

**Seminole Electric  
Cooperative, Inc.**  
**Consolidated Financial Statements**  
**December 31, 1999**

**Report of Independent Certified Public Accountants**

February 24, 2000

To the Board of Trustees  
Seminole Electric Cooperative, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenue and expenses and patronage capital and of cash flows present fairly, in all material respects, the financial position of Seminole Electric Cooperative, Inc. and its subsidiaries (the Cooperative) at December 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Cooperative's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. These 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 24, 2000 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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.

*PricewaterhouseCoopers LLP*

Tampa, Florida

SEMINOLE ELECTRIC COOPERATIVE, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31,	
<u>ASSETS</u>	1999	1998
Utility plant:		
Plant in service	\$ 816,608,845	\$ 848,359,626
Construction work in progress	<u>47,456,951</u>	<u>15,252,830</u>
	864,065,796	863,612,456
Less accumulated depreciation and amortization	(343,463,693)	(337,146,253)
Utility plant, net	<u>520,602,103</u>	<u>526,466,203</u>
Investments:		
Investments in associated organizations	5,937,113	7,812,271
Funds held by trustees and special funds	<u>55,390,059</u>	<u>91,548,374</u>
Total investments	<u>61,327,172</u>	<u>99,360,645</u>
Current assets:		
Cash and cash equivalents	102,323,000	73,449,849
Other current investments	47,647,947	-
Receivables, principally for sales of electricity	29,748,208	22,895,149
Inventories, at average cost:		
Materials and supplies	16,433,486	17,545,183
Fuel	22,683,554	37,796,297
Prepayments and other	<u>615,220</u>	<u>2,722,430</u>
Total current assets	<u>219,451,415</u>	<u>154,408,908</u>
Deferred charges	<u>112,313,922</u>	<u>56,896,009</u>
	<u>\$ 913,694,612</u>	<u>\$ 837,131,765</u>

The accompanying notes are an integral part of these consolidated financial statements.

SEMINOLE ELECTRIC COOPERATIVE, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	1999	1998
<u>EQUITY AND LIABILITIES</u>		
Equity:		
Memberships	\$ 1,000	\$ 1,000
Patronage capital	69,882,439	67,983,761
Donated capital	<u>31,715</u>	<u>31,715</u>
Total equity	<u>69,915,154</u>	<u>68,016,476</u>
Long-term liabilities:		
Long-term debt	691,393,025	634,617,895
Obligations under capital leases	15,623,300	18,581,800
Other	<u>5,530,475</u>	<u>5,392,515</u>
Total long-term liabilities	<u>712,546,800</u>	<u>658,592,210</u>
Current liabilities:		
Current portion of:		
Long-term debt	21,391,404	18,697,049
Obligations under capital leases	2,958,500	2,699,135
Accounts payable	30,796,549	24,624,492
Other accrued liabilities	<u>50,229,266</u>	<u>32,908,122</u>
Total current liabilities	<u>105,375,719</u>	<u>78,928,798</u>
Deferred gain on sale-leaseback of plant	<u>14,098,698</u>	<u>15,514,467</u>
Other deferred credits	<u>11,758,241</u>	<u>16,079,814</u>
Commitments and contingencies (Notes 10 and 11)		
	<u>\$ 913,694,612</u>	<u>\$ 837,131,765</u>

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of these consolidated financial statements.

SEMINOLE ELECTRIC COOPERATIVE, INC.  
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES AND PATRONAGE CAPITAL

	For the years ended December 31,	
	1999	1998
Operating revenue	\$ <u>557,740,268</u>	\$ <u>559,937,782</u>
Operating expenses:		
Operation:		
Fuel	160,892,029	168,291,838
Other production expenses	54,697,645	52,187,148
Purchased power	211,624,244	205,551,542
Transmission	27,274,117	24,783,176
Administrative and general	16,547,472	15,186,281
Depreciation and amortization - non fuel	25,045,683	24,964,295
Lease of coal-fired plant	28,747,426	29,250,235
Write-off of deferred charges	<u>5,867,448</u>	<u>9,995,683</u>
	<u>530,696,064</u>	<u>530,210,198</u>
Operating margins before interest charges	27,044,204	29,727,584
Interest expense net of amounts capitalized	<u>35,720,429</u>	<u>38,745,289</u>
Operating deficits	( 8,676,225)	( 9,017,705)
Patronage capital credits	<u>138,384</u>	<u>166,764</u>
Net operating deficits	( 8,537,841)	( 8,850,941)
Non-operating income:		
Interest income	10,374,579	10,379,061
Other income, net	<u>685,707</u>	<u>966,946</u>
Net margins	2,522,445	2,495,066
Patronage capital, beginning of year	67,983,761	66,165,136
Patronage capital retirements	( <u>623,767</u> )	( <u>676,441</u> )
Patronage capital, end of year	\$ <u><u>69,882,439</u></u>	\$ <u><u>67,983,761</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

