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July 13, 1998

Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

HAND DELIVERY

980876-WS

RECORDS AND
REPORTING

JUL 13 PM 4:47

RECEIVED-FPSC

Re: Application by Ocala Springs Utilities Inc. for an original certificates for water and wastewater in Marion County, Florida.

Dear Ms. Bayo:

Enclosed on behalf of Ocala Springs Utilities Inc. are an original and twelve (12) copies of:

1. Application by Ocala Springs Utilities Inc. for an original certificates for water and wastewater in Marion County, Florida; ~~07305-98~~
2. Petition for Temporary Variance from or Temporary Waiver of Rules 25-30.033(1)(h), (j), (m), (o), (r), (t), (u), (v), (w); (2); and (3) and 25-30.433(10), Florida Administrative Code; ~~07308-98~~
3. Affidavit of Kathryn G.W. Cowdery. ~~07307-98~~

Also enclosed is a check in the amount of \$3,000.00 as payment of the filing fee.

Please open a docket for processing this application.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention.

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

check received with filing and forwarded to Fiscal for deposit. Please to forward a copy of check to EAR with proof of deposit.

initials of person who forwarded check

[Handwritten initials]

Thank you for your assistance.

Sincerely,

Wayne L. Schiefelbusch, for

B. Kenneth Gatlin

BKG/ldv
Enclosures

cc: Administrative Procedures Committee
(w/Application and Petition only)

OCALA SPRINGS UTILITIES INC.

APPLICATION TO FLORIDA PUBLIC SERVICE COMMISSION
FOR
ORIGINAL CERTIFICATE FOR WATER & WASTEWATER
MARION COUNTY, FLORIDA

INDEX

APPLICATION FORM

EXHIBIT A - NEED FOR SERVICE

- Attachment 1 - Chart of Utility Companies having some part of service areas within two miles of Ocala Springs
- Attachment 2 - Marion County Ordinance 98-10 (Signed & Documented Copy)
- Attachment 3 - Map depicting Ocala Springs relative to said Marion County Planning and Service Areas
- Attachment 4 - City of Ocala/Marion County Water and Wastewater Service Territory Agreement

EXHIBIT B - CONSISTENCY WITH COMPREHENSIVE PLAN

- Attachment 1 - History of Ocala Springs
- Attachment 2 - Binding Letter of Interpretation for Vested Rights - April 29, 1974
- Attachment 3 - Binding Letter of Interpretation for Modification to a Development of Regional Impact with Vested Rights - June 21, 1985
- Attachment 4 - Binding Letter of Interpretation for Development of Regional Impact Status - August 30, 1985

EXHIBIT C - TYPES OF WATER SERVICE

EXHIBIT D - LAND FOR WATER AND WASTEWATER FACILITIES

EXHIBIT E - FINANCIAL AND TECHNICAL ABILITY OF APPLICANT

- Attachment 1 - AUI Company Profile
- Attachment 2 - Master Agreement

EXHIBIT F - APPLICANT FINANCIAL STATEMENTS

- Attachment 1 - AUI Financial Statements

EXHIBIT G - FUNDING SOURCES

- Attachment 1 - AHI Financial Statements

EXHIBIT H - TERRITORY DESCRIPTION

EXHIBIT I - TERRITORY MAP

APPLICATION FOR ORIGINAL CERTIFICATE
FOR A PROPOSED OR EXISTING SYSTEM REQUESTING

(Pursuant to Section 367.045, Florida Statutes)

To: Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

The undersigned hereby makes application for original certificate(s) to operate a water X and/or wastewater X utility in Marion County, Florida, and submits the following information:¹

PART I APPLICANT INFORMATION

- A) The full name (as it appears on the certificate), address and telephone number of the applicant:

 Ocala Springs Utilities Inc.
Name of utility

 (941) 925-3088
Phone No.

 (941) 924-7203
Fax No.

 4837 Swift Road, Suite 100
Office street address

 Sarasota
City

 FL
State

 34231
Zip Code

 N.A.
Mailing address if different from street address

 N.A.
Internet address if applicable

- B) The name, address and telephone number of the person to contact concerning this application:

 Gerald S. Allen, President
Name

 (941) 925-3088
Phone No.

 4837 Swift Road, Suite 100
Street address

 Sarasota
City

 FL
State

 34231
Zip Code

¹This is an application for Original Certificates only. The application for Initial Rates and Charges and the financial, engineering and operating information supporting same will be submitted at a later date as a separate application.

- C) Indicate the organizational character of the applicant:
(circle one)

Corporation Partnership Sole Proprietorship

Other _____
(Specify)

- D) If the applicant is a corporation, indicate whether it has made an election under Internal Revenue Code Section 1362 to be an S Corporation:

Yes _____ No X _____

- E) If the applicant is a corporation, list names, titles and addresses of corporate officers, directors, partners, or any other person(s) or entities owning an interest in the applicant's business organization. (Use additional sheet if necessary).

Gerald S. Allen, Chairman of Board/President/CEO

4837 Swift Road Suite 100, Sarasota, FL 34231

Michael E. Murphy, VP/Treas/Asst Secy/Director

4837 Swift Road Suite 100, Sarasota, FL 34231

Anita J. Chubbuck, Secy/Asst Treas

4837 Swift Road Suite 100, Sarasota, FL 34231

Dennis J. Getman, Director

255 Alhambra Circle, Coral Gables, FL 33134

Charles L. McNairy, Director

255 Alhambra Circle, Coral Gables, FL 33134

Ocala Springs Utilities Inc. is a wholly-owned subsidiary of Avatar Utilities Inc. which is a wholly-owned subsidiary of Avatar Holdings Inc.

- F) If the applicant is not a corporation, list names and addresses of all persons or entities owning an interest in the organization. (Use additional sheet if necessary.)

N.A.

PART II NEED FOR SERVICE

- A) Exhibit A - A statement regarding the need for service in the proposed territory, such as anticipated (or actual) development in the area. Identify any other utilities within the area proposed to be served which could potentially provide such service in the area and the steps the applicant took to ascertain whether such other service is available.
- B) Exhibit B - A statement that to the best of the applicant's knowledge, the provision of service will be consistent with the water and wastewater sections of the local comprehensive plan, as approved by the Department of Community Affairs at the time the application is filed. If the provision of service is inconsistent with such plan, provide a statement demonstrating why granting the certificate would be in the public interest.

PART III SYSTEM INFORMATION

A) **WATER**

- (1) Exhibit C - A statement describing the proposed type(s) of water service to be provided (i.e., potable, non-potable or both).
- (2) Exhibit See Footnote 1, Page 1 - The number of equivalent residential connections (ERCs) proposed to be served, by meter size and customer class. If development will be in phases, separate this information by phase. In addition, if the utility is in operation, provide the current number of ERCs by meter size and customer class.
- (3) Description of the types of customers anticipated (i.e., single family, mobile homes, clubhouse, commercial, etc.):
- Active adult residential(age restricted),
commerical, industrial, recreational, clubhouse
- (4) In the case of an existing utility, provide the permit number and the date of approval of facilities by the Department of Environmental Protection (DEP) or the agency designated by DEP to issue permits:
- N.A.
- (5) Indicate the design capacity of the treatment plant in terms of equivalent residential connections

(ERCs) and gallons per day (gpd). If development will be in phases, separate this information by phase.

See Footnote 1, Page 1 (ERCs) _____ (gpd)

(6) Indicate the type of treatment: See Footnote 1, Page 1

(7) Indicate the design capacity of the transmission and distribution lines in terms of ERCs and gpd. If development will be in phases, separate this information by phase.

See Footnote 1, Page 1

(8) Provide the date the applicant began or plans to begin serving customers: December 2000

(9) Exhibit D - Evidence, in the form of a warranty deed, that the utility owns the land where the water facilities are or will be located. If the utility does not own the land, a copy of the agreement which provides for the long term continuous use of the land, such as a 99-year lease. The Commission may consider a written easement or other cost-effective alternative.

The applicant may submit a contract for the purchase and sale of land with an unexecuted copy of the warranty deed provided the applicant files an executed and recorded copy of the deed, or executed copy of the lease, within thirty days after the order granting the certificate.

B) **WASTEWATER**

(1) Exhibit See Footnote 1, Page 1 - The number of equivalent residential connections (ERCs) proposed to be served, by meter size and customer class. If development will be in phases, separate this information by phase. In addition, if the utility is in operation, provide the current number of ERCs by meter size and customer class.

(2) Description of the types of customers anticipated (i.e., single family, mobile homes, clubhouse, commercial, etc.):

Active adult community (age restricted), commercial, industrial, recreational, clubhouse

- (3) In the case of an existing utility, provide the permit number and the date of approval of facilities by the Department of Environmental Protection (DEP) or the agency designated by DEP to issue permits:

N.A.

- (4) Indicate separately the design capacity of the treatment plant and effluent disposal system in terms of equivalent residential connections (ERCs) and gallons per day (gpd). If development will be in phases, separate this information by phase.

See Footnote 1, Page 1

- (5) Indicate the method of treatment and disposal (percolation pond, spray field, etc.):

See Footnote 1, Page 1

- (6) Exhibit C - If the applicant does not propose to use reuse as a means of effluent disposal, provide a statement that describes, with particularity, the reasons for not using reuse.

- (7) Indicate the design capacity of the collection lines in terms of ERCs and gpd. If development will be in phases, separate this information by phase.

See Footnote 1, Page 1

- (8) Provide the date the applicant began or plans to begin serving customers: June 2000

- (9) Exhibit D - Evidence, in the form of a warranty deed, that the utility owns the land where the utility treatment facilities are or will be located. If the utility does not own the land, a copy of the agreement which provides for the long term continuous use of the land, such as a 99-year lease.

The Commission may consider a written easement or other cost-effective alternative. The applicant may submit a contract for the purchase and sale of land with an unexecuted copy of the warranty deed, provided the applicant files an executed and recorded copy of the deed, or executed copy of the lease, within thirty days after the order granting the certificate.

