Box 1757, Tallahassee, Florida 32302-1757, or by calling (850) 222-9684. Membership in this Board is established by the City Commission in compliance with Chapter 185, Florida Statutes. The City's contributions to this plan for the years ended September 30, 2000, 1999, and 1998, were $23,022, $34,846, and $31,299, respectively.

Note 14 - Risk Management

The City is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. Insurance against losses are provided for the following types of risk with the following carriers:

Note 14 - Risk Management *(Concluded)*

Florida Municipal Insurance Trust

- Workers' Compensation and Employer's Liability

St. Paul Fire and Marine Insurance Company

- General Liability and Automobile Liability
- Real and Personal Property Damage
- Automobile Physical Damage
- Public Employees' Blanket Bond
- Boiler and Machinery Policy - Electric Substation
- Public Officials' Liability
- Law Enforcement Officers' Professional Liability and Other Mandated Coverage
- Accidental Death and Dismemberment
- Auxiliary Reserve Policy
- Law Enforcement Officers' Professional Liability

The City's coverage for workers' compensation is under a retrospectively rated policy. Premiums are accrued based on the ultimate cost to-date of the City's experience for this type of risk.

Note 15 - Commitments and Contingencies

The City has entered into an economic development agreement with a corporation (developer) developing an industrial park within the City limits. The agreement provides that if, and when, the developer constructs a roadway within the industrial park, the City will provide water and wastewater services along the roadway within six months of road completion for up to five linear miles of road. The development agreement also prohibits the City from charging tap, impact or contribution in aid of construction fees for these improvements. The City may, at its discretion, pay the developer approximately $1.7 million in lieu of meeting the contractual obligations.

In addition, various other claims and lawsuits arise against the City in the normal course of operations. In the opinion of management, the potential loss on these other claims and lawsuits will not be significant to the financial statements.

ACCOMPANYING INFORMATION

COMBINING AND INDIVIDUAL FUND STATEMENTS

These statements provide a more detailed view of the "general-purpose financial statements" presented in the previous section. Combining statements are presented when there is more than one fund of a given fund type. An individual fund statement is presented for the general fund to provide detail budgetary comparisons.

GENERAL FUND

BALANCE SHEETS
GENERAL FUND
SEPTEMBER 30, 2000 AND 1999
CITY OF ALACHUA, FLORIDA

	2000	1999
Assets		
Cash in Bank, Including Certificates of Deposit:		
Police Department Trust Fund	$ 14,348	$ 8,801
Other	153,864	264,980
Receivables:		
Customer Accounts	16,084	18,920
Other	52,875	57,788
Due From Other Funds	29,991	85,429
Due From Other Governments	411,879	75,838
Prepaid Expenses	24,715	1,154
Total Assets	703,756	512,910
Liabilities and Fund Balance		
Liabilities		
Accounts Payable	127,955	42,438
Other Accrued Expenses	76,832	44,405
Occupational Licenses Collected in Advance	4,918	13,930
Other Deferred Revenues	2,780	3,268
Total Liabilities	212,485	104,041
Fund Balance		
Reserved Designated For Police Department Operations	14,348	8,801
Undesignated	476,923	400,068
Total Fund Balance	491,271	408,869
Total Liabilities and Fund Balance	$ 703,756	$ 512,910

STATEMENT OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2000,
WITH COMPARATIVE ACTUAL AMOUNTS FOR 1999
CITY OF ALACHUA, FLORIDA

	2000			1999
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
Revenues				
Taxes				
Property Taxes - Current	$ 1,109,233	$ 1,099,635	$ (9,598)	$ 969,923
Property Taxes - Delinquent	0	19,307	19,307	13,820
Franchise Fees	90,000	121,468	31,468	94,798
Utility Taxes	500,000	643,933	143,933	503,992
Local Option Gas Taxes	119,610	119,179	(431)	117,181
Total Taxes	1,818,843	2,003,522	184,679	1,699,714
Licenses and Permits				
Occupational Licenses	20,000	22,143	2,143	20,642
Building Permits	175,000	213,766	38,766	98,278
Total Licenses and Permits	195,000	235,909	40,909	118,920
Intergovernmental				
Federal Grants:				
U.S. Department of Justice - LLEBG	0	18,207	18,207	18,709
U.S. Department of Justice - COPS - FAST	0	0	0	58,558
Passed Through Alachua County School Board - DARE	21,600	21,600	0	21,600
U.S. Department of Justice - COPS - School-Based Partnership	0	9,852	9,852	39,732
FEMA Disaster Assistance	0	157,121	157,121	33,850
Total Federal Grants	21,600	206,780	185,180	172,449
State Grants:				
Solid Waste	4,214	4,213	(1)	3,915
Florida Department of Transportation	0	9,130	9,130	0
Florida Department of Environmental Protection - FRDAP	0	138,772	138,772	11,227
Total State Grants	4,214	152,115	147,901	15,142
State-Shared Revenue:				
Cigarette Tax	13,915	12,655	(1,260)	15,074
State Revenue Sharing	111,006	130,148	19,142	121,102
Mobile Home Licenses	4,500	6,674	2,174	4,791
Alcoholic Beverage Tax	4,200	2,173	(2,027)	3,565
Half-Cent Sales Tax	304,636	301,719	(2,917)	278,333
Fuel Tax Refund	4,000	5,396	1,396	5,806
Total State-Shared Revenue	442,257	458,765	16,508	428,671
Total Intergovernmental	468,071	817,660	349,589	616,262