SEMINOLE ELECTRIC COOPERATIVE, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net margins	\$ <u>2,522,445</u>	\$ <u>2,495,066</u>
Adjustments to reconcile to cash:		
Depreciation and amortization	38,237,138	28,982,031
Gain on lease/leaseback	( 1,168,023)	( 1,158,933)
Lease expense/lease payment difference	( 688,318)	29,486
Write-off of deferred charges	5,867,448	9,995,683
Change in assets and liabilities:		
Receivables	( 6,853,059)	334,092
Inventories	16,224,440	( 9,587,090)
Prepayments and other	2,117,210	( 1,980,487)
Deferred charges	(57,081,745)	( 695,532)
Other long-term liabilities	( 227,511)	( 4,334)
Accounts payable	6,172,057	(10,873,466)
Other accrued liabilities	18,122,901	10,938,935
Deferred credits	( 4,347,863)	-
Total adjustments	<u>16,374,675</u>	<u>25,980,385</u>
Net cash provided by operating activities	<u>18,897,120</u>	<u>28,475,451</u>
Cash flows from investing activities:		
Utility plant additions, net of retirements	(36,223,117)	(14,251,709)
(Purchases)proceeds (of)/from investments, net	<u>( 7,172,038)</u>	<u>2,787,725</u>
Net cash used in investing activities	<u>(43,395,155)</u>	<u>(11,463,984)</u>
Cash flows from financing activities:		
Proceeds from long-term borrowings	71,970,000	-
Payments of long-term debt	(15,255,715)	(18,541,444)
Payments of capital lease obligations	( 2,699,135)	( 2,464,663)
Payments of patronage capital credits	( 623,767)	( 676,441)
Payments of refinancing premiums	<u>( 20,197)</u>	<u>( 5,245,534)</u>
Net cash provided by/(used in) financing activities	<u>53,371,186</u>	<u>(26,928,082)</u>
Net increase/(decrease) in cash and cash equivalents	28,873,151	( 9,916,615)
Cash and cash equivalents, beginning of year	<u>73,449,849</u>	<u>83,366,464</u>
Cash and cash equivalents, end of year	<u>\$102,323,000</u>	<u>\$ 73,449,849</u>
Supplemental disclosure: Interest paid	\$ <u>24,113,496</u>	\$ <u>33,684,118</u>

The accompanying notes are an integral part  
of these consolidated financial statements.

SEMINOLE ELECTRIC COOPERATIVE, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COOPERATIVE:

Seminole Electric Cooperative, Inc. (Seminole) is a generation and transmission cooperative (G & T). It is responsible for meeting the electric power and energy needs of its distribution cooperative members operating within the State of Florida. Seminole's rates are established by its Board of Trustees, which is composed of representatives from each member cooperative.

Under a settlement agreement between Seminole and one of its members, Okefenoke Rural Electric Membership Corporation (OREMC), the wholesale power contract between them was terminated effective December 31, 1998. Also under the agreement, OREMC withdrew from membership in Seminole as of December 31, 1998 and their membership fee of \$100 was reclassified to donated capital. The agreement was structured to protect the interests of Seminole and its remaining ten member systems and was approved by the Rural Utilities Services (RUS). Headquartered in Nahunta, Georgia, OREMC's Florida load served by Seminole represented approximately 1% of Seminole's total load during 1998.

Seminole constructed and operates two coal-fired generating facilities (Seminole Unit No. 1 and Unit No. 2) near Palatka, Florida with approximately 625 megawatts of net output per unit. These units are connected to the Florida bulk power supply grid through Seminole's 230 kV transmission lines and associated facilities. Both units commenced commercial operation in 1984.

At December 31, 1999, 165 employees or approximately 39% of the total workforce were covered by a four year collective bargaining agreement with Utility Workers Union of America expiring on June 30, 2003.

Seminole holds a 1.6994% undivided ownership interest in the Crystal River Unit No. 3 (CR3) nuclear power plant operated by Florida Power Corporation (FPC). Seminole also owns various transmission facilities connecting Seminole to an Independent Power Producer (IPP) as well as individual members to the Florida bulk power grid.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Seminole complies with the Uniform System of Accounts as prescribed by the RUS. The accounting policies and practices applied by Seminole in the determination of rates are also employed for financial reporting purposes. These policies and practices require management

to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation", Seminole's Board of Trustees prescribes rate-making recovery for certain transactions.