PART IV FINANCIAL AND TECHNICAL INFORMATION

- A) Exhibit E - A statement regarding the financial and technical ability of the applicant to provide reasonably sufficient and efficient service.
- B) Exhibit F - A detailed financial statement (balance sheet and income statement), certified if available, of the financial condition of the applicant, showing all assets and liabilities of every kind and character. The income statement shall be for the preceding calendar or fiscal year. If an applicant has not operated for a full year, then the income statement shall be for the lesser period. The financial statement shall be prepared in accordance with Rule 25-30.115, Florida Administrative Code. If available, a statement of the source and application of funds shall also be provided.
- C) Exhibit G - A list of all entities, including affiliates, upon which the applicant is relying to provide funding to the utility, and an explanation of the manner and amount of such funding, which shall include their financial statements and any financial agreements with the utility. This requirement shall not apply to any person or entity holding less than 10 percent ownership interest in the utility.
- D) Exhibit See Footnote 1, Page 1 - A schedule showing the projected cost of the proposed system (or actual cost of the existing system) by uniform system of accounts (USOA) account numbers pursuant to Rule 25-30.115, F.A.C. In addition, provide the capacity of each component of the system in ERCs and gallons per day. If the utility will be built in phases, this schedule shall apply to the design capacity of the first phase only. Provide a separate exhibit for the water and sewer systems.
- E) Exhibit See Footnote 1, Page 1 - A schedule showing the projected operating expenses of the proposed system by USOA account numbers when 80 percent of the designed capacity of the system is being utilized. If the utility will be built in phases, this schedule shall apply to the design capacity of the first phase only. In addition, if the utility has been in existence for at least one year, provide actual operating expenses for the most recent twelve months. Provide a separate exhibit for the water and sewer systems.
- F) Exhibit See Footnote 1, Page 1 - A schedule showing the projected capital structure, including the methods of financing the construction and operation of the utility until the utility reaches 80 percent of the designed capacity of the system(s).
- G) Exhibit See Footnote 1, Page 1 - A cost study, including customer growth projections, which supports the proposed rates, miscellaneous service charges, customer deposits

and service availability charges. A sample cost study is enclosed with the application package. Provide a separate cost study for the water and sewer systems.

- H) Exhibit See Footnote 1, Page 1 - If the base facility and usage rate structure (as defined in Rule 25-30.437(6), F.A.C.) is not utilized for metered service, provide an alternative rate structure and a statement supporting why the alternative is appropriate.
- I) Exhibit See Footnote 1, Page 1 - If a different return on common equity other than the current equity leverage formula established by order of the Public Service Commission pursuant to Section 367.081(4), F.S. is utilized, provide competent substantial evidence supporting the use of a different return on common equity. Information on the current equity leverage formula may be obtained by contacting the accounting section at the listed number.

PART V ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

Please note the following:

- A) Utilities obtaining initial certificates pursuant to Rule 25-30.033, F.A.C., are authorized to accrue AFUDC for projects found eligible pursuant to Rule 25-30.116(1), F.A.C.
- B) A discounted monthly AFUDC rate calculated in accordance with Rule 25-30.116(3), F.A.C., shall be used to insure that the annual AFUDC charged does not exceed authorized levels.
- C) The date the utility shall begin to charge the AFUDC rate shall be the date the certificate of authorization is issued to the utility so that such rate can apply to initial construction of the utility facilities.

PART VI TERRITORY DESCRIPTION AND MAPS

A) **TERRITORY DESCRIPTION**

Exhibit H - An accurate description, using township, range and section references as specified in Rule 25-30.030(2), Florida Administrative Code. If the water and wastewater service territories are different, provide separate descriptions.

B) **TERRITORY MAPS**

Exhibit I - One copy of an official county tax assessment map or other map showing township, range and section with a scale such as 1"=200' or 1"=400' on which

the proposed territory is plotted by use of metes and bounds or quarter sections and with a defined reference point of beginning. If the water and wastewater service territories are different, provide separate maps.

C) **SYSTEM MAPS**

Exhibit (See Exhibit D) - One copy of detailed map(s) showing proposed lines, facilities and the territory proposed. **Additionally, identify any existing lines and facilities.** Map(s) should be of sufficient scale and detail to enable correlation with a description of the territory to be served. Provide separate maps for water and wastewater systems.

PART VII NOTICE OF ACTUAL APPLICATION

A) Exhibit J - An affidavit that the notice of actual application was given in accordance with Section 367.045(1)(a), Florida Statutes, and Rule 25-30.030, Florida Administrative Code, by regular mail to the following:

- (1) the governing body of the municipality, county, or counties in which the system or the territory proposed to be served is located;
- (2) the privately owned water and wastewater utilities that hold a certificate granted by the Public Service Commission and that are located within the county in which the utility or the territory proposed to be served is located;
- (3) if any portion of the proposed territory is within one mile of a county boundary, the utility shall notice the privately owned utilities located in the bordering counties and holding a certificate granted by the Commission;
- (4) the regional planning council;
- (5) the Office of Public Counsel;
- (6) the Public Service Commission's Director of Records and Reporting;
- (7) the appropriate regional office of the Department of Environmental Protection;
- (8) and the appropriate water management district.

Copies of the Notice and a list of entities noticed shall accompany the affidavit. **THIS MAY BE A LATE-FILED EXHIBIT**

- B) Exhibit N.A. - An affidavit that the notice of actual application was given in accordance with Rule 25-30.030, Florida Administrative Code, by regular mail or personal delivery to each customer of the system. A copy of the notice shall accompany the affidavit. THIS MAY BE A LATE-FILED EXHIBIT.
- C) Exhibit K - Immediately upon completion of publication, an affidavit that the notice of actual application was published once in a newspaper of general circulation in the territory in accordance with Rule 25-30.030, Florida Administrative Code. A copy of the proof of publication shall accompany the affidavit. THIS MAY BE A LATE-FILED EXHIBIT.

PART VIII FILING FEE

Indicate the filing fee enclosed with the application:
\$3,000 (for water) and \$3,000 (for wastewater).

Note: Pursuant to Rule 25-30.020, Florida Administrative Code, the amount of the filing fee as follows:

- (1) For applications in which the utility has the capacity to serve up to 500 ERC's, the filing fee shall be **\$750.**
- (2) For applications in which the utility has the capacity to serve from 501 to 2,000 ERC's the filing fee shall be **\$1,500.**
- (3) For applications in which the utility has the capacity to serve from 2,001 ERC's to 4,000 ERC's the filing fee shall be **\$2,250.**
- (4) For applications in which the utility has the capacity to serve more than 4,000 ERC's the filing fee shall be **\$3,000.**

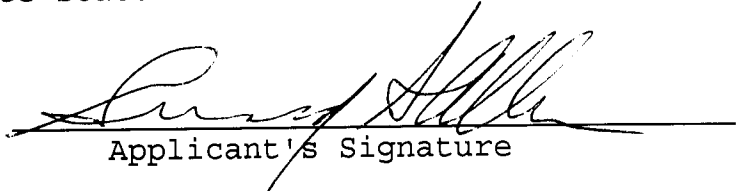
PART IX TARIFF

Exhibit See Footnote 1, Page 1 - The original and two copies of water and/or wastewater tariff(s) containing all rates, classifications, charges, rules and regulations. Sample tariffs are enclosed with the application package.

PART X AFFIDAVIT

I Gerald S. Allen (applicant) do solemnly swear or affirm that the facts stated in the foregoing application and all exhibits attached thereto are true and correct and that said statements of fact thereto constitutes a complete statement of the matter to which it relates.

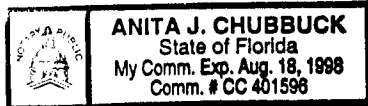
BY:


Applicant's Signature

Gerald S. Allen
Applicant's Name (Typed)

Chairman/President/CEO
Applicant's Title *

Subscribed and sworn to before me this 1st day of June, 1998.



PERSONALLY KNOWN BY ME
 PRODUCED I.D.


Notary Public

* If applicant is a corporation, the affidavit must be made by the president or other officer authorized by the by-laws of the corporation to act for it. If applicant is a partnership or association, a member of the organization authorized to make such affidavit shall execute same.

CITY OF OCALA/MARION COUNTY WATER AND WASTEWATER SERVICE TERRITORIAL AGREEMENT

COUNTY CONTRACT NO. 96-2

THIS AGREEMENT is made and entered into this 24th day of September, 1996, by and between the CITY OF OCALA, a municipal corporation, (hereinafter referred to as "OCALA"), and MARION COUNTY (hereinafter referred to as "COUNTY"), a political subdivision of the State of Florida.

RECITALS

1. As provided by law and pursuant to the City Charter of OCALA, and Chapters 166 and 180, Florida Statutes, OCALA is authorized to provide water and wastewater service, and pursuant to such authority, presently furnishes water and wastewater service to its customers both within and beyond the corporate limits of OCALA.

2. As provided by law and pursuant to Chapters 125 and 153, Florida Statutes, COUNTY is authorized to provide water and wastewater service, and pursuant to such authority, presently furnishes water and wastewater service to customers within and throughout Marion County, Florida.

3. OCALA and the COUNTY both recognize the desirability and the need to effectively provide water and wastewater service in a manner which is both economical and consistent with the water conservation and management policy of the State of Florida.

4. The duplication of water and wastewater service facilities by the parties would result in needless and wasteful expenditures and wasted resources.

5. It is the intent of OCALA and the COUNTY to conserve and protect water resources in the interest of public health, safety and welfare, and to avoid and eliminate the circumstances giving rise to the aforesaid duplications and resulting uneconomical and wasteful operations. To that end, the parties have agreed to an

allocation of water and wastewater service areas for the period hereinafter fixed and set forth.

6. In order to accomplish said area allocation, the Parties have agreed upon a boundary line (hereinafter "Territorial Boundary"), encompassing an area hereinafter referred to as the "OCALA Territorial Area." The Territorial Boundary and OCALA's Territorial Area are described and generally depicted in Composite Exhibit "A" attached to and incorporated in this Agreement.

ACCORDINGLY, in consideration of the recitals, agreements, and mutual covenants contained herein, the parties hereto agree as follows:

SECTION 1. RECITALS. The above recitals are true and correct, and by this reference are incorporated in this Agreement.

SECTION 2. DEFINITIONS. The COUNTY and OCALA agree that in construing this Agreement, the following words, phrases, and terms shall have the following meanings:

2.1 "Territorial Boundary" means the boundary line described and depicted in Composite Exhibit "A" attached hereto.

2.2 "Ocala Territorial Area" means all lands lying within and encompassed by the Territorial Boundary.

2.3 "Adjacent Territorial Area" means the lands lying in Marion County, Florida, and outside of the OCALA Territorial Area.