STATEMENT OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2000,
WITH COMPARATIVE ACTUAL AMOUNTS FOR 1999
CITY OF ALACHUA, FLORIDA
(Concluded)

	2000			1999
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
Revenues ***(Concluded)***				
Charges For Services				
Police Services	$ 80,000	$ 18,490	$ (61,510)	$ 87,218
Zoning Fees	16,000	27,424	11,424	21,314
Sanitation Revenue	300,000	318,316	18,316	266,423
Penalty Revenue	5,000	6,220	1,220	5,486
Mosquito Spraying	0	0	0	28,380
Total Charges For Services	401,000	370,450	(30,550)	408,821
Fines and Forfeitures				
Court Fines	78,000	84,241	6,241	91,241
Forfeitures	0	5,302	5,302	0
Total Fines and Forfeitures	78,000	89,543	11,543	91,241
Miscellaneous				
Interest	1,500	21,586	20,086	15,410
Rents	9,200	10,390	1,190	6,180
Miscellaneous Revenue	4,000	11,565	7,565	26,802
Recreation Department Revenue	20,000	31,753	11,753	18,699
Insurance Reimbursement	0	19,729	19,729	0
Assets Sales	0	310	310	0
Contributions and Donations	0	10,525	10,525	24,333
Total Miscellaneous	34,700	105,858	71,158	91,424
Total Revenues	$ 2,995,614	$ 3,622,942	$ 627,328	$ 3,026,382

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2000,
WITH COMPARATIVE ACTUAL AMOUNTS FOR 1999
CITY OF ALACHUA, FLORIDA

	2000			1999
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
Expenditures				
General Government				
Legislative:				
Personal Services	$ 36,860	$ 30,445	$ 6,415	$ 35,784
Operations	26,528	27,640	(1,112)	21,406
Total Legislative	63,388	58,085	5,303	57,190
Executive:				
Personal Services	81,309	127,739	(46,430)	73,940
Operations	184,402	256,779	(72,377)	142,778
Capital Outlay	3,000	4,538	(1,538)	0
Debt Service	103,135	223,811	(120,676)	57,173
Total Executive	371,846	612,867	(241,021)	273,891
Finance and Administration:				
Personal Services	118,575	139,363	(20,788)	108,837
Operations	40,852	35,801	5,051	31,231
Capital Outlay	1,000	2,674	(1,674)	0
Total Finance and Administration	160,427	177,838	(17,411)	140,068
Legal:				
Operations	39,421	36,749	2,672	32,686
Code Enforcement:				
Personal Services	35,084	35,636	(552)	38,509
Operations	11,432	8,370	3,062	2,733
Total Code Enforcement	46,516	44,006	2,510	41,242
Total General Government	681,598	929,545	(247,947)	545,077
Public Safety				
Law Enforcement:				
Personal Services	982,334	878,834	103,500	916,615
Operations	145,856	145,163	693	146,340
Capital Outlay	107,004	92,733	14,271	118,132
Total Law Enforcement	1,235,194	1,116,730	118,464	1,181,087
Fire Control:				
Operations	241,924	241,085	839	198,973
Protective Inspections:				
Personal Services	95,129	131,562	(36,433)	62,512
Operations	30,800	214,016	(183,216)	21,835
Capital Outlay	91,595	90,688	907	0
Total Protective Inspections	217,524	436,266	(218,742)	84,347
Animal Control:				
Personal Services	4,210	4,990	(780)	6,208
Operations	2,900	1,628	1,272	1,234
Total Animal Control	7,110	6,618	492	7,442
Total Public Safety	1,701,752	1,800,699	(98,947)	1,471,849

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2000, WITH COMPARATIVE ACTUAL AMOUNTS FOR 1999
CITY OF ALACHUA, FLORIDA
(Concluded)

	2000			1999
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
Expenditures *(Concluded)*				
Physical Environment				
Sanitation:				
Operations	$ 303,368	$ 286,184	$ 17,184	$ 281,393
Mosquito Control:				
Personal Services	0	0	0	7,186
Operations	0	0	0	8,933
Total Mosquito Control	0	0	0	16,119
Total Physical Environment	303,368	286,184	17,184	297,512
Transportation				
Personal Services	278,486	276,698	1,788	262,885
Operations	89,810	113,929	(24,119)	79,478
Capital Outlay	20,000	20,150	(150)	0
Total Transportation	388,296	410,777	(22,481)	342,363
Parks and Recreation				
Personal Services	117,319	117,566	(247)	109,881
Operations	95,482	109,752	(14,270)	95,976
Capital Outlay	100,000	173,372	(73,372)	57,711
Total Parks and Recreation	312,801	400,690	(87,889)	263,568
Total Expenditures	$ 3,387,815	$ 3,827,895	$ (440,080)	$ 2,920,369

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2000,
WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA

	Community Redevelopment Agency		El Niño Grant		Neighborhood Revitalization Grant		Totals	
	2000	1999	2000	1999	2000	1999	2000	1999
Assets								
Cash and Cash Equivalents	$ 154,567	$ 109,583	$ 0	$ 4,988	$ 0	$ 4,479	$ 154,567	$ 119,050
Due From Other Governments	0	0	8,305	0	21,730	15,900	30,035	15,900
Total Assets	154,567	109,583	8,305	4,988	21,730	20,379	184,602	$ 134,950
Liabilities and Fund Balances								
Liabilities								
Accounts Payable	0	7,937	0	0	170	0	170	7,937
Due to Other Funds	0	0	8,585	5,000	21,406	20,500	29,991	25,500
Total Liabilities	0	7,937	8,585	5,000	21,576	20,500	30,161	33,437
Fund Balances								
Reserved For Community Redevelopment	154,567	101,646	0	0	0	0	154,567	101,646
Reserved For Economic Development	0	0	(280)	(12)	154	(121)	(126)	(133)
Total Fund Balances	154,567	101,646	(280)	(12)	154	(121)	154,441	101,513
Total Liabilities and Fund Balances	$ 154,567	$ 109,583	$ 8,305	$ 4,988	$ 21,730	$ 20,379	$ 184,602	$ 134,950

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2000,
WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA

	Community Redevelopment Agency		El Niño Grant		Neighborhood Revitalization Grant		Totals	
	2000	1999	2000	1999	2000	1999	2000	1999
Revenues								
Taxes	$ 52,500	$ 42,731	$ 0	$ 0	$ 0	$ 0	$ 52,500	$ 42,731
Intergovernmental Revenue:								
Federal Grants	0	0	8,305	146,275	53,045	84,100	61,350	230,375
Interest and Miscellaneous	4,014	2,966	0	0	0	0	4,014	2,966
Total Revenues	56,514	45,697	8,305	146,275	53,045	84,100	117,864	276,072
Expenditures								
Economic Environment	(3,593)	(20,272)	(8,573)	(146,287)	(52,770)	(84,221)	(64,936)	(250,780)
Excess (Deficiency) of Revenues Over (Under) Expenditures	52,921	25,425	(268)	(12)	275	(121)	52,928	25,292
Fund Balances (Deficit) - Beginning of Year	101,646	76,221	(12)	0	(121)	0	101,513	76,221
Fund Balances (Deficit) - End of Year	$ 154,567	$ 101,646	$ (280)	$ (12)	$ 154	$ (121)	$ 154,441	$ 101,513

ENTERPRISE FUNDS

COMBINING BALANCE SHEETS
ENTERPRISE FUNDS
SEPTEMBER 30, 2000,
WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA

	Electric	Water	Wastewater	Turkey Creek Water/ Wastewater	Mosquito Control	Totals (Memorandum Only) 2000	1999
Assets							
Current Assets							
Cash and Cash Equivalents	$ 1,300,739	$ 167,255		$ 348,297	$ 9,065	$ 1,825,356	$ 1,920,118
Investments	30,000					30,000	30,000
Receivables (Net of Allowance For Uncollectibles as Parenthetically Indicated):							
Accounts ($36,098)	201,639	17,710	$ 28,882		1,190	249,421	293,303
Other Receivables	9,806	1,417	5,679			16,902	34,730
Due From Other Funds	1,803,937					1,803,937	635,818
Due From Other Governments			70,131			70,131	50,091
Inventory, At Cost	181,755	17,308				199,063	230,447
Prepaid Power Costs	89,834					89,834	133,980
Prepaid Expenses	7,209					7,209	8,105
Unbilled Revenue	471,259					471,259	612,963
Total Current Assets	4,096,178	203,690	104,692	348,297	10,255	4,763,112	3,949,555
Restricted Assets							
Cash and Cash Equivalents	667,181	92,933	795,153	159,042		1,714,309	1,673,127
Investments	198,236		687,214			885,450	839,090
Total Restricted Assets	865,417	92,933	1,482,367	159,042	0	2,599,759	2,512,217
Property, Plant and Equipment							
Utility Plant in Service	7,324,122	3,897,775	5,681,528	2,207,556		19,110,981	17,997,562
(Accumulated Depreciation)	(2,948,370)	(1,726,552)	(2,052,391)	(367,108)		(7,094,421)	(6,572,176)
Construction in Progress			148,273			148,273	104,851
Total Property, Plant and Equipment - Cost Less Depreciation	4,375,752	2,171,223	3,777,410	1,840,448	0	12,164,833	11,530,237
Other Assets							
Unamortized Bond Issue Costs	206,885	0	82,646	61,244	0	350,775	371,676
Total Assets	$ 9,544,232	$ 2,467,846	$ 5,447,115	$ 2,409,031	$ 10,255	$ 19,878,479	$ 18,363,685

COMBINING BALANCE SHEETS
ENTERPRISE FUNDS
SEPTEMBER 30, 2000,
WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA
(Concluded)