The consolidated financial statements include the results of operations and financial position of Seminole, Acuera Corp. (Acuera), Putnam Leasing Company A, Inc., Putnam Leasing Company B, Inc., and Putnam Leasing Company C, Inc., each wholly owned subsidiaries of Seminole. Acuera owns a 1,300 acre site in Hardee County and Polk County, Florida which is leased, on a nonexclusive basis, to an IPP for its use associated with certain generating facilities constructed and owned by the IPP. The three leasing subsidiaries were established to facilitate the completion of the lease/leaseback transactions of one of Seminole's generating facilities. All significant intercompany transactions have been eliminated.

#### Operating Revenue

Seminole has wholesale power contracts with each of its members, whereby the members must purchase all electric power and energy which the member shall require for its system within the State of Florida from Seminole to the extent that Seminole shall have such power, energy and facilities available. The only exception relates to contracts between several members and the Southeastern Power Administration, which provides less than 2% of the total energy required by all members.

Operating revenue consists primarily of sales of electric power and energy by Seminole and a facilities use charge for Seminole's transmission lines serving a single member cooperative. Member revenues include amounts resulting from a fuel and purchased power adjustment clause which provides for billings to reflect increases or decreases in fuel and fuel related purchased power costs. The levelized adjustment factor is based on costs projected by Seminole for a twelve-month period. Any over-recovery or under-recovery of costs plus an interest factor are to be refunded or billed to the members semi-annually. At the members' option, refunds of over-recoveries may be deferred with interest every six months until such time as the member elects to have the over-recovery including accumulated interest refunded. Net deferred and current balances of these amounts of approximately \$4.5 million and \$9.8 million at December 31, 1999 and 1998, respectively, are recorded as accrued liabilities until refunded.

Included in operating revenue are approximately \$550 million and \$554 million of revenue from members (including OREMC for 1998) for the years ended December 31, 1999 and 1998, respectively, of which approximately \$28 million and \$18 million are included in receivables at December 31, 1999 and 1998, respectively. Also included in operating revenues in 1998 are the non-recurring revenues associated with the proceeds received by Seminole from OREMC under the settlement agreement.

Utility Plant

Utility plant owned by Seminole is stated at original cost. Such cost includes applicable supervisory and overhead cost, plus net interest charged during construction. The amounts of interest capitalized during 1999 and 1998 were \$1,004,252 and \$176,522, respectively. The cost of maintenance and repairs, including renewals and replacements of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Certain leased transportation equipment is valued at the total net present value of minimum lease payments. During 1999, due to the termination of several coal transportation contracts, the net book value of certain marine transportation equipment capital leases has been reclassified to deferred charges (see Note 11).

Depreciation and Amortization of Utility Plant

Seminole provides for depreciation on owned utility plant using composite rates applied annually on a straight-line basis that will amortize the original cost of depreciable property over its estimated useful life. The average rates for 1999 and 1998 were as follows:

	<u>1999</u>	<u>1998</u>
Coal-fired production plant	3.10%	3.10%
Transmission plant	2.75%	2.75%
General plant	7.25%	6.50%
Nuclear production plant	4.50%	4.54%

Depreciation expense amounted to approximately \$23.9 million for both 1999 and 1998.

Improvements to the leased coal-fired production plant are amortized over the remaining life of the base lease term. The related composite amortization rates were 6.08% and 5.96% for 1999 and 1998, respectively.

Amortization of leased assets under capital leases amounted to \$2.5 million in 1998. Amortization of leased assets under capital leases amounted to \$2.7 million in 1999 and was recorded in deferred charges (see Note 11).

#### Amortization of Deferred Gain

Deferred gain on sale-leaseback of coal-fired production plant is being amortized on a straight-line basis over the base lease term of twenty-five years commencing in 1985 and is reflected as a reduction of operating expenses.

#### Gain on Lease/Leaseback

In December 1997, Seminole entered into three long-term lease/leaseback transactions for a portion of its Palatka generating station. These transactions are characterized as sales and leasebacks for income tax purposes, but are reflected as financing transactions for financial reporting purposes. Beginning in 1998, the net cash benefit to Seminole totaling \$26.9 million is being recognized on a straight-line basis over the twenty-three year leaseback period in the amount of \$1.2 million annually pursuant to SFAS No. 71 and as authorized by the Board of Trustees.