2.4 "Agreement" means this City of Ocala/Marion County Water and Wastewater Service Territorial Agreement, as it may from time to time be modified.

2.5 "FPSC Certificated Area" shall mean an area for water or wastewater service that has been certificated by the Florida Public Service Commission.

2.6 "Customers" means water and/or wastewater customers of either party hereto subject to transfer or exchange hereunder, and shall include all such customers whether presently or hereafter connected.

2.7 "Water and Wastewater Facilities" means any potable water or wastewater plant, system, facility or property and

additions, extensions, and improvements thereto at any future time constructed and acquired as part thereof, useful or necessary or having the present capacity for future use in connection with the development of sources, treatment, or purification and distribution of water for domestic, commercial, or industrial use, including the provision of fire protection, and/or treatment and disposal of wastewater from the same, and without limiting the generality of the foregoing, shall include wells, treatment plants, storage tanks, mains, lines, valves, pumping stations, reclamation and disposal facilities, sewage treatment plants, laterals and pipes for the purposes of carrying water to and wastewater from the premises connected with such system, wastewater reuse facilities, aerators, chemical feed equipment, motors, engines, reservoirs, tanks, buildings, all associated piping, lines, conduit, valves, headers and other appurtenances required to pump, treat and transmit water, wastewater and wastewater reuse, the pipes, lines and conduits required to connect such Water and Wastewater Facilities to the water and wastewater transmission lines, and shall include all real and personal property and any interests therein, rights, easements and franchises of any nature whatsoever relating to any such system and necessary or convenient for the operation thereof.

2.8 "Service Area" shall mean the territory in which a party is entitled hereunder to provide water and/or wastewater service to Customers.

2.9 "Contiguous Area" shall mean the Parcels located along and on either side of the Territorial Boundary, or, where the Territorial Boundary is adjacent to a street, road or highway, on either side of the street, road or highway.

2.10 "Parcel" shall mean a parcel of real property and shall be the larger of: a parcel having a unique tax parcel identification number; a platted subdivision; a development of regional impact; or a planned unit development. The size of a Parcel shall be determined based upon the applicant's development plans at the time application for water or wastewater service is made.

SECTION 3. SERVICE AREAS AND NEW CUSTOMERS.

3.1 Service Areas. Subject to the provisions of this Agreement concerning changes to the Territorial Boundary and Service Areas: OCALA's Territorial Area is hereby designated as OCALA's Service Area for the period of time hereinafter specified;

and the Adjacent Territorial Area is hereby designated as the COUNTY's Service Area for the same period.

3.2 New Customers.

3.2.1 Generally. The COUNTY shall not hereafter serve or offer to serve any Customer in OCALA's Service Area, on a temporary or permanent basis, unless OCALA requests the COUNTY in writing to do so and the COUNTY agrees to do so; and OCALA shall not hereafter serve or offer to serve any Customer located in the COUNTY's Service Area, on a temporary or permanent basis, unless the COUNTY likewise requests OCALA, in writing, to do so and OCALA agrees to do so.

3.2.2 FPSC Certificated Area. Notwithstanding Section 3.2.1, if the COUNTY or OCALA hereafter purchases a private utility serving Customers in FPSC Certificated Areas, the COUNTY or OCALA may serve such Customers. OCALA shall first negotiate with the said private utility(ies) within OCALA's Service Area. Only after OCALA has terminated negotiations may the COUNTY begin negotiations. Similarly the COUNTY shall first negotiate with the said private utility(ies) within its Service Area. Only after the COUNTY has terminated negotiations may OCALA begin negotiations. In the event of such purchase, the party acquiring the private utility and the other party shall negotiate in good faith in an effort to reach an agreement to sell to the other party the facilities of the private utility located entirely within the Service Area of the other party.

3.2.3 Contiguous Areas. Notwithstanding Section 3.2.1, service may be offered or provided to Customers in Contiguous Areas as follows. If the owner of, or a person or entity with a contract to buy, a Parcel located in the Contiguous Area makes a written request for water or wastewater service, the party in whose Territorial Area the Parcel is located (the "first party") shall have the initial right to provide the requested service to the Parcel; the written request for service must contain, at a minimum, the applicant's agreement to pay all wastewater or water capacity charges, or their equivalent, charged by the first party, and shall comply with all other reasonable rules and regulations customarily imposed by the first party concerning applications for service. If the first party is unable to provide the requested service within one year of the date of the request, either party to this agreement shall be entitled to provide

the requested service. The Parcel shall thereafter be considered to be within the Service Area of the party entitled to provide and first providing the service hereunder.

3.2.4 Divided Parcels. Notwithstanding Section 3.2.1, if a Parcel is bisected by the Territorial Boundary, then at the property owner's option either party may serve or offer to serve Customers located within such Parcel (even if they are located within the Service Area of the other party), and the entirety of such Parcel shall, following such service, be considered to be within the Service Area of the party providing the service.

3.2.5 Reuse Facilities. Nothing set forth in this Agreement shall restrict the operation or expansion of a party's existing or future wastewater reuse facilities or wastewater residuals (i.e., sludge) disposal sites located in the Service Area of the other party; provided, however, that the operation or expansion of new wastewater reuse facilities outside of a party's Service Area shall be subject to existing and future regulations applicable within the other party's Service Area.

3.3 Effect of Annexation on Service Areas. The Service Areas shall be unaffected by annexation.

3.4 Conditions of Service. Nothing set forth herein shall preclude either party from imposing conditions in return for providing water or wastewater service including, without limitation, requiring adherence to appropriate criteria, standards and regulations (including a party's land development regulations adopted in accordance with state law) relating to design and construction of project infrastructure. Further, OCALA may, as a condition of providing service to Customers or property within the OCALA Service Area but outside of the OCALA city limits, require that the Customer or owner of the property request that the property be voluntarily annexed into OCALA either immediately or, if the property is not then contiguous to the City limits, when it becomes contiguous. The COUNTY shall provide notice to developers seeking to develop land located in the unincorporated portion of OCALA's Service Area that such land is located in OCALA's Service Area and that OCALA may condition service as set forth herein. OCALA shall provide notice to developers seeking to develop land located in the incorporated portion of the COUNTY's Service Area that such land is located in the COUNTY's Service Area and that the COUNTY may condition service as set forth herein.

SECTION 4. TRANSFER OF CUSTOMERS & SERVICE DISTRIBUTION FACILITIES.

4.1 Alteration of Territorial Boundary. Recognizing that future circumstances coupled with good engineering practice and economical operation may necessitate alterations to the Territorial Boundary as herein described, the parties hereby agree that such may be altered by mutual consent. The party desiring such alteration of the Territorial Boundary shall prepare documents fully describing such alteration, which documents must be approved by the governing boards of each party as amendments to this Agreement. All such letter agreements shall be in accordance with Section 5 herein, and any applicable interconnection agreements between the parties. The documents shall provide a map or legal description of the proposed new Territorial Boundary to amend Composite Exhibit "A" attached hereto.

4.2 Transfer of Customers. Should the Territorial Boundary be altered in accordance with Section 4.1 herein, the COUNTY shall transfer to OCALA, and/or OCALA shall transfer to COUNTY, by direct transfer, all Customers now or hereafter served by either which are not in their respective service areas; and all such transfers shall be made on a basis conformable to sound and economical engineering and operating practices. The transfer of Customers hereunder shall be effectuated when the party acquiring the Customers advises the other party of its ability to provide the required service.

4.3 Connection Charges and Fees. Unless the party acquiring the Customers is required to upgrade its Water or Wastewater Facilities as a result of the transfer, no additional physical connection fees or their equivalent will be charged to the Customers receiving service at the time of the transfer. For undeveloped portions of the transferred property or new Customers, all appropriate connection fees or their equivalent will be due in accordance with the receiving party's rules and regulations.

SECTION 5. OCALA AND COUNTY SYSTEMS LETTER AGREEMENTS.
The following provisions shall govern the alteration of the Territorial Boundary and the provision of Wholesale Service:

5.1 Application for Wholesale Service. Either party to this Agreement may submit a letter to the other party requesting wholesale service in accordance with Section 5.2 hereof and, if applicable, said letter agreement shall: (a) request an interconnection with the other party's system, (b) designate on a map the point(s) of connection to the other party's system, (c) specify the term or duration of connection and the quantity of water (expressed as average daily and peak hourly flows in gpm

including fire protection), or the capacity of wastewater (expressed as average daily flow in gpd) requested, (d) designate the property(ies) to be served by such interconnection(s), (e) provide preliminary plans and specifications for installation of any interconnection(s), and (f) if the wholesale service is to be provided on a temporary basis, provide assurances for the discontinuation of such wholesale service at the conclusion of the service period.

5.2 Letter Agreements. Within sixty (60) days after the date a party receives a letter application pursuant to Subsection 5.1, it: shall indicate its acceptance in a writing containing a proposed letter agreement outlining the terms and conditions of the wholesale service; or may indicate its rejection in writing. A party may reject or accept the application in its sole discretion. Failure to respond in writing within sixty (60) days shall be deemed a rejection of the offer.

5.3 Acceptance of Letter Agreements. The party applying shall signify its acceptance of any such letter agreement submitted pursuant to Section 5.2 by submitting, in accordance with Section 5.1 hereof, a letter of acceptance, along with final written plans and specifications for installation of any interconnection(s). Said letter and plans and specifications shall be submitted within sixty (60) days of the date of receipt of a letter agreement issued pursuant to subsection 5.2. The plans and specifications shall be subject to the review and approval of the party providing wholesale service (hereinafter "provider"), which approval is subject to the terms herein and shall not be unreasonably withheld

5.4 Connection Costs. The party requesting the change to a Territorial Boundary or the wholesale service (hereinafter "purchaser") shall be responsible for paying in advance the costs of physically connecting to the provider's system and the provider shall then be responsible for making said connection(s). The provider shall also provide reasonable and necessary metering equipment and appurtenant fixtures for billing purposes at the expense of the purchaser. Responsibility of service shall pass from the provider to the purchaser at the outlet flange of the provider's meter.

SECTION 6. CONSTRUCTION OF WATER AND WASTEWATER FACILITIES, AND RELATED FEES.