	Electric	Water	Wastewater	Turkey Creek Water/ Wastewater	Mosquito Control	Totals (Memorandum Only) 2000	1999
Liabilities and Fund Equity							
Current Liabilities, Payable From Current Assets							
Accounts Payable	$ 754,114	$ 21,987	$ 20,553	$ 33,347	$ 1,947	$ 831,948	$ 322,863
Other Accrued Expenses	46,280	4,586	2,241	3,398	1,151	57,656	45,178
Due to Other Funds			318,387			318,387	381,315
Accrued Compensated Absences	26,077	7,691	6,596			40,364	36,441
Total Current Liabilities, Payable From Current Assets	826,471	34,264	347,777	36,745	3,098	1,248,355	785,797
Current Liabilities, Payable From Restricted Assets							
Accrued Interest	231,314	14,900	95,978	71,855		414,047	425,397
Bonds Payable - Current Portion	155,785	19,000	121,098	33,117		329,000	313,000
Customer Deposits	140,002	25,263	24,908			190,173	166,532
Total Current Liabilities, Payable From Restricted Assets	527,101	59,163	241,984	104,972	0	933,220	904,929
Long-Term Liabilities							
Note Payable			46,798			46,798	45,564
Deferred Credit - CR-3 Decommissioning Costs	198,236					198,236	159,849
Utilities Revenue Bond of 1979		577,000				577,000	596,000
Utility Refunding Revenue Bonds of 1986	1,345,200		1,129,869			2,475,069	2,725,969
Utility Refunding Revenue Bonds, Series 1993	6,044,050		1,649,167	1,095,776		8,788,993	8,809,289
Utility Acquisition Bonds, Series 1993				1,125,000		1,125,000	1,155,000
Total Long-Term Liabilities	7,587,486	577,000	2,825,834	2,220,776	0	13,211,096	13,491,671
Total Liabilities	8,941,058	670,427	3,415,595	2,362,493	3,098	15,392,671	15,182,397
Fund Equity							
Contributions:							
Customers		36,774	924,325			961,099	961,099
Capital Project Fund		37,758	844,478			882,236	37,758
EDA and HUD		135,050	386,760			521,810	507,619
Farmers Home Administration		246,900	180,400			427,300	427,300
Other		372,305	5,850			378,155	372,305
Total Contributions	0	828,787	2,341,813	0	0	3,170,600	2,306,081
Retained Earnings:							
Unreserved Retained Earnings (Deficit)	603,174	968,632	(310,293)	46,538	7,157	1,315,208	875,207
Total Fund Equity	603,174	1,797,419	2,031,520	46,538	7,157	4,485,808	3,181,288
Total Liabilities and Fund Equity	$ 9,544,232	$ 2,467,846	$ 5,447,115	$ 2,409,031	$ 10,255	$ 19,878,479	$ 18,363,685

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2000, WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA

	Electric	Water	Wastewater	Turkey Creek Water/ Wastewater	Mosquito Control	Totals (Memorandum Only) 2000	1999
Operating Revenues							
Utility Billings	$ 5,776,542	$ 372,961	$ 567,903	$ 360,132	$ 30,694	$ 7,108,232	$ 7,040,857
Other Operating Charges	233,685	15,029	8,353	22,885	434	280,386	286,083
Total Operating Revenues	6,010,227	387,990	576,256	383,017	31,128	7,388,618	7,326,940
Operating Expenses							
Electric Power Expenses:							
Nuclear Power Generation and Transmission	166,912	0	0	0	0	166,912	144,391
Purchased Power and Other	3,580,887	0	0	0	0	3,580,887	3,287,288
Personal Services	316,748	96,504	100,002	84,664	9,655	607,573	553,051
Contractual Services	12,606	41,904	62,309	38,625	0	155,444	220,371
Supplies	53,584	20,550	16,035	6,152	3,236	99,557	51,527
Repairs and Maintenance	85,532	36,988	12,981	25,648	282	161,431	229,257
Billing and Administrative	241,697	72,511	72,511	48,341	9,670	444,730	385,439
Depreciation	219,724	116,925	120,926	66,466	0	524,041	512,830
Other Expenses	60,627	87,569	97,716	16,501	1,128	263,541	212,250
(Total Operating Expenses)	(4,738,317)	(472,951)	(482,480)	(286,397)	(23,971)	(6,004,116)	(5,596,404)
Operating Income (Loss)	1,271,910	(84,961)	93,776	96,620	7,157	1,384,502	1,730,536
Nonoperating Revenues (Expenses)							
Connection Charges	0	72,112	43,000	23,341	0	138,453	145,768
Interest Income	110,850	12,645	51,710	14,768	0	189,973	155,345
Interest and Fiscal Charges	(476,042)	(30,250)	(200,628)	(144,520)	0	(851,440)	(880,529)
Amortization of Bond Issue Costs	(11,569)	0	(6,048)	(3,283)	0	(20,900)	(20,945)
Miscellaneous Income	1,079	0	0	0	0	1,079	120,359
Total Nonoperating (Expenses) Revenues	(375,682)	54,507	(111,966)	(109,694)	0	(542,835)	(480,002)
Income (Loss) Before Operating Transfers	896,228	(30,454)	(18,190)	(13,074)	7,157	841,667	1,250,534
Operating Transfers (Out) In	(716,519)	0	119,754	195,099	0	(401,666)	(183,996)
Net Income (Loss)	179,709	(30,454)	101,564	182,025	7,157	440,001	1,066,538
Retained Earnings (Deficit), Beginning of Year	423,465	999,086	(411,857)	(135,487)	0	875,207	(191,331)
Retained Earnings (Deficit), End of Year	$ 603,174	$ 968,632	$ (310,293)	$ 46,538	$ 7,157	$ 1,315,208	$ 875,207

FIDUCIARY FUNDS

COMBINING BALANCE SHEETS
FIDUCIARY FUND TYPES
ALL FIDUCIARY FUNDS
SEPTEMBER 30, 2000,
WITH COMPARATIVE TOTALS FOR 1999
CITY OF ALACHUA, FLORIDA