#### Deferred Charges

At December 31, 1999 and 1998, deferred charges included unamortized debt costs and related refinancing premiums of approximately \$43.4 million and \$51.0 million, respectively. These deferred charges will be recovered through rates over the remaining lives of the related debt ranging up to twenty-one years. During 1999 and 1998, certain of the unamortized balances of refinancing premiums were written off as directed by the Board of Trustees and are included in the write-off of deferred charges in the amounts of approximately \$5.9 million and \$10.0 million, respectively. A significant portion of the 1998 write-off related to the proceeds from the OREMC settlement agreement. In December 1998 the Seminole Board of Trustees authorized the implementation of an expense deferral plan pursuant to the provisions of SFAS No. 71 relating to costs to be incurred associated with the coal transportation contract terminations (see Note 11). Anticipated marine equipment lease termination costs, operating costs of the leased marine equipment subsequent to coal transportation contract terminations, and certain other costs aggregating approximately \$75 million have been deferred pursuant to this plan. Included in these

costs is the net book value of approximately \$17 million relating to marine transportation equipment under capital leases. This equipment was reclassified from utility plant during 1999 in anticipation of its disposal. These deferred costs associated with the coal transportation contract terminations are being amortized to fuel expense on a cost per ton basis through 2004, reflecting the shortest remaining term of the contracts terminated. Amortization of deferred costs associated with the coal transportation contract terminations was approximately \$11.8 million in 1999. Amortization of other deferred charges amounted to approximately \$3.7 million and \$3.2 million in 1999 and 1998, respectively.

#### Long-Lived Assets

Seminole evaluates, on a regular basis, whether events and circumstances have occurred that indicate the carrying amounts of utility plant and deferred charges may warrant revision or may not be recoverable. Seminole measures impairment of these long-lived assets based on estimated future undiscounted cash flows from operations. At December 31, 1999, the net utility plant and net unamortized deferred charges balances are not considered to be impaired.

#### Deferred Credits

At December 31, 1999 and 1998, deferred credits primarily included deferred lease expense which represents the difference between cash payments and expense recognized on a straight-line basis related to the operating lease of certain generating facilities and a reserve for CR3 decommissioning costs. These deferred credits have been authorized by the Board of Trustees.

#### Cash Equivalents

Seminole considers all short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### Reclassifications

Certain reclassifications have been made to the 1998 statements to conform to current classifications. There were no changes in net margins as previously reported.

NOTE 3 - UTILITY PLANT:

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Owned property:		
Coal-fired production plant	\$ 596,190,181	\$ 595,151,091
Transmission plant	156,471,818	156,364,133
General plant	20,682,157	19,325,711
Nuclear plant, including fuel	<u>21,765,904</u>	<u>19,763,008</u>
	795,110,060	790,603,943
Transportation equipment under capital leases	2,538,591	39,328,927
Leasehold improvements of coal-fired production plant	<u>18,960,194</u>	<u>18,426,756</u>
	816,608,845	848,359,626
Construction work in progress	<u>47,456,951</u>	<u>15,252,830</u>
	<u>864,065,796</u>	<u>863,612,456</u>
Accumulated depreciation and amortization:		
Owned property	(334,618,232)	(312,359,747)
Leased transportation equipment	( 1,405,619)	( 18,452,426)
Leasehold improvements	<u>( 7,439,842)</u>	<u>( 6,334,080)</u>
	<u>(343,463,693)</u>	<u>(337,146,253)</u>
	\$ <u>520,602,103</u>	\$ <u>526,466,203</u>

NOTE 4 - INVESTMENTS:

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Investments in associated organizations:		
National Rural Utilities		
Cooperative Finance Corporation (CFC):		
Membership	\$ 1,000	\$ 1,000
Capital term certificates	2,346,681	3,475,112
Subordinated term certificates	3,024,376	3,772,039
Patronage capital certificates	548,264	547,192
Other	<u>16,792</u>	<u>16,928</u>
	\$ <u>5,937,113</u>	\$ <u>7,812,271</u>
Funds held by trustees and special funds:		
Pollution control bond funds	\$ 14,961,924	\$ 14,973,655
Nuclear decommissioning trust fund	4,342,157	3,806,473
Lease termination fund	36,085,978	34,011,713
Restricted funds	<u>-0-</u>	<u>38,756,533</u>
	\$ <u>55,390,059</u>	\$ <u>91,548,374</u>

Investments in capital and subordinated term certificates and patronage capital certificates are considered to be held-to-maturity

investments due to their nature and are carried at cost determined by specific identification.

It is not practical to estimate the fair value of CFC capital term certificates due to the nature and maturity of these investments. Of these investments, \$1,454,222 are required as a condition of membership and of loans provided to Seminole by CFC. Of the \$2,346,681 and \$3,475,112 carrying amounts at December 31, 1999 and 1998, respectively, \$63,307 matures in 2075 and \$918,124 matures in 2080. Both of these amounts pay 5% annual interest. Additionally, \$364,283 matures in 2030 and pays 3% annual interest and \$108,508 bears no interest and amortizes through 2019. An additional non-interest bearing investment in these certificates matures in 2005 totaling \$892,459 and \$2,018,388 at December 31, 1999 and 1998, respectively, and relates to an agreement between Seminole, CFC and the National Cooperative Services Corporation (an affiliate of CFC) with retirement starting in 1999.