6.1 Construction and Right of Way. OCALA is exempted from obtaining a Utility Facility Permit from the COUNTY

for construction of Water or Wastewater Facilities within OCALA's Service Area. If necessary or desirable in order to provide the services contemplated by this Agreement, the party having jurisdiction shall not unreasonably withhold right-of-way utilization permits over, upon, and under any lands within area where the party has jurisdictional authority for the purpose of permitting the other party to install, maintain, repair, alter and operate wastewater lines, water lines, waterworks, wastewater works, force mains, lift stations, water mains, wastewater mains, water distribution systems, pipes, valves, gates, pipelines, and all machinery and apparatus appurtenant to all of the foregoing.

6.2 Conditional Consent for Use of Parties' Rights of Way. Both parties agree and consent that either party may utilize the other party's right-of-way for water and wastewater transmission and collection facilities subject to the following conditions: (1) the party seeking to utilize the other party's right-of-way (the "User") notifies that other party of the intended use in writing at least thirty (30) days prior to any installation, (2) the User sends copies of plans and specifications for the installation of facilities to be constructed within the said right-of-way, (3) the User hereby assumes all liability and obligation for payment of any damages, claims, or penalties that occur by reason of the installation or operation of said facilities, (4) the User pays the applicable right-of-way utilization fee to that other party, and (5) the User does not unreasonably interfere with pre-existing uses within that other party's right-of-way.

6.3 Fees. Neither party shall charge the other party a franchise fee for the right to provide water or wastewater service but either party may charge a right-of-way utilization fee for the use of right of way by the other party.

SECTION 7. ASSIGNMENTS. The COUNTY and OCALA shall both have the right to independently assign or transfer all or any part of this Agreement, and the rights, duties, and obligations hereunder to any properly authorized commission, authority, or other public agency or private entity empowered by law and financially able to effect the purposes of this Agreement, which must assume, and thereafter be exclusively responsible for the performance of the terms of this Agreement to be performed by the COUNTY or OCALA hereunder. Such assignment shall not occur without the consent of the nonassigning party.

SECTION 8. NOTICE; PROPER FORM. Any notice required or allowed to be delivered hereunder shall be in writing and be deemed to be delivered when (a) hand delivered to the official hereinafter designated, or (b) upon receipt of such notice when deposited in United States mail, postage prepaid, certified mail, return receipt requested, addressed to a party at the address set forth opposite the party's name below, or at such other address as the party shall have specified by written notice to the other party delivered in accordance herewith:

COUNTY: Marion County
601 S.E. 25th Avenue
Ocala, FL 34471-2690
Attention: COUNTY Administrator

OCALA: City of Ocala
151 Southeast Osceola Avenue
Ocala, Florida 34471
Attention: City Manager

SECTION 9. INDEMNIFICATION. To the extent allowed by Florida law, including Chapter 768, Florida Statutes, the COUNTY and OCALA agree to indemnify and (a) to hold the other harmless from the negligent acts or omissions of itself, its officers, employees, or agents, arising out of this agreement and (b) to hold the other harmless from third-party suits which result from the discontinuance of water or wastewater service for failure of the third party or purchaser to pay for water or wastewater service or other causes. Neither the COUNTY nor OCALA shall, by virtue of entering into this agreement, waive the sovereign immunity limits established by Florida law.

SECTION 10. SERVICE STANDARDS. Each of the parties hereto agrees to comply with all state, regional, and federal requirements and rules applicable to the provision of water and wastewater service to the public. Under any interconnection accomplished hereunder, however, the provider does not guarantee any special service, pressure, quality, capacity, availability or other facility other than that which is required to fulfill the provider's duty of reasonable care to those to whom it provides water and wastewater service.

SECTION 11. SEVERABILITY. If any part of this Agreement is found invalid or unenforceable by any court, such invalidity or unenforceability shall not affect the other parts of

this Agreement if the rights and obligations of the parties contained therein are not materially prejudiced and if the intentions of the parties can continue to be effected. To that end, this Agreement is declared severable.

SECTION 12. TERM OF AGREEMENT. The term of this Agreement shall commence on the date OCALA formally approves this Agreement or the date of approval by the COUNTY, whichever is later, and shall continue in full force and effect for an initial period of twenty (20) years. This Agreement shall thereafter be automatically renewed for consecutive periods of five (5) years unless either party gives notice, at least one year before the expiration of the initial period or of any renewal period, that the agreement shall not be renewed at the conclusion of the then current period.

SECTION 13. TIME OF ESSENCE. Time is hereby declared of the essence to the lawful performance of the duties and obligations contained in this Agreement.

SECTION 14. APPLICABLE LAW. This Agreement and the provisions contained herein shall be construed, controlled, and interpreted according to the laws of the State of Florida.

SECTION 15. NOTICES; DEFAULT. Each of the parties hereto shall give the other party written notice of any material breach or default hereunder and shall allow the defaulting party thirty (30) days from the date of receipt to cure such defaults. Upon expiration of the thirty (30) day period, the party not in default shall have the right to pursue any remedy now or hereafter existing at law or in equity including a decree compelling specific performance and restraining by injunction any actual or threatened breach or default of any material obligation in this agreement. The COUNTY and OCALA agree that money damages are insufficient to compensate for damages resulting from a breach or default of any material obligation hereunder, and that the non-defaulting party will lack an adequate remedy at law for such breach or default.

SECTION 16. CONSTRUCTION OF AGREEMENT; INTENT AND INTERPRETATION. In construing this Agreement, it is hereby declared by the parties to be the purpose and the intent of this Agreement to effectively provide water and wastewater service and to prevent the needless and wasteful expenditures and harm to water conservation and management which would result from unrestrained competition between two government utilities operating in overlapping Service Areas. Nothing contained herein is intended to prohibit persons, corporations or governments other than the

parties hereto from lawfully providing water and wastewater service within Marion County, Florida, subject to applicable state law. OCALA and the COUNTY do not intend and are not by this Agreement: (a) placing undue or unreasonable restrictions upon free competition; (b) fixing prices; or (c) unreasonably limiting the availability of water and wastewater service capacity. This Agreement shall not be construed as forming any basis of any understanding for the modifications or alteration of the powers of OCALA or the COUNTY as they now exist or may be modified in the future, except as are lawfully and expressly modified by the terms of this Agreement.

SECTION 17. COVENANT OF MUTUAL COOPERATION. OCALA and COUNTY shall each use its best efforts to assist each other in obtaining and retaining permits, easements, rights of way, and other approvals necessary hereunder and in the adoption and approval of any implementing laws, ordinances, resolutions or comprehensive plan provisions. Within one year of the date hereof, OCALA and the COUNTY shall adopt any laws, ordinances, resolutions, or comprehensive plan provisions reasonably necessary to implement this agreement, and shall repeal and/or, on a continuing basis, refrain from adopting any laws, ordinances, resolutions, or comprehensive plan provisions which are inconsistent with or impede the implementation of this agreement.

SECTION 18. ENTIRE AGREEMENT. This instrument constitutes the entire agreement between the parties and supersedes all previous discussions, understandings and agreements between the parties relating to the subject matter of this Agreement.

SECTION 19. DISCLAIMER OR THIRD-PARTY BENEFICIARIES. This Agreement is solely for the benefit of the formal parties herein and no right or cause of action shall accrue upon or by reason hereof, to or for the benefit of any third party not a formal party hereto. Nothing in this Agreement expressed or implied is intended or shall be construed to confer upon or give any person, corporation or governmental entity other than the parties hereto any right, remedy or claim under or by reason of this Agreement or any provisions or conditions hereof; and all of the provisions, representations, covenants and conditions herein contained shall inure to the sole benefit of and shall be binding upon the parties hereto and their respective representatives, successors and assigns.

SECTION 20. VALIDITY OF AGREEMENT. Each party represents and covenants to the other its respective authority to enter into this Agreement, and acknowledge the validity and

enforceability of this Agreement and that this is a valid interlocal agreement adopted pursuant to Section 163.01, Florida Statutes. OCALA hereby represents, warrants and covenants to and with the COUNTY that this Agreement has been validly approved, that it has been fully executed and delivered by OCALA, that it constitutes a legal, valid and binding contract enforceable by the COUNTY against OCALA in accordance with its terms, and that the enforceability hereof is not subject to any impairment by the applicability of any public policy or police powers. The COUNTY hereby represents, warrants and covenants to and with OCALA that this Agreement has been validly approved by the Marion County Board of County Commissioners, that it has been duly executed and delivered by the COUNTY, that it constitutes a legal, valid and binding contract enforceable by OCALA against the COUNTY in accordance with its terms, and that the enforceability hereof is not subject to any impairment by the applicability of any public policy or police powers.

IN WITNESS WHEREOF, the parties hereto have hereunder executed this Agreement on the date and year first above written.

Signed, sealed and delivered
in the presence of:

MARION COUNTY, FLORIDA

(x) Gordon B. Johnston

Name: Gordon B. Johnston

By: Steve F. Henning
Steve F. Henning, Chairman
Board of County
Commissioners

(x) Janet B. McNeal

Name: Janet B. McNeal

Attest: Thomas P. Klinker
Thomas P. Klinker, Clerk

STATE OF FLORIDA
COUNTY OF MARION

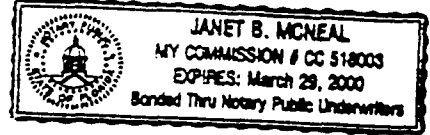
The foregoing instrument was acknowledged before me this 27th day of September, 1996, by **Steve F. Henning**, Chairman of The Board of County Commissioners of Marion County, Florida, on behalf of MARION COUNTY. He is personally known to me

~~or~~ has produced _____ as identification and
~~did~~ (did not) take an oath.



Janet B. McNeal
Signature of Person Taking Acknowledgment
JANET B. McNEAL
Name of Acknowledger Typed, Printed or Stamped
NOTARY PUBLIC
Title or Rank
#CC 518003
Serial Number, if any.

FOR THE USE AND RELIANCE
OF MARION COUNTY ONLY.
APPROVED AS TO FORM.



Sept. 24, 1996
Thomas A. Cloud
Thomas A. Cloud, Utility Counsel

Signed, sealed and delivered **CITY OF OCALA**
in the presence of:

x: Valerie J. Forster
By: Valerie J. Forster

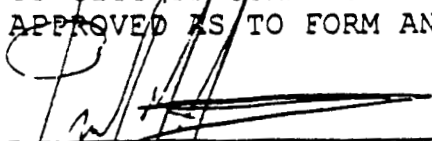
By: Michael A. Finn
Michael A. Finn, City
Council President

x: Dorothy Ann West
By: Dorothy Ann West

ATTEST:

Mary Jane Miller
City Clerk

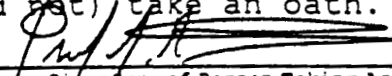
FOR THE USE AND RELIANCE
OF CITY OF OCALA ONLY.
APPROVED AS TO FORM AND LEGALITY.