	Pension Trust				Totals (Memorandum Only)	
	General Employees		Police Officers			
	2000	1999	2000	1999	2000	1999
Assets						
Investments	$ 117,717	$ 55,291	$ 325,464	$ 254,525	$ 443,181	$ 309,816
Net Assets Held in Trust For Pension Benefits	$ 117,717	$ 55,291	$ 325,464	$ 254,525	$ 443,181	$ 309,816

ADDITIONAL ELEMENTS OF REPORT PREPARED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED STATES; AND THE *RULES OF THE AUDITOR GENERAL* OF THE STATE OF FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2000
CITY OF ALACHUA, FLORIDA

	CFDA Number	Pass-Through Grantor's Number	Award Amount	9/30/99 Receivable (Deferral)	(Receipts)	Expenses	9/30/00 Receivable (Deferral)
Federal Awards							
U.S. Department of Housing and Urban Development							
Community Development Block Grant Program - Water/Sewer Extension*	14.228	98DB-1Y-03-11-02-E70	$ 550,000	$ 0	$ 0	$ 0	$ 0
Passed Through Department of Community Affairs:							
Community Development Block Grant Program - Neighborhood Revitalization*	14.228	99-DB-4Z-03-11-02-N17	600,000	15,900	(47,215)	52,770	21,455
Community Development Block Grant Program - El Niño*	14.228	98-DB-4Z-03-11-02-B17	228,275	0	0	8,305	8,305
Total U.S. Department of Housing and Urban Development				15,900	(47,215)	61,075	29,760
U.S. Department of Justice							
Community-Oriented Policing Services - School-Based Program	16.710	98-SB-WX-0034	58,087	(3,268)	(9,364)	9,852	(2,780)
Law Enforcement Block Grant Program	16.592	99-LB-VX-7961	18,207	0	(18,207)	18,207	0
Law Enforcement Block Grant Program	16.592	2000-LB-BX-2159	19,717	0	0	0	0
Total U.S. Department of Justice				(3,268)	(27,571)	28,059	(2,780)
Federal Emergency Management Agency							
Passed Through Department of Community Affairs:							
Disaster Relief Funding (FEMA-1195-DR-FL)	83.544	98RM-M9-03-11-02-018	109,086	9,600	0	0	9,600
Hazard Mitigation Grant Program (FEMA-1195-0101)	83.548	00HM-P4-03-11-15-034	240,088	0	0	157,121	157,121
				9,600	0	157,121	166,721
U.S. Department of Commerce							
Economic Development Administration:							
Public Works and Facilities Development Program Grant	11.300	04-01-04373	1,250,000	50,091	0	14,190	64,281
Total Federal Awards				$ 72,323	$ (74,786)	$ 260,445	$ 257,982
State Financial Assistance							
Florida Department of Environmental Protection							
Florida Recreation Development Assistance Program*		F99040	$ 100,000	11,228	0	88,772	100,000
Florida Recreation Development Assistance Program*		F2101	50,000	0	0	50,000	50,000
Governor's Water Panel Wastewater Grant*		SP790090	300,000			5,850	5,850
Total Florida Department of Environmental Protection				11,228	0	144,622	155,850
Florida Department of Transportation							
Highway Beautification Grant		AH-873	57,607	0	0	9,130	9,130
Total State Financial Assistance				$ 11,228	$ 0	$ 153,752	$ 164,980

*Denotes state grants and aids appropriation.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Commission
City of Alachua
Alachua, Florida

We have audited the general-purpose financial statements of the City of Alachua, Florida (the City) as of and for the year ended September 30, 2000, and have issued our report thereon dated March 30, 2001. Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We did not obtain sufficient evidential matter to determine if property, plant and equipment recorded in the proprietary fund types is fairly presented at cost or estimated historical cost, due to insufficient detail within the City's property records.

Compliance
As part of obtaining reasonable assurance about whether the City's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- **00-1 Budgeting***
  During the audit, it came to our attention the City passed a post-year end budget amendment in excess of $1 million representing amounts which had been expended by the City prior to approval through the budgetary process. In addition, various budget adjustments during the audit period were posted incorrectly in the City's financial reporting system making budget to actual expenditure analysis during the reporting period inaccurate.

  We recommend the City adhere to sound budgetary practices and receive City Commission authorization for significant expenditures in excess of budgeted amounts. This is typically done by way of budget amendments which identify the source of funds and use of the funds in question prior to actual expenditure or commitment to expend funds. We also recommend the City update the financial reporting system to accurately reflect approved budget amendments as they are passed.

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Honorable Mayor and City Commission
City of Alachua
Alachua, Florida

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the general-purpose financial statements. The reportable conditions are described below:

- **00-2 Accounting Records****

  The City was not reconciling certain financial reports to the general ledger on a monthly basis. In many instances, these accounts had not been adjusted since the September 30, 1999 audit. These items included long-term debt, restricted cash and investments, required sinking fund and reserve balances, accrued salaries and compensated absences, pooled cash, interest income, prepaid expenses, inventory, interfund transfers, interfund receivables and payables, pension activity, work order additions and retirements, other property additions and retirements, depreciation, and grant activity.

  These reconciliations and entries should be normal control procedures to assure the accurate processing of monthly and annual financial information and are necessary to accurately reflect the City's financial position during the year. We recommend City staff formalize monthly procedures to assure these items are properly accounted for in a timely manner.

- **00-3 Grant Accounting**

  During the testing, we noted the City frequently does not maintain adequate accounting records related to grants. By completion of the audit, we obtained sufficient evidential matter related to grants to issue our report; however, report issuance was delayed several months as this data was accumulated and then recorded in the accounting records. We also noted instances of delayed reimbursement requests likely due to insufficient grant monitoring.