Investments in CFC subordinated term certificates are required as a condition of guarantees provided to others by CFC on behalf of Seminole and are generally priced at market rates at the time of issuance. These investments bear interest at various rates with a combined average of approximately 6.40% and 6.51% at December 31, 1999 and 1998, respectively. At December 31, 1999 and 1998, the estimated fair values of these investments of approximately \$2.9 million and \$3.8 million, respectively, are based on the current rates offered by CFC for this type of required investment.

Funds held by trustees for pollution control bond funds are recorded at amortized cost and are considered to be held-to-maturity investments. The investments in the nuclear decommissioning trust fund (NDTF) are also considered held-to-maturity except for certain investments held by the NDTF which are invested in equity mutual funds and are valued at market prices for rate-making purposes. At December 31, 1999 and 1998, the estimated fair values of these funds of approximately \$18.9 million and \$19.1 million, respectively are based on quoted market prices for the securities held by the trustees.

The lease termination fund, which has been invested in zero coupon government securities with a yield of 6.10% will be held to maturity (2020) and is not marketable; therefore, the fair market value is not determinable.

Restricted funds in 1998 included the lease/leaseback net cash benefit and the proceeds received by Seminole from OREMC under the settlement agreement. These funds, restricted as to use under an agreement between Seminole and RUS, were invested in short-term CFC and government securities and had a total estimated fair value of \$38.9 million at December 31, 1998. During 1999, these restricted funds

were utilized for construction expenditures as authorized by the RUS (see Note 11).

NOTE 5 - LONG-TERM LIABILITIES:

Long-Term Debt

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
First mortgage notes payable to Federal Financing Bank (FFB), guaranteed by RUS, principal due in various installments through 2020, interest at fixed rates, from 4.934% to 7.295%	\$ 497,051,892	\$ 435,370,019
First mortgage notes payable to RUS, principal due in various installments through 2019, interest at 5.00%	7,371,048	7,634,743
Pollution control revenue bonds, payable to the Putnam County Development Authority, guaranteed by CFC, principal due in various installments through 2014, interest at adjustable rates, currently 5.55% and 3.60%	133,950,000	137,650,000
First mortgage notes payable to CFC, principal due in various installments through 2019, interest at adjustable rates, currently 6.85%	8,547,883	8,743,918
Lease termination obligation payable to State Street Bank and Trust at maturity in 2020, interest imputed at a fixed rate of 3.05%	65,863,606	63,916,264
	712,784,429	653,314,944
Less current portion	( 21,391,404)	( 18,697,049)
	<u>\$ 691,393,025</u>	<u>\$ 634,617,895</u>

The estimated maturities and annual sinking fund requirements of all long-term debt, at interest rates as of December 31, 1999 for the four years subsequent to December 31, 2000, are presented below:

<u>Year ending December 31,</u>	<u>Annual Maturities and Sinking Fund Requirements</u>
2001	\$ 23,311,019
2002	\$ 24,702,935
2003	\$ 26,254,033
2004	\$ 27,972,721

On December 31, 1998, Seminole early extended to final maturity \$127.2 million of FFB debt at a weighted average interest rate of 4.94%, reducing the weighted average rate of 6.37%. In connection with the refinancing, Seminole paid refinancing premiums totaling \$5.2 million, which were recorded as deferred charges and will be amortized through the remaining terms of the associated debt. On January 4, 1999, the interest rates on \$10.9 million of FFB debt, averaging 7.4%, were reset to rates averaging 5.06%, and were fixed to final maturity. Refinancing premiums in the amount of \$.8 million were added to the outstanding balances of this debt. The refinancing premiums and additional costs of \$23,000 were recorded as deferred charges and will be amortized through the remaining terms of the associated debt. During September and October, 1999, FFB debt in the amount of \$72 million was advanced to Seminole at a weighted average interest rate of 6.172%.

Substantially all owned assets and leasehold interests other than the lease termination fund are pledged as collateral for the above mentioned debt to the United States of America (RUS and FFB) and CFC. The lease termination fund is pledged as collateral for the lease termination obligation to State Street Bank and Trust.

At December 31, 1999 and 1998, the estimated fair value of long-term debt including current portion but excluding the lease termination obligation, is approximately \$623 million and \$622 million, respectively. For Seminole's long-term debt with interest rates substantially fixed to final maturity, and for that portion that is subject to interest rate adjustment more than six months from year end, fair value is estimated based on the present value of the underlying cashflows. For that portion of long-term debt that reprices to market rates at intervals of six months or less, the carrying amount has been used as a reasonable estimate of fair value. The fair value of the lease termination obligation is not determinable since it is not marketable.