Patrick G. Gilligan, City Attorney

STATE OF FLORIDA
COUNTY OF MARION

The foregoing instrument was acknowledged before me
this 24 day of SEPTEMBER, 1996, by **Michael A. Finn**,
President of Ocala City Council, on behalf of the CITY OF OCALA.
He is personally known to me ~~or has produced~~ PCU
as identification and did (did not) take an oath.

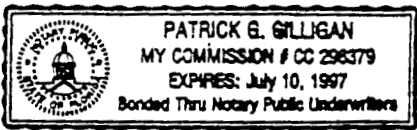


Signature of Person Taking Acknowledgment

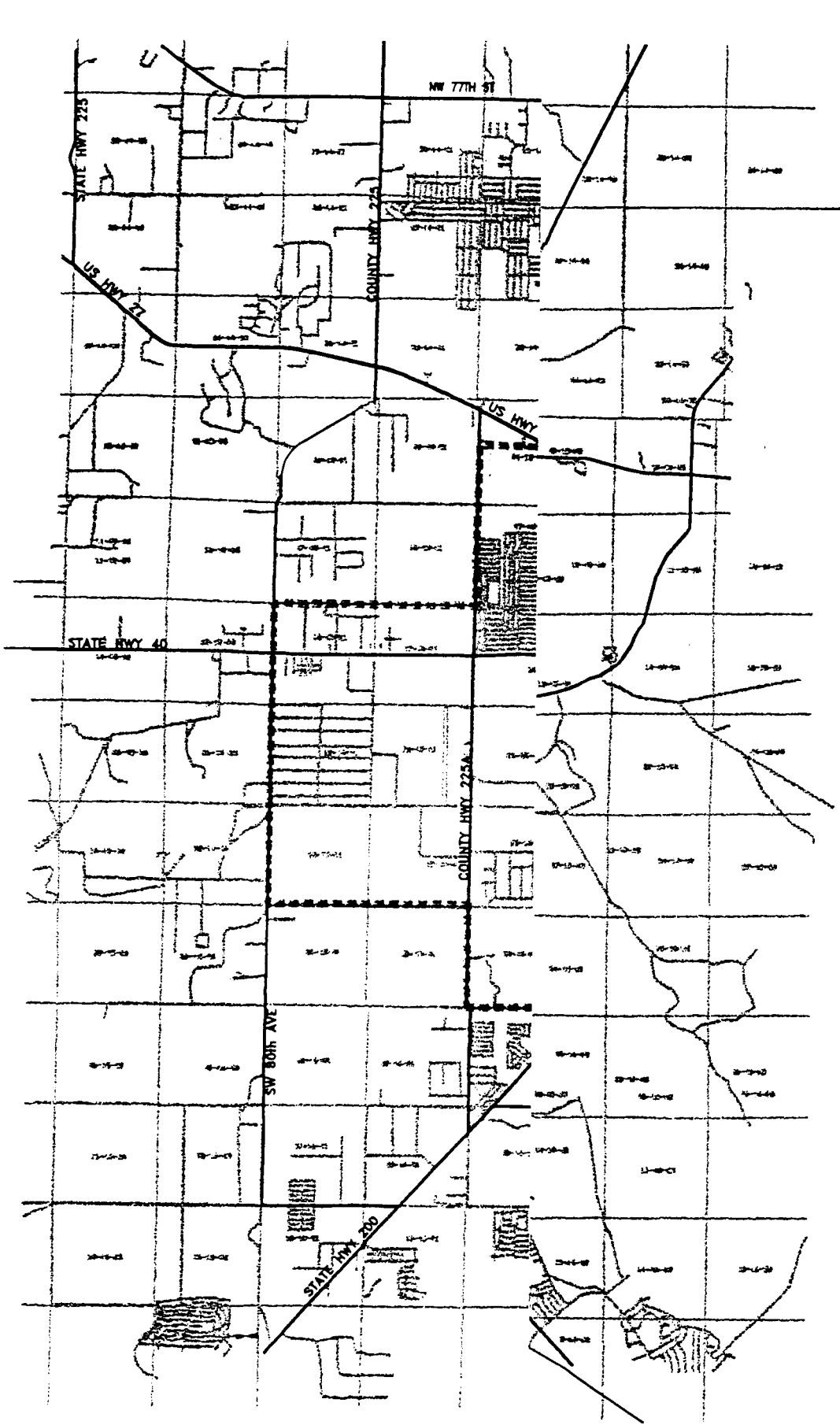
Patrick G. Gilligan
Name of Acknowledger Typed, Printed or Stamped

City Attorney
Title or Rank

Serial Number, if any.



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





LEGEND:

--- BOUNDARY LINE

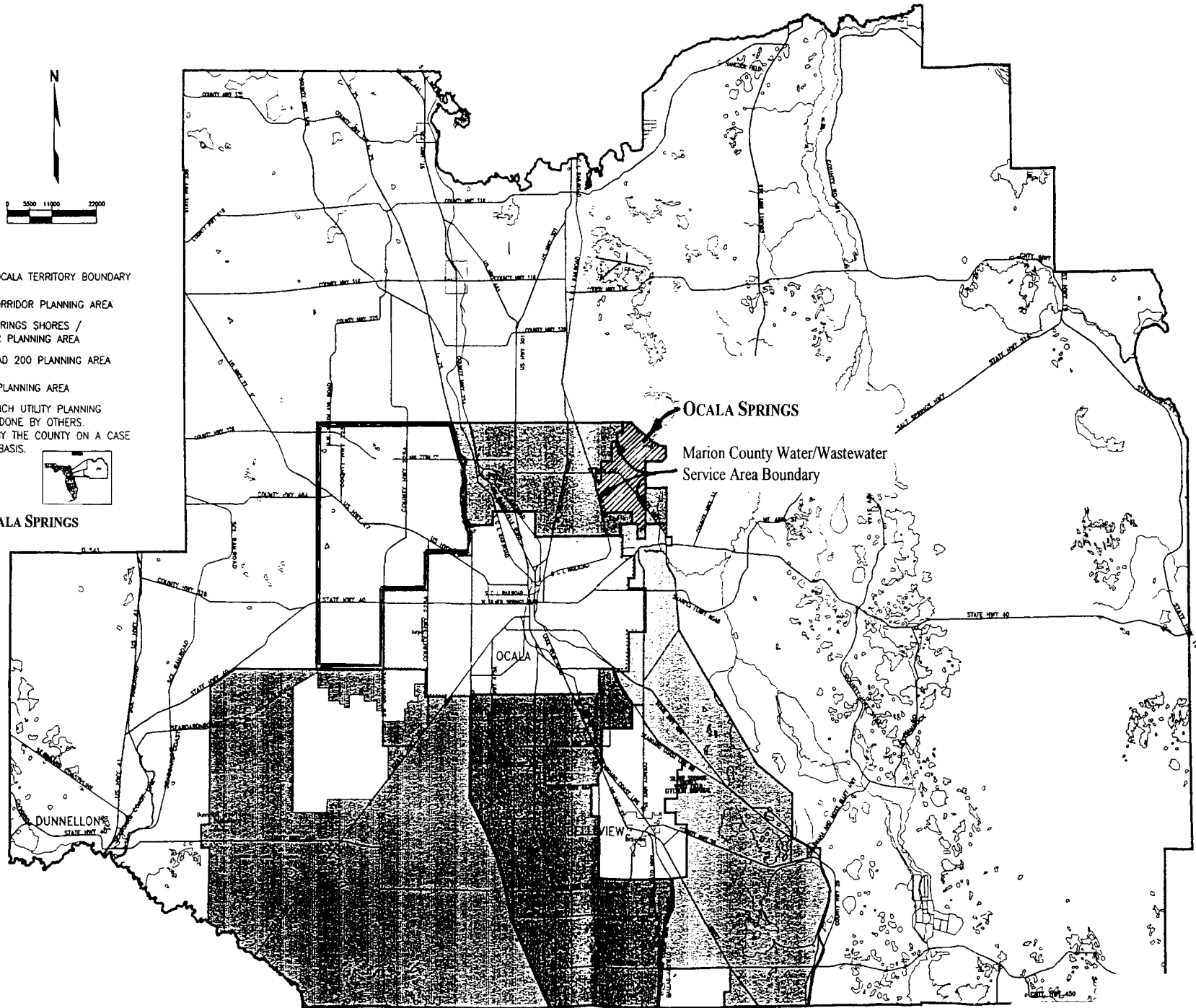


LEGEND

- CITY OF OCALA TERRITORY BOUNDARY
-  US 27 CORRIDOR PLANNING AREA
-  SILVER SPRINGS SHORES / LAKE WEIR PLANNING AREA
-  STATE ROAD 200 PLANNING AREA
-  LOOPING PLANNING AREA
-  AREAS WHICH UTILITY PLANNING IS BEING DONE BY OTHERS. SERVICE BY THE COUNTY ON A CASE BY CASE BASIS.