  We recommend the City develop and implement monthly procedures for grant accounting and reimbursement requests.

Honorable Mayor and City Commission
City of Alachua
Alachua, Florida

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Concluded)

Internal Control Over Financial Reporting *(Concluded)*

- **00-4 Capital Improvement Plan**
  The City continues to experience growth which may require a significant improvement to the City's existing infrastructure. We recommend the City formulate a capital improvement and funding plan to meet the anticipated future infrastructure requirements of the City.

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

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

March 30, 2001
Gainesville, Florida

Purvis, Gray and Company

* Prior year compliance violation not resolved.
** Prior year reportable condition not completely resolved.

Purvis Gray & Company

INDEPENDENT AUDITORS' REPORT ON EXAMINATION OF MANAGEMENT'S ASSERTION ABOUT COMPLIANCE WITH SPECIFIED REQUIREMENTS

Honorable Mayor and City Commission
City of Alachua
Alachua, Florida

We have examined management's assertion included in its representation letter dated March 30, 2001, that the City complied with the allowable cost requirements of the grants and aids appropriations identified in the schedule of expenditures of federal awards and state financial assistance, for the year ended September 30, 2000. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the City's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, management's assertion that the City complied with the allowable cost requirements of the grants and aids appropriations identified in the schedule of expenditures of federal awards and state financial assistance during the fiscal year ended September 30, 2000, is fairly stated, in all material respects.

This report is intended solely for the information and use of the City Commission, management, and applicable state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

March 30, 2001
Gainesville, Florida

Purvis, Gray and Company

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

MANAGEMENT LETTER

Honorable Mayor and City Commission
City of Alachua
Alachua, Florida

We have audited the general-purpose financial statements of the City of Alachua, Florida (the City) as of and for the fiscal year ended September 30, 2000, and have issued our report thereon dated March 30, 2001. In our report, our opinion was qualified because we were unable to obtain sufficient evidential matter to determine if property, plant and equipment recorded in the proprietary fund types were fairly presented at cost or estimated historical cost, due to insufficient detail within the City's property records.

We have issued our independent auditors' report on compliance and on internal control over financial reporting dated March 30, 2001. Disclosures in that report, if any, should be considered in conjunction with this management letter.

Except as discussed in the first paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.554(1)(e)1.(a)] require that we comment as to whether or not inaccuracies, shortages, defalcations, fraud and violations of laws, rules and regulations reported in the preceding annual financial audit report have been corrected. Items of this nature which have not been corrected, are indicated by asterisk (*) in this management letter or in the report on compliance and on internal control over financial reporting based on an audit in accordance with *Government Auditing Standards*.

The *Rules of the Auditor General* [Section 10.554(1)(e)1.(b)] require that we comment as to whether or not recommendations made in the preceding annual financial audit report have been followed. Items of this nature which have not been corrected are indicated by asterisk (*) in this management letter or in the report on compliance and on internal control over financial reporting based on an audit in accordance with *Government Auditing Standards*.

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Honorable Mayor and City Commission
City of Alachua, Florida
Alachua, Florida

MANAGEMENT LETTER
(Continued)

As required by the *Rules of the Auditor General* [Section 10.554(1)(e)2.], the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the City is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes.

As required by the *Rules of the Auditor General* [Section 10.554(1)(e)3.], we determined that the financial information for the City for the fiscal year ended September 30, 2000, filed with the Department of Banking and Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2000.

The *Rules of the Auditor General* [Section 10.554(1)(e)4.] require that we determine whether or not the City complied with Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit disclosed no matters requiring comment as outlined in Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Sections 10.554(1)(e)6., 7. and 8(a), (b), (c)] require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal control over financial reporting: recommendations to improve financial management, accounting procedures and internal controls; violations of laws, rules, and regulations that have occurred, or are likely to have occurred and were discovered within the scope of the audit; illegal or improper expenditures discovered within the scope of the audit that may or may not materially affect the financial statements; failures to properly record financial transactions; and other inaccuracies, shortages, and defalcations and instances of fraud, discovered by, or that come to the attention of, the auditor. Our audit disclosed the following matters required to be disclosed by *Rules of the Auditor General* [Sections 10.554(1)(e)6., 7. and 8.]:

- **Wastewater Overdraft***
  The City's wastewater fund typically operates at an annual loss and has accumulated a net overdraft position in is unrestricted cash of $318,387 and $381,315 at September 30, 2000 and 1999, respectively. The City maintains operating cash for all funds in a pooled cash account, so the overdraft position represents amounts due other funds of the City, not amounts due the bank. However, we recommend this interfund liability be eliminated through Commission action by authorizing one-time and annual transfers from other funds to support these losses. The alternative would be to raise wastewater rates so that the fund is self-supporting.

- **Conduit Debt and Defeased Debt***
  The City is required to disclose information on certain *conduit debt* issues of the City. In general, conduit debt represents debt issued by the City for the benefit of a third party, e.g., industrial development bonds. We recommend the City assemble this information for disclosure. In addition, we also recommend the City assemble similar information on defeased debt issues, also a required disclosure.

Honorable Mayor and City Commission
City of Alachua, Florida
Alachua, Florida

MANAGEMENT LETTER
(Continued)

- **Electric Industry Deregulation***
  With the eminent threat of increased competition in the electric industry and retail wheeling on the horizon, we again recommend the City develop a financial and operating plan addressing their approach to the myriad of issues facing this competitive industry.