#### Obligations Under Capital Leases

At December 31, 1999, Seminole was obligated under certain capital leases of marine and rail transportation equipment for which base lease terms expire on various dates through 2005. The following is

a schedule of future lease payments under these leases together with the present value of the net minimum lease payments as of December 31, 1999:

<u>Year ending December 31,</u>	
2000	\$ 4,633,266
2001	4,633,266
2002	4,633,266
2003	4,633,266
2004	4,633,266
Thereafter	<u>684,820</u>
Total minimum lease payments	23,851,150
Less amount representing interest	( 5,269,350)
Present value of minimum lease payments	18,581,800
Less current principal portion	( 2,958,500)
	\$ <u>15,623,300</u>

These transportation equipment leases provide for renewals and options to purchase the equipment at fair market value at various dates or upon expiration. During 1999 and 1998, payments under the rail transportation equipment lease in the amount of approximately \$0.3 million were included as a cost of fuel inventory and expensed based on the tons of coal burned throughout the year. In 1999, payments under the marine transportation equipment leases in the amount of approximately \$4.3 million were recorded to deferred charges (see Notes 2 and 11). In 1998, payments under the marine transportation equipment leases were included as a cost of fuel inventory and expensed based on the tons burned throughout the year.

NOTE 6 - NET MARGINS AND EQUITY RESTRICTIONS:

Under provisions of the RUS mortgage, until total equity equals or exceeds forty percent of total assets, the distribution of capital contributed by members is limited generally to twenty-five percent of patronage capital and margins of the next preceding year where, after giving effect to such distribution, the total equity will equal or exceed twenty percent of total assets. Distributions may be made, however, in such amounts as may be approved by RUS through waiver of the aforementioned restrictions. Such distributions to members totaled \$623,767 and \$676,441 in 1999 and 1998, respectively, representing amounts equal to 25% of 1998 and 1997 net margins, respectively. The RUS mortgage requires Seminole to design its wholesale rates with a view towards maintaining, on a calendar year basis, a Times Interest Earned Ratio (as defined in the agreement) of not less than 1.0 and a Debt Service Coverage Ratio (as defined in the agreement) of not less than 1.0. An RUS stipulation arising from the sale of tax benefits requires Seminole to design its wholesale rates to provide an annual Times Interest Earned Ratio of not less than 1.05.

In 1999 and 1998, Seminole achieved a Times Interest Earned Ratio of 1.06 for each year, and a Debt Service Coverage Ratio of 1.14 and 1.17, respectively.

NOTE 7 - LINES OF CREDIT:

Seminole has available uncommitted lines of credit totaling \$75 million of which none were drawn at December 31, 1999 and 1998. RUS policy governs use of these funds.

NOTE 8 - INCOME TAXES:

Seminole is a non-exempt cooperative subject to federal and state income taxes and files a consolidated tax return. As a cooperative, Seminole is entitled to exclude patronage dividends from taxable income. Seminole's bylaws require it to declare patronage dividends in an aggregate amount equal to Seminole's federal taxable income from its furnishing of electric energy and other services to its member-patrons. Accordingly, such income will not be subject to income taxes.

Seminole's rate-making methods provide that any income taxes related to current operations are recognized as expense and are recovered through rates when currently payable. In addition, income tax credits are accounted for as a reduction of taxes currently payable in the period utilized. In 1999 and 1998, net operating losses of approximately \$14.2 million and \$0.4 million, respectively, were generated from non-patronage activity. At December 31, 1999, net operating losses and investment tax credits of approximately \$115.7 million and \$1.6 million are available to offset future taxable income and tax liabilities, respectively, expiring in years through 2019. Furthermore, alternative minimum tax (AMT) credits of approximately \$2.5 million, which do not expire, are available to offset regular income tax liabilities.

Temporary differences in certain items of income and expense for tax and financial reporting purposes result primarily from depreciation, amortization and sale-leaseback of plant. Seminole has recorded the following noncurrent deferred tax asset, valuation allowance and noncurrent deferred tax liability in 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Noncurrent deferred tax asset	\$ 51,000,000	\$ 46,000,000
Less valuation allowance	(47,300,000)	(43,300,000)
Net noncurrent deferred tax asset	3,700,000	2,700,000
Noncurrent deferred tax liability	<u>3,700,000</u>	<u>2,700,000</u>
Net noncurrent deferred tax asset/liability	\$ <u>-0-</u>	\$ <u>-0-</u>

Seminole excludes from its taxable income amounts derived from patronage activity. The deferred tax asset, valuation allowance and

deferred tax liability are calculated solely based on non-patronage activity.