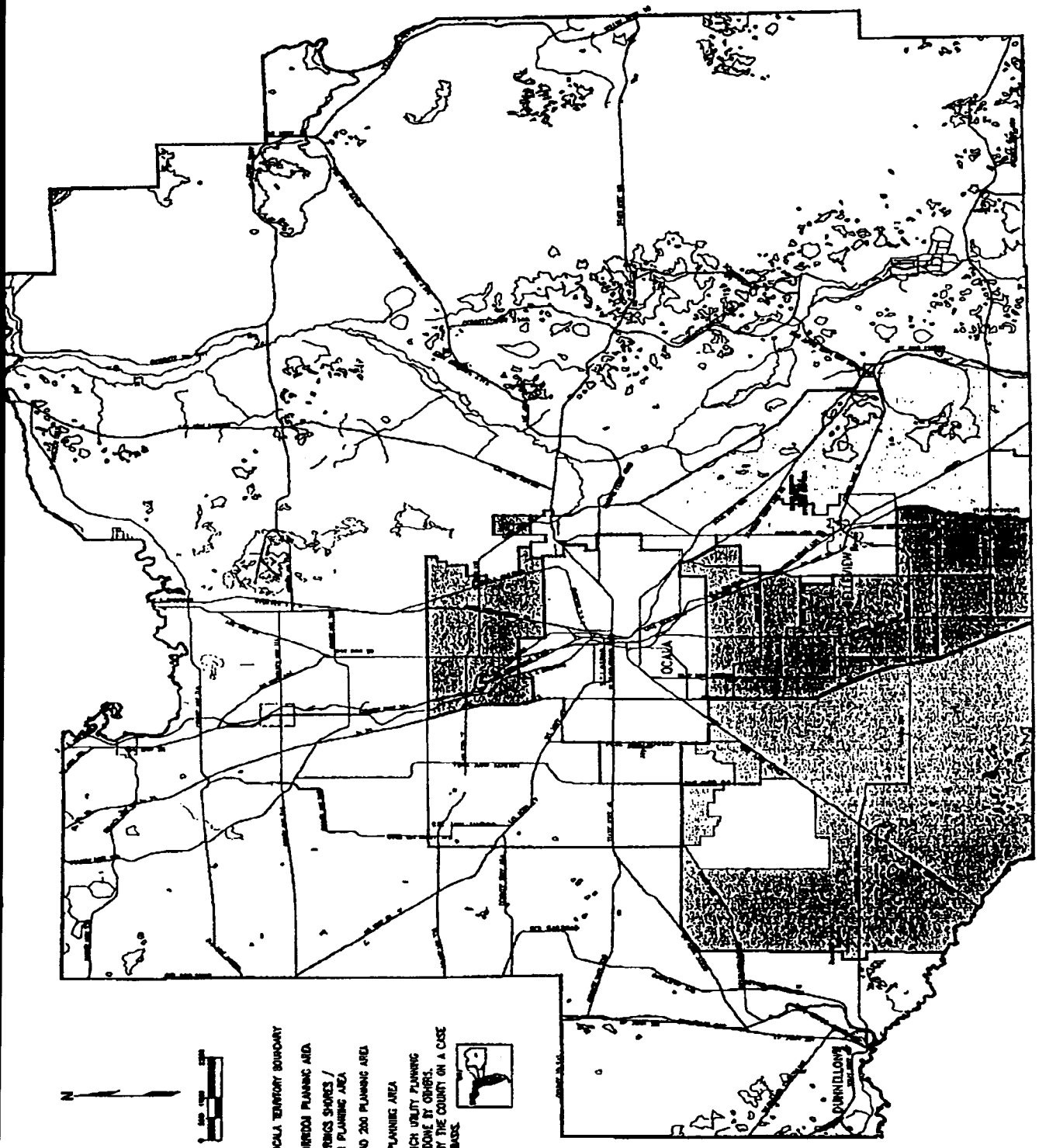


 OCALA SPRINGS



**MARION COUNTY WATER AND WASTEWATER UTILITY
MARION COUNTY PLANNING AND SERVICE AREAS**
© INCLUDING THE CITY OF OCALA SERVICE AREA, THE OR TOP OF THE WORLD SERVICE AREA
AND THOSE AREAS NOW COVERED BY THE FLORIDA PUBLIC SERVICE COMMISSION

HARTMAN & ASSOCIATES, INC.
PLANNING, ENGINEERING, SURVEYING & ENVIRONMENTAL CONSULTANTS
 301 W. PALM BEACH BLVD. - SUITE 1000 - PALM BEACH, FL 33481
 TELEPHONE: (407) 833-3333 - FAX: (407) 833-3700



- LEGEND**
- CITY OF OCALA TERRITORY BOUNDARY
 - US 27 CORRIDOR PLANNING AREA
 - SILVER SPRINGS SHORES / LAKE WEIR PLANNING AREA
 - STATE ROAD 200 PLANNING AREA
 - LOOPING PLANNING AREA
 - AREAS WHICH UTILITY PLANNING IS BEING DONE BY OTHERS. SERVICE BY THE COUNTY ON A CASE BY CASE BASIS.



EXHIBIT A
Need for Service

Re: Application for Original Water and Wastewater Certificates for Ocala Springs Utilities Inc. (OSUI) in Marion County

Avatar Properties Inc. (API), a wholly-owned subsidiary of Avatar Holdings Inc., owns all of the land, consisting of approximately 4,666 acres, included within the boundary of the proposed original certificates (hereinafter called Ocala Springs). API or its predecessor company, GAC Properties Inc. have owned Ocala Springs since 1970 and have prepared development plans, including platting. However, actual development has been limited to a 15-acre campground at Indian Lake (see History of Ocala Springs, Attachment 1, Exhibit B). API now intends to commence development of Ocala Springs (residential, mixed use and limited commercial and industrial) as an active adult community (age restricted) within two years. The development plans, which have not been completed, are predicated on the assurances and economic feasibility of water and wastewater service which can only be achieved through the creation of a utility entity and the construction of the required water and wastewater infrastructure to serve the development.

The annual reports filed with the Commission for all water and wastewater utilities having service areas within two miles of some part of the proposed original certificates were analyzed (see Attachment 1). It was concluded that none of these utilities has the economic or physical facility capability to provide water and wastewater service for the proposed active adult community.

Ocala Springs is not within the service area of the City of Ocala and the Marion County Water and Wastewater Utility Planning and Service Areas as prescribed by Marion County Ordinance 98-10 , Section 3(3) (see Attachment 2). Attachment 3 depicts Ocala Springs, relative to said Planning and Service Areas. Attachment 4 is the City of Ocala/Marion County Water and Wastewater Service Territory Agreement.

Re: Application for Original Water and Wastewater Certificates in Marion County for Ocala Springs Utilities Inc. (OSUI)

Utility Companies having some part of service areas within two miles of Ocala Springs (See Note 1)

04/17/98

UTILITY	UTILITY CLASS(2)	WATER SYSTEM					WASTEWATER SYSTEM					NOTES
		NO. ERCs SERVED	NO. AREAS(3)	AADF (MGD)	CAPACITY (ERC)	RES. CAP. (ERC)	NO. ERCs SERVED	NO. AREAS(3)	AADF (MGD)	CAPACITY (ERC)	RES. CAP. (ERC)	
Marion Utilities, Inc.	A	4,382	23	1.306	6,000	1,618	163	1	0.027	163	0	
A.P. Utilities, Inc.	B	1,173	6	0.452	1,740	567	None	None	None	None	None	4,5
Ocala Oaks Utilities, Inc.	B	1,037	11	0.379	2,135	1,098	None	None	None	None	None	
Tradewinds Utilities, Inc.	C	260	1	0.094	1,600	1,340	142	1	0.041	400	258	
Sunshine Utilities of Central Fl., Inc.	B	1,612	22	0.661	5,162	3,550	None	None	None	None	None	
C.F.A.T. H2O, Inc.	C	27	1	0.012	400	373	35	1	0.011	353	318	6

NOTES:

- (1) Information extracted from annual reports filed with the Public Service Commission for year-end 1997 unless otherwise noted.
- (2) Class A - Gross Revenues over \$750,000.
Class B - Gross Revenues of \$150,000 or more but less than \$750,000.
Class C - Gross Revenues of less than \$150,000.
- (3) Areas are primarily residential subdivisions.
- (4) Remark in annual report indicates owner is attempting to sell utility.
- (5) Annual report for year-end 1996.
- (6) Manager is President of Tradewinds Utilities, Inc.

ORDINANCE NO. 98-10

AN ORDINANCE OF MARION COUNTY, FLORIDA, AMENDING ORDINANCE NO. 96-35 RELATING TO UTILITIES; AMENDING SECTION 1 OF ORDINANCE NO. 96-35 BY MODIFYING THE SHORT TITLE; AMENDING SECTION 2 OF ORDINANCE NO. 96-35 BY MAKING ADDITIONAL FINDINGS; AMENDING SECTION 4 OF ORDINANCE NO. 96-35 BY MODIFYING THE SERVICE AREA DESIGNATION AND APPLICATION REQUIREMENTS; AMEND SECTION 24 OF ORDINANCE NO. 96-35 REGARDING EXISTING AGREEMENTS; ADDRESSING FLORIDA PUBLIC SERVICE COMMISSION MATTERS; PROVIDING FOR AN EFFECTIVE DATE.

THE BOARD OF COUNTY COMMISSIONERS OF MARION COUNTY HEREBY ORDAINS:

Section 1. Section 1 of Ordinance No. 96-35 is hereby repealed and a new Section 1 is created to read as follows:

"Section 1. Short Title. This Ordinance shall be known and maybe cited as the "Marion County Utility Service Territory Availability, Concurrency, and Extension Rules."

Section 2. Amendment to Section 2 of Marion County Ordinance No. 96-35. Section 2 of Ordinance No. 96-35 is repealed and a new Section 2 is created to read as follows:

"Section 2. Commission Findings. In adopting this Ordinance, the Board of County Commissioners of Marion County, Florida, hereby makes the following findings:

(1) Based on the projections set forth in their respective Comprehensive Plans, the County and adjacent neighboring counties are expected to experience population increases within the next twenty years.

(2) As this population increases, the demand for central water and wastewater services will increase.

(3) Pursuant to Section 1(g), Article VIII, Florida Constitution, and Section 125.01(1)(k), Florida Statutes, and other applicable general and special acts, but excluding

specifically Chapter 153, Florida Statutes, the Board is authorized to provide, regulate, purchase, construct, improve, extend, enlarge and reconstruct water and wastewater facilities; and operate, manage and control water and wastewater facilities within the County.

(4) The Board has previously recognized in its support documents, objectives and policies of the Marion County Comprehensive Plan (the "Plan") that it must utilize its police power in order to protect water resources located in Marion County.

(5) In 4.7.1.6 on page I-74 of the Part I Support Document for the Future Land Use Element, the County has recognized the necessity of providing central water and wastewater service to its residents.

(6) Specific policies within Part II of the Future Land Use Element call for the protection of well fields and aquifer recharge areas within Marion County.

(7) Future Land Use Element Policy 1.4 and other policies of the Comprehensive Plan authorize the Board to adopt certain rules and performance standards related to the provision of central water and wastewater services within Marion County.

(8) Policy 1.9 of the Future Land Use Element requires that public facilities and utilities shall be located to maximize the efficiency of services provided, minimize their costs, minimize their impacts on the natural environment, and minimize their impact on adjacent land uses.

(9) Demands for potable water are increasing inside Marion County, just as demands for potable water are increasing outside Marion County.