- **Overtime Earnings**
  A number of City employees were paid significant amounts of overtime compensation during the audit period. We recommend City staff review overtime usage and policies.

- **Investment of Excess Cash**
  The City maintained high balances in cash accounts with little or no earnings potential during the audit period. We recommend the City review its policies regarding investment of excess cash in an attempt to increase the City's return on these funds.

- **Out of Balance Funds**
  During testing, we noted a number of funds that were out of balance. In the double entry accounting system, funds should never be out of balance. City personnel believe this may be a software issue. We recommend City staff determine the cause of out of balance funds and take corrective action.

- **Pooled Cash Reconciliation**
  The City utilizes a pooled cash fund to consolidate the investment of the City's excess cash and allocate each funds' portion based upon the fund's equity interest in pooled cash. Our testing revealed pooled cash was not being reconciled on a monthly basis to actual investment balances, and the reconciliations which were prepared contained errors.

  We recommend the City reconcile the pooled cash fund to actual investment balances and individual fund equity accounts on a monthly basis.

The *Rules of the Auditor General* [Section 10.554(1)(e)9.] also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements (please see note 1 to the accompanying financial statements). The City was established in 1908 under the legal authority of Chapter 165, Florida Statutes.

This management letter is intended solely for the information and use of the City Commission, management, and the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Honorable Mayor and City Commission
City of Alachua, Florida
Alachua, Florida

MANAGEMENT LETTER
(Concluded)

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

March 30, 2001
Gainesville, Florida

Purvis, Gray and Company

City Of Alachua

P.O. Box 9
Alachua, Florida 32616-0009
904/462-1231 - Phone ❖ 904/462-1985 - Fax

April 26, 2001

The Honorable William O. Monroe
Auditor General, State of Florida
P.O. Box 1735
Tallahassee, Florida 32302-1735

Please find enclosed two copies of the Financial Statements and Independent Auditors' Reports for the City of Alachua for the audit period ended September 30, 2000. These reports have been approved and accepted by the City Commission as of April 26, 2001.

The City of Alachua accepts the findings of our Independent Auditors and the City Commission and the City Staff have commenced or will promptly commence to implement the recommendations identified in the "Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting" and the "Management Letter". Each response to the Independent Auditors' recommendations is attached for your review.

Please contact me if you require further clarification or additional information.

Sincerely,

Anthony Morgan

Anthony Morgan
Finance Director

City of Alachua, Annual Financial Statements and Independent Auditors' Report for September 30, 2000, Response to Independent Auditor's Report on Compliance, Internal Control over Financial Reporting based on an audit of general-purpose financial statements performed in accordance with Governmental Auditing Standards, and Management Letter Comments

Compliance

00-1 Budgeting

Audit Comment:

"During the audit, it came to our attention that the City passed a post-year audit amendment in excess of $1 million representing amounts which had been expended by the City prior to approval through the budgetary process. In addition, various budget adjustments during the audit period were posted incorrectly in the City's financial reporting system making budget to actual expenditure during the reporting period inaccurate."

Audit Comment Response:

The City will develop a Budget Administration Policy in order that City staff may have flexibility during the year to make budget adjustments which do not materially alter the general intent of the City Commission when adopting the budget and to establish adequate controls, through budget monitoring and period reporting, to ensure that the overall distribution of resources achieves the results contemplated by the City Commission.

Internal Control Over Financial Reporting

00-2 Accounting Records

Audit Comment:

"The City was not reconciling certain financial reports to the general ledger on a monthly basis. In many instances, these accounts had not been adjusted since the September 30, 1999 audit. These items included long-term debt, restricted cash and investments, required sinking fund and reserve balances, accrued salaries, and compensated absences, pooled cash, interest income, prepaid expenses, inventory, interfund transfers, interfund receivables and payables, pension activity, work order additions and retirements, other property additions and retirements, depreciation, and grant activity."

Audit Comment Response:

City Staff has commenced the development of a monthly closing schedule that specifies tasks which must be performed on a monthly, quarterly, or annual frequency. The schedule identifies the individual(s) responsible for the completion of each task and provides space for completion date and the initials of the responsible individual(s). The Finance Director will monitor the monthly closing schedule to ascertain the performance of tasks necessary to provide accurate reports of the City's financial position.

City of Alachua, Annual Financial Statements and Independent Auditors' Report for September 30, 2000, Response to Independent Auditor's Report on Compliance, Internal Control over Financial Reporting based on an audit of general-purpose financial statements performed in accordance with Governmental Auditing Standards, and Management Letter Comments

00-03 Grant Accounting

Audit Comment:

"During the testing, we noted the City frequently does not maintain accurate records related to grants. By completion of the audit, we obtained sufficient evidential matter related to grants to issue our report; however, report issuance was delayed several months as this data was accumulated and then recorded in the accounting records. We also noted instances of delayed reimbursement request likely due to insufficient grant monitoring."

Audit Comment Response:

Although the City engages an outside source to assist in the procurement and administration of grants, the City lacked the accounting expertise necessary to properly record the revenues and expenditures that resulted from grant activities. In addition, changes were implemented to financial software without appropriate knowledge of the effect of the changes. The effect of these software changes permitted revenues and expenditures balances to be carried forward to a subsequent fiscal year in lieu of correctly closing to fund balance. The City replaced the Finance Director and reassigned other personnel in order to effectively staff the City Finance Department.