The noncurrent deferred tax asset reflects deductible temporary differences and net operating loss carryforwards at statutory rates plus investment tax credits and AMT credits. Based on Seminole's historical transactions and the exclusion of patronage dividends from taxable income, it is not anticipated that Seminole will have future taxable income sufficient to fully realize the benefit of the existing tax credits and net operating loss carryforwards at December 31, 1999. A valuation allowance has been recorded to reduce deferred tax assets relating to tax credits and net operating loss carryforwards. The valuation allowance increased from 1998 to 1999 due to the net operating loss generated in 1999, which is expected to expire unused, offset somewhat by a reduction due to the expiration of investment tax credits. The noncurrent deferred tax liability reflects taxable temporary differences at statutory rates.

NOTE 9 - EMPLOYEE BENEFITS:

Substantially all Seminole employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program (the Program), a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. Seminole's contributions amounted to \$2,007,733 in 1999 and \$1,819,527 in 1998. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Seminole also has a retirement savings plan for all employees that is qualified under Section 401(k) of the Internal Revenue Code. Seminole's contributions under the savings plan are based upon specified percentages of employee contributions and were approximately \$628,000 and \$550,000 for the years ended December 31, 1999 and 1998, respectively.

All employees are eligible to participate in the group health care coverage plan. Under this plan most employees have an option to choose either the Preferred Provider Plan or the Health Maintenance Organization Plan. Employees retiring on or after age 55 receive the benefit of being allowed to continue, at their expense, health care coverage under Seminole's group plan. In addition, these retirees may use a portion of their accumulated unused sick pay to apply toward these medical insurance premiums.

The following sets forth the plan's status reconciled with amounts reported in Seminole's consolidated balance sheets at December 31, 1999 and 1998. The plan is funded on a pay-as-you-go basis.

Accumulated postretirement benefit obligation (APBO):

	<u>1999</u>	<u>1998</u>
Active plan participants not yet fully eligible	\$ 4,110,800	\$ 3,386,300
Fully eligible active plan participants	620,000	896,100
Retirees and dependents	281,600	368,700
Other plan participants	<u>48,900</u>	<u>51,200</u>
Total APBO	5,061,300	4,702,300
Unrecognized loss from past experience	<u>( 20,385)</u>	<u>( 298,500)</u>
Accrued postretirement benefit liability	\$ <u>5,040,915</u>	\$ <u>4,403,800</u>
Net periodic postretirement benefit cost included the following components:		
Service cost	\$ 375,200	\$ 366,100
Interest cost on accumulated benefit obligation	<u>308,600</u>	<u>286,500</u>
Net periodic postretirement benefit cost	\$ <u>683,800</u>	\$ <u>652,600</u>

An 8.0% increase in the cost of covered health care benefits was assumed for 1999. This rate is assumed to decrease incrementally to 5.5% in 2004 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation by \$451,700 or 8.9% at year-end 1999 and net periodic cost by \$65,100 or 9.5% for the year. The weighted average discount rate and rate of compensation increase used in determining the accumulated post-retirement benefit obligation for 1999 were 7.0% and 5.5%, respectively.

NOTE 10 - OPERATING LEASES:

At December 31, 1999, Seminole was obligated under certain leases of generating facilities and marine and rail transportation equipment for which base lease terms expire on various dates through 2009. The lease of the generating facilities contains a variable interest rate component that could affect future lease payments. Base rental obligations under these leases are payable as follows:

Year ending December 31,

2000	\$ 36,673,619
2001	\$ 37,635,797
2002	\$ 37,690,801
2003	\$ 39,382,937
2004	\$ 39,066,673
Thereafter	\$ 182,268,702

These leases provide for renewals and options to purchase facilities and/or equipment at fair market value at various dates or upon expiration.

Lease payments for the rail transportation equipment leases totaled approximately \$0.7 million for both 1999 and 1998. These payments were included as a cost of fuel inventory and expensed based on the annual tons of coal burned throughout the year. In 1999, the marine transportation equipment lease payments of approximately \$3.8 million were recorded to deferred charges (see Notes 2 and 11). In 1998, the marine transportation equipment lease payments of approximately \$3.8 million were included as a cost of fuel inventory and expensed based on tons of coal burned throughout the year.

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Seminole is purchasing a significant portion of the coal for the generating plant under a long-term contract expiring in 2010. Contract terms specify minimum annual purchase commitments of 2.25 million tons, subject to force majeure conditions, and prices, which are subject to adjustment for changes in costs. Total purchases under this long-term coal contract were approximately \$53.6 million in 1999 and \$64.0 million in 1998.