(10) Stringent state and federal water and wastewater treatment and operation standards have been promulgated, and with these increasing costs of constructing central water and wastewater facilities, the County's ability to provide central water and wastewater service within Marion County may be limited.

(11) Marion County has already determined in its Comprehensive Plan that there has been a proliferation of small, inefficient water and wastewater treatment plants.

(12) If the County does not provide adequate central water and wastewater service within its designated service area to meet increased demand, it will be faced with private sector pressure to allow the continued construction and installation of substandard, privately financed, and operated water and wastewater treatment plants and septic tanks.

(13) The proliferation of privately financed and operated water and wastewater treatment plants will contribute to higher user rates.

(14) The potential for the County to have to assume operation of these privately financed and operated facilities in the future is great.

(15) Furthermore, the unique water resources of Marion County have previously been determined to be susceptible to harm through contamination from the proliferation of package treatment plants and over-exploitation of the water resources.

(16) The proliferation of such package water and sewer treatment plants where there is no provision for the later transfer of customers and flows from such plants to a regional, subregional or area-wide plant is hereby declared to be a public harm detrimental to the citizens of Marion County.

(17) Policy 1.5 of the Sanitary Sewer Subelement of the Infrastructure Element of the Marion County Comprehensive Plan requires the County to develop guidelines for requiring existing, interim or package sewage treatment plants to connect to a regional or subregional sewer system when these systems are available and to require such plants to treat wastewater to a standard no less than that established pursuant to the Florida Department of Environmental Protection.

(18) Objective 2 of the Sanitary Sewer Subelement, and Objective 1 of the Potable Water Subelement, both of the Infrastructure Element of the Marion County Comprehensive Plan provide for the County to update

its Water and Wastewater Master Plan from time to time as deemed necessary by the Board.

(19) Policy 2.2 and 2.3 of the Potable Water Subelement of the Infrastructure Element of the Marion County Comprehensive Plan require the County to develop guidelines for requiring existing water treatment plants to connect to a regional or subregional system when these systems are available and are economically feasible.

(20) Objective 5 of the Capital Improvements Element of the Marion County Comprehensive Plan provides for the County to manage the land development process so that public facility needs created by previously issued development orders and future development do not exceed the ability of local government to fund and provide or require provision of needed facility capital improvements and to maintain the adopted facility level of service standards.

(21) Policy 5.1 of the Capital Improvements Element of the Marion County Comprehensive Plan requires the County to adopt a concurrency management system in accordance with and authorized by Section 163.3180, Florida Statutes, in order to insure that the public facilities and services needed to support new development are available concurrent with the impacts of such development.

(22) Policy 1.1 of the Future Land Use Element of the Marion County Comprehensive Plan requires the County to adopt land development regulations that contain specific and detailed provisions to prevent harm to the levels of service of public facilities and to prevent harm to the water resources of Marion County.

(23) The County has previously accepted in June of 1993 a Water Supply and Wastewater Master Plan for Marion County, Florida.

(24) The County adopted the Marion County Water Resource and Protection Plan, dated May 21, 1996, which has been incorporated into its Comprehensive Plan and which calls for, among other things, the protection of the public health, safety, and welfare, the protection of Marion County water resources, the unification of fragmented utility services, the establishment of fair and cost effective rates for utility

service, the promotion of conservation of water resources, the adoption of rules governing the construction, operation, and transfer of privately financed "subregional" systems to the County as part of the County system, and the development and implementation of various subregional service area programs, including without limitation the State Road 200 Corridor Subregional Program.

(25) Implementing these policies will enable the County to discourage urban sprawl as required by the Marion County Comprehensive Plan and applicable Rules of the Florida Department of Community Affairs.

(26) The financing of subregional water and wastewater facilities is complex, requires extensive planning and engineering, and calls for advanced participation by the development community so that adequate public facilities can be provided to meet the impacts of that development.

(27) Therefore, to protect groundwater resources, prevent sprawl, implement water and wastewater service concurrency, enable financing of County facilities, and provide for the most cost effective and environmentally acceptable central water and wastewater facilities, the County has determined the need to establish a just and equitable system for financing and selling water and wastewater service capacities in its subregional systems and to establish and designate its service area so that public funds are not wasted.

(28) The County, then deems it necessary to establish its service area rules so that water and wastewater service may be made available from the County and extended to new customers on an equitable basis.

(29) The County declares that these service territory, availability, and extension rules have, as their goal, the establishment of a uniform method of determining contributions in aid of construction such that all such contributions shall be non-discriminatory against consumers in the service area of the utility and shall be applied as nearly as possible with uniformity to all consumers and prospective consumers in the service area of the County.

(30) The County has full and exclusive authority over the management, operation, and control of all of the

County's utilities and the authority to prescribe rules and regulations governing the use of such facilities whenever such are provided by the County, and to make such changes from time to time in such rules and regulations as it deems necessary.

(31) The construction of water and wastewater system improvements and extensions is an essential utility service.

(32) The County has provided the required public notice and held the necessary public hearing(s) in order to adopt these rules.

Section 3. Amendment to Section 4 of Ordinance No. 96-35. Section 4 of Ordinance No. 96-35 is hereby repealed and a new Section 4 is created to read as follows:

"Section 4. Application for Service.

(1) It shall be unlawful for any person to use County water and/or wastewater services without first making application in writing for a water permit and/or wastewater permit and paying all charges incident to said application. Application shall be made on forms furnished by the County, shall constitute an agreement by the customer to abide by the utility rules in regard to its service, and shall be in accord with the County's Rate Ordinance. Applications for services requested by firms, partnerships, associations and corporations shall be tendered only by their duly authorized agents, and the official title of the agent shall be shown on the application.

(2) All applications for an extension of the County's Water and/or Wastewater System shall be addressed to the County stating the location, beginning and termination thereof, with plans and specifications in triplicate attached where such plans and specifications are required.

(3) The Board of County Commissioners hereby establishes its exclusive water and wastewater service area as that area described in Exhibit "A" attached to and incorporated in this ordinance exclusive of those areas certificated by Public Service Commission, those areas served by existing water or wastewater systems, those areas served or planned to be served within existing lawfully created

community development districts, or those areas served or to be served pursuant to territorial agreement by a municipality as of April 21, 1998. The Board of County Commissioners may enlarge or reduce this area by amendment to this Ordinance.

(4) The County may designate a period of time (hereinafter referred to as an "allocation period") when all those persons or entities who own land within all or a portion of the County's Water and Wastewater System service area shall apply and pay applicable fees to the County for water and wastewater service capacity in the County's Water and Wastewater System. The Board of County Commissioners by resolution may offer water and/or wastewater service capacity to certain portions of said service area in advance of or at differing times than other portions. The Board of County Commissioners may by resolution designate all or any portion of its service area and offer water and/or wastewater service capacity to certain portions of said service area in advance of other portions. The County shall publish notice of the times and location for acceptance of applications and payment of applicable fees in a newspaper of general circulation in Marion County, Florida at least five (5) days prior to the beginning of an allocation period. The County may require all information on said application that it deems reasonable and necessary, and may reject applications it determines are incomplete. Any application for a permit shall contain a legal description of the land constituting the service area for which such permit is to be issued. The legal description shall include only those lands owned by the applicant for which the permit is to serve. The County shall permit applicants to purchase water and wastewater service capacities by phases of development if the applicant's development has been approved for more than one phase, but applicants must purchase a minimum of water and wastewater capacities necessary to accommodate one phase or 50 ERCs of their respective development, whichever is less. Once that applicant's phase of development has been completed, then water and wastewater capacities for any additional remaining phases must be purchased on a phase-by-phase basis until water and wastewater service capacities have been purchased for the entire development. If any such person described hereinabove fails to apply for and purchase water and wastewater service capacity in the minimum capacities set forth above under these rules, the County may consider such failure in determining whether or not to grant or

deny any development or construction permit or approval or rezoning application filed by such person.

(5) If an application is approved, a written agreement in duplicate containing all terms and conditions relating to such system extensions, approved by the County or its designee, shall be made and executed by and between the applicant property owner and County.

(6) If any property owner, its successors or assigns within an area designated by the County pursuant to subsection 4(4) hereof fails to apply for and purchase water and wastewater service capacity under these rules, the County may deny any land use, development, or construction order, permit, or approval or any comprehensive plan amendment or rezoning application filed by said person based upon said failure to purchase.

(7) When cost effective, consistent with the Marion County Comprehensive Plan, and in the best interests of the customers, the County may at any time negotiate with other utilities that meet County standards to enlarge, expand, or modify the County's service area."

Section 4. Amendment to Section 24 of Ordinance No. 96-35. Section 24 of Ordinance No. 96-35 is hereby repealed and a new Section 24 is created to read as follows:

"Section 24. Prior Agreements. Notwithstanding anything to the contrary contained in this Policy, all those parties who claim water and/or wastewater capacity pursuant to any developer's agreement or service agreement between Marion County and other parties, predating the effective date of this Ordinance (hereafter "said agreements") shall be entitled to receive service pursuant to the terms of said contracts, so long as the party claiming rights under said agreement has fully performed all conditions precedent and subsequent such that the agreement is binding on all parties. The terms of these rules shall be applied and interpreted consistent with Florida law, and the provisions of any Marion County, Florida agreements. Should any such contract require the delivery of a financial commitment in order to invoke or effectuate the provisions of the agreement before the County's obligation for service is to arise, parties to any such agreement shall have thirty (30) days from the date of the effective date of

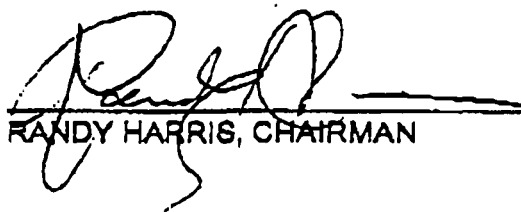
this Ordinance to deliver the financial commitment. Failure by all parties to any such agreement to deliver their respective financial commitment in full accordance with the agreement shall be deemed to terminate the agreement and all said parties shall be subject to the terms of this Ordinance. Nothing contained in this provision shall be construed, however, to contract away the County's ability to otherwise amend or enforce this or any other Ordinance or Resolution in the same manner in which its predecessors In Interest, had the ability to modify said agreements or the rates, fees, charges, and policies, rules, and regulations set forth therein or contemplated thereby in accordance with the reserved powers doctrine set forth in H. Miller & Sons v. Paula Hawkins and the FPSC, 373 So.2d 913 (Fla. 1979)."