00-04 Capital Improvement Plan

Audit Comment:

"The City continues to experience growth which may require a significant improvement to the City's existing infrastructure. We recommend the City formulate a capital improvement and funding plan to meet the anticipated future infrastructure requirements of the City."

Audit Comment Response:

City Staff has initiated a capital improvement plan with the goal to provide adequate public facilities concurrent with or prior to development in order to achieve and maintain adopted standards for levels of service. The intent of the City is to utilize this process as an integral part of the budget formulation.

- **Wastewater Overdraft**

Audit Comment:

"The City's wastewater fund typically operates at an annual loss and has accumuated a net overdraft position in its unrestricted cash of $318,387 and $318,315 at September 30, 2000 and 1999, respectively. The City maintains operating cash for all funds in a pooled cash account, so the overdraft position represents amounts due other funds of the City, not amounts due the bank. However, we recommend this interfund liability be eliminated through Commission action by authorizing one-time and annual transfers from other funds to support these losses. The alternative would be to raise wastewater rates so that the fund is self-supporting."

Audit Comment Response:

City Staff has conducted water and wastewater rate study in conjunction with Florida Rural Water Association and is currently reviewing the recommended rates. The intent of City Staff is to review rates with the Commission in a workshop prior to drafting ordinances to increase rates. If the increase in the rates do not provide self-sufficiency for the wasterwater fund, City Staff will, as necessitated, recommend that the Commission authorize transfers from other funds to eliminate the interfund liability.

- **Conduit Debt and Defeased Debt**

  Audit Comment:

  "The City is required to disclose information on certain conduit debt issues of the City. In general, conduit debt represents debt issued by the City for the benefit of a third party, e.g., industrial development bonds. We recommend the City assemble the information for disclosure. In addition, we also recommend the City assemble similar information on defeased debt issues, also a required disclosure."

  Audit Comment Response:

  The City will request from the Auditors the format for required disclosure information for both conduit debt and defeased debt issues, and provide identified information to the Auditors during the preliminary phase of the audit for the fiscal year ended September 30, 2001.

- **Electric Industry Deregulation**

  Audit Comment:

  "With the eminent threat of increased competition in the electric industry and retail wheeling on the horizon, we again recommend the City develop a financial and operating plan addressing their approach to the myriad of issues facing this competitive industry."

  Audit Comment Response:

  The City will address, via a Commission workshop, electric industry deregulation in order that the financial impact to the City may be addressed.

- **Overtime Earnings**

  Audit Comment:

  "A number of City employees were paid significant amounts of overtime compensation during the audit period. We recommend City Staff review overtime usage and policies."

City of Alachua, Annual Financial Statements and Independent Auditors' Report for September 30, 2000, Response to Independent Auditor's Report on Compliance, Internal Control over Financial Reporting based on an audit of general-purpose financial statements performed in accordance with Governmental Auditing Standards, and Management Letter Comments

Audit Comment Response:

City Staff disclosed the overtime issue to the Auditors and informed the Auditors that overtime reporting had been developed and distributed to the Department Heads and Commissioners. City Staff has commenced a project to revise the Human Resources Policies and Procedures with an integral segment of that project being the issuance of revised policies which will reduce the overtime compensation that occurred in the audit period. The overtime reporting and positive dialogue with Department Heads has resulted in a reduction of overtime as compared to the audit period.

- **Investment of Excess Cash**

Audit Comment:

"The City maintained balances in cash accounts with little or no earnings potential during the audit period. We recommend the City review its policies regarding investment of excess cash in an attempt to enhance the City's return on these funds."

Audit Comment Response:

City Staff reviewed the cash disbursement requirements and transferred funds not immediately required to deposit accounts that provide higher yields than the accounts in which the City funds had been maintained. City staff has negotiated with depositaries to further improve the earnings of City funds on deposit.

- **Out of Balance Funds**

Audit Comment:

"During testing, we noted a number of funds that were out of balance. In the double entry accounting system, funds should never be out of balance. City personnel believe this may be a software issue. We recommend City Staff determine the cause of out of balance funds and take corrective action."

Audit Comment Response:

City Staff have discussed with our software vendor the issue of funds being out of balance, and the software vendor is reviewing procedures that may be followed to preclude the reoccurence of the condition. All entries to the financial system will be reviewed to ensure that batches will not be entered if the batches are not in balance prior to updating the entries to the financial system.

City of Alachua, Annual Financial Statements and Independent Auditors' Report for September 30, 2000, Response to Independent Auditor's Report on Compliance, Internal Control over Financial Reporting based on an audit of general-purpose financial statements performed in accordance with Governmental Auditing Standards, and Management Letter Comments

- **Pooled Cash Reconciliation**

  Audit Comment:

  "The City utilizes a pooled cash fund to consolidate the investment of the City's excess cash and allocate each funds' portion based upon the fund's equity interest in pooled cash. Our testing revealed pooled cash was not being reconciled on a monthly basis to actual investment balances, and the reconciliations which were prepared contained errors."

  Audit Comment Response:

  City personnel responsible for accounting during the audit period did not have the expertise regarding the financial software necessary to reconcile pooled cash. Procedures have been implemented to ensure that pooled cash balances in each fund are correctly stated and that pooled cash is reconciled to actual investment balances.