Prior to 1999, Seminole had long-term contracts with Mount Vernon Coal Transfer Company (MVCTC), Central Gulf Lines (CGL), Apalachicola Northern Railroad (ANR), and CSX Transportation Inc. (CSX), expiring through 2010, for transportation of substantially all coal purchases. Contract terms included a minimum cost as determined by a base quantity of tons shipped and prices, which were subject to adjustment for changes in costs. Total charges under these long-term coal transportation contracts were approximately \$50.3 million in 1998.

On December 16, 1998, Seminole filed litigation asking the courts to determine equitable buy-out arrangements of its contracts with MVCTC, CGL, and ANR since mutually acceptable agreements had not been reached. Services provided to Seminole under these contracts with MVCTC, CGL, and ANR were discontinued on December 16, 1998 and January 21 and 22, 1999, respectively. On July 30, 1999 Seminole and CGL entered into a settlement agreement which provided for the termination of all contractual relationships between the parties as of December 15, 1998. Under the terms of this agreement Seminole made a settlement payment to CGL, the amount of which is subject to a confidentiality agreement. This amount has been included in deferred charges pursuant to the SFAS No. 71 expense deferral plan (see Note 2). The settlement agreement also provides for the dismissal of all litigation between the parties with prejudice. Seminole continues to pursue mutually acceptable termination agreements with the remaining two coal transportation contractors that were given notice of

termination in December 1998. Also during 1999, Seminole gave notice to the lessors of certain leased marine transportation equipment of its intent to terminate these leases under the provisions of the lease agreements for economic reasons. Such terminations are expected to occur during 2000 and the estimated costs of termination have been accrued and deferred pursuant to the SFAS No. 71 expense deferral plan. In the opinion of management, amounts deferred pursuant to the SFAS No. 71 expense deferral plan at December 31, 1999, will be sufficient to provide for settlement of all obligations arising from the termination of the coal transportation contracts.

On January 4, 1999, Seminole began coal shipments utilizing lower cost all-rail transportation under a new agreement with CSX, having a minimum term of six years. Seminole is required to transport a significant portion of its coal and petcoke to be received at Seminole Unit No. 1 and Unit No. 2 under this new agreement. Total charges under this contract were approximately \$53.1 million in 1999.

Seminole has established an external NDTF in compliance with regulations prescribed by the Nuclear Regulatory Commission. The trust fund balance of approximately \$4.3 million represents Seminole's cumulative share at December 31, 1999 of the estimated sinking fund reserve required to decommission CR3. Annual cash deposits will continue to be made to the NDTF representing Seminole's annual share of the projected sinking fund requirements. These amounts will be recovered from members through rates annually. Based upon a site specific study completed in 1994, Seminole's total share of the projected cost of decommissioning is approximately \$8.2 million stated in 1999 dollars, and decommissioning expenditures are expected to occur over a twenty-six year period ending in the year 2041.

Seminole has various firm contracts with suppliers for purchased power with remaining terms ranging from one to sixteen years. These contracts require annual minimum take-or-pay capacity payments for the next five years as follows:

Year ending December 31,

2000	\$ 99.4 million
2001	\$ 107.3 million
2002	\$ 77.7 million
2003	\$ 56.5 million
2004	\$ 52.9 million

Total charges, including capacity payments, under these contracts were approximately \$154.4 and \$61.5 million for 1999 and 1998, respectively.

In December 1998, Seminole signed a contract with Siemens Westinghouse Power Corporation and Overland Contracting Inc., a subsidiary of Black & Veatch, to build a 500 megawatt, gas-fired combined cycle generating facility at the existing 1,300 acre site leased from Acuera. The estimated total cost of the facility is approximately \$225 million of which approximately \$42 million had been expended at December 31, 1999. This facility will be funded through debt borrowed from FFB and certain restricted funds. The facility is scheduled for commercial operation on January 1, 2002, replacing capacity currently being purchased from another Florida utility.

In the normal course of business Seminole has ongoing disputes with some of its power suppliers. Additionally, some of the billings received by Seminole for purchased power are subject to adjustment based on the actual costs of the seller. During 1999 and 1998, several disputes were settled resulting in refunds relating to purchased power costs recorded in prior periods in the amounts of approximately \$34,000 and \$548,000, respectively, not including interest. Also during 1999 and 1998, refunds were received in the aggregate amounts of approximately \$1.7 million and \$1.1 million, respectively, not including interest, for adjustments to reflect actual costs related to power billings from prior periods. These amounts were recorded in both years as reductions to purchased power expenses.

Seminole is a party to litigation involving various other claims arising in the normal course of business. In the opinion of management the ultimate resolution of these matters will not significantly affect Seminole's financial statements.