Section 5. Florida Public Service Commission Matters. Nothing contained in this ordinance or Ordinance No. 96-35, is intended to affect existing certificates of authorization or the ability of utilities to seek certificates or amend existing certificates pursuant to Chapter 367, Florida Statutes, nor shall either ordinance be construed to affect the powers granted by the Florida Legislature to the Florida Public Service Commission with regard to fairly processing and conducting certification proceedings consistent with applicable state law.

Section 6. Effective Date. This ordinance shall take effect immediately upon receipt of official acknowledgment from the Department of State of the State of Florida that this ordinance has been filed with said Department.

PASSED AND DULY ADOPTED, with a quorum present and voting, by the Board of County Commissioners of the County of Marion, Florida, this 21st day of April, 1998.

BOARD OF COUNTY COMMISSIONERS
MARION COUNTY, FLORIDA


RANDY HARRIS, CHAIRMAN

ATTEST:

David R. Ellspermann, D.C.
DAVID R. ELLSPERMANN, CLERK

EXHIBIT A

**APPROXIMATE BOUNDARY DESCRIPTION OF MARION COUNTY
WATER AND WASTEWATER UTILITY PLANNING AND SERVICE AREA**

Begin at the SE corner of 32-17S-22E

Generally west and northwest along County line to western boundary of 14-17S-19E

North to SW corner of 35-16S-19E

West to the SW corner of SE 1/4 of 34-16S-19E

North to the NW corner of the NE 1/4 of 34-16S-19E

East to SW corner of 26-16S-19E

North to the State Highway 40 right-of-way

Generally northeast along right-of-way to the intersection of State Highway 40 right-of-way and northern boundary of 36-15S-19E

East to the SW corner of 27-15S-20E

North to the NW corner of S 1/2 of 10-14S-20E

East to the NE corner of S 1/2 of 11-14S-22E

South to the SE corner of 11-14S-22E

West to the NE corner of the NW 1/4 of NE 1/4 of 14-14S-22E

South to the SE corner of the NW 1/4 of NE 1/4 of 14-14S-22E

West to the SW corner of the NW 1/4 of NE 1/4 of 14-14S-22E

South to southern boundary of 14-14S-22E

West to the NW corner of 23-14S-22E

South to the northern boundary of the south 1/10 of 22-14S-22E

West to the western boundary of the east 1/4 of 22-14S-22E

ATW/vgs/dg/corresp/legal.atw
HAI #95-539.48

- 1 -

042298

A-2-10

Attachment 2, Exhibit A

**EXHIBIT A
(Continued)**

**APPROXIMATE BOUNDARY DESCRIPTION OF MARION COUNTY
WATER AND WASTEWATER UTILITY PLANNING AND SERVICE AREA**

North approximately 2,900 feet along the western boundary of the east 1/4 of 22-14S-22E

West to the railroad right-of-way

Generally SE along railroad right-of-way to northern boundary of 35-14S-22E

East to the NW corner of the NE 1/4 of 36-14S-22E

South to the SW corner of the NE 1/4 of 36-14S-22E

East to the NW corner of the E 1/2 of the SE 1/4 of 36-14S-22E

South to the southern boundary of 36-14S-22E

East to the SE corner of 36-14S-22E

North to the NW corner of 30-14S-23E

East to the NE corner of 30-14S-23E

South to SE corner of 31-14S-23E

East to NE corner of NW 1/4 of NW 1/4 of 5-15S-23E

South to State Highway 40 right-of-way

Generally west along right-of-way to intersection of State Highway 40 right-of-way and eastern boundary of 6-15S-23E

South to SE corner of 6-15S-23E

Generally SE to the NE corner of SW 1/4 of 8-15S-23E

South to NW corner of SE 1/4 of 20-15S-23E

Generally SE to the NE corner of S 1/2 14-16S-23E

Generally SE to the NW corner of SE 1/4 of SE 1/4 of 19-16S-24E

**EXHIBIT A
(Continued)**

**APPROXIMATE BOUNDARY DESCRIPTION OF MARION COUNTY
WATER AND WASTEWATER UTILITY PLANNING AND SERVICE AREA**

South to railroad right-of-way

Generally SE along railroad right-of-way to intersection of right-of-way with the northern boundary of 5-17S-24E

East to NE corner of 5-17S-24E

South to shore of Lake Weir

Generally south along shore of Lake Weir to the northern boundary of 21-17S-24E

Generally SE to the intersection of CR 25 right-of-way and the northern boundary of the S 1/2 of 21-17S-24E

Generally SW along CR 25 right-of-way to the Marion County line

West to the SW corner of SE 1/4 of 34-17S-23E

North to the NW corner of SE 1/4 of 34-17S-23E

East to the NE corner of SE 1/4 of 34-17S-23E

North to the CR 42 right-of-way

Generally west along CR 42 right-of-way to U.S. Highway 301 right-of-way

Generally south along U.S. Highway 301 right-of-way to County line

West to the SE corner of 32-17S-23E

LESS

Start at SW corner of 4-17S-23E

North to NE corner of 32-16S-23E

West to SW corner of SE 1/4 of 29-16S-23E

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HAI #95-539.48

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**EXHIBIT A
(Continued)**

**APPROXIMATE BOUNDARY DESCRIPTION OF MARION COUNTY
WATER AND WASTEWATER UTILITY PLANNING AND SERVICE AREA**

North to NE corner of SE 1/4 of 29-16S-23E

West to SW corner of NE 1/4 of 29-16S-23E

North to NE corner of 29-16S-23E

East to SW corner of E 1/2 of 20-16S-23E

North to NW corner of SW 1/4 of SW 1/4 of SE 1/4 of 17-16S-23E

East to NE corner of SE 1/4 of SW 1/4 of SE 1/4 of 17-16S-23E

North to railroad right-of-way

Generally NW along railroad right-of-way to intersection with eastern boundary of 1-11S-22E

North approximately 1/2 mile

West approximately 0.4 miles

South to northern boundary of S 1/2 of 12-16S-22E

West to west boundary of 11-16S-22E

South to intersection with U.S. Highway 301 right-of-way

Generally southwest to SW corner of the SE 1/4 of the SE 1/4 of 15-16S-22E

South to northern boundary of S 1/2 of 22-16S-22E

West to NE corner of SE 1/4 of 22-16S-22E

South to southern boundary of 27-16S-22E

East to NE corner of 27-16S-22E

South to SE corner of 3-17S-22E

East to SE corner of 4-17S-23E

ATW/vgs/dg/corresp/legal.ntw
HAI #95-539.48

- 4 -

042298

**EXHIBIT A
(Continued)**

**APPROXIMATE BOUNDARY DESCRIPTION OF MARION COUNTY
WATER AND WASTEWATER UTILITY PLANNING AND SERVICE AREA**

AND LESS

The City of Ocala Service territory

AND LESS

The On Top of the World Community Development District

AND LESS

Those areas now certificated by the Florida Public Service Commission

EXHIBIT B
Consistency With Comprehensive Plan

Re: Application for original Water and Wastewater Certificates in Marion County for Ocala Springs Utilities Inc. (OSUI)

A brief history of previous planning and platting activity pertaining to Ocala Springs is at Attachment 1.

The Florida Department of Community Affairs has issued the following letters pertaining to the development of Ocala Springs:

1. Binding Letter of Interpretation for Vested Rights, April 29, 1974 (Attachment 2)
2. Binding Letter of Interpretation for Modification to a Development of Regional Impact with Vested Rights, June 21, 1985 (Attachment 3)
3. Binding Letter of Interpretation for Development of Regional Impact Status, August 30, 1985 (Attachment 4)

API intends to replan and replat the property as an Active Adult Community and does not expect that same will constitute a substantial deviation with regard to impacts from those previously approved by the Florida Department of Community Affairs.

ATTACHMENT 1, EXHIBIT B
History of Ocala Springs

Ocala Springs was acquired by GAC Properties Inc., the predecessor to API, in 1970 and the property was zoned for the original Master Land Use Plan in 1971 as follows:

Platted single-family lots (9756 lots) -	1,941 acres
Other platted residential	
(a) Multi-family (R-3 zone) -	90 acres
(b) Multi-family or mobile home park (R-4 zone) -	104 acres
Unplatted residential	
(a) Single family or duplex (R-2 zone) -	192 acres
(b) Multi-family (R-3 zone) -	209 acres
(c) Multi-family or mobile home park (R-4 zone) -	<u>98 acres</u>
Total Residential	2634 acres
Commercial and schools (platted) -	251 acres
Industrial and utilities -	523 acres
Platted road right-of-ways -	703 acres
Platted green ways and drainage retention -	434 acres
Golf course (or park) -	<u>141 acres</u>
Total contiguous area	4686 acres
Total platted area -	3560 acres

On April 29, 1974, the Florida Department of Community Affairs (FDCA), f/k/a Florida Division of State Planning, issued a binding letter (BLFDR-575-138) which acknowledged vested rights under subsection 380.06(18), Florida Statutes (see Attachment 2).

During the period 1983 - 1985, API was involved in an exercise to re-plan Ocala Springs. This re-planning involved interaction with the DCA and various other state and local governments, including Marion County. Ultimately, a new concept plan was developed for Ocala Springs which substantially reduced the density for the property and the possible environmental impacts associated therewith. By letter dated June 21, 1985, the DCA issued a binding letter of interpretation for modification (see Attachment 3) after finding that the proposed concept plan for Ocala Springs constituted a substantial change to the vested plan of development as such changes would result in reduced regional impacts. In July 1985, the DCA reaffirmed its position that API did have the option to develop Ocala Springs in accord with the new concept plans and/or in accord with previous platting. The DCA, by letter dated August 30, 1985 (see Attachment 4), issued a binding letter of interpretation stating that the development of Ocala Springs pursuant to the new concept plan would not be required to comply with the review requirements of Section 380.06, Florida Statutes.

In 1985, API sold approximately 20 acres of the land to the Marion County School Board at a price substantially below market value. The School Board constructed a new school on the site at a cost

of approximately \$5,000,000.

A 15-acre, 107-unit campground was developed on the property at Indian Lake. The campground is situated in an oak hammock adjacent to the lake with recreational facilities including a swimming beach, playground and general store. All sites have water and electricity available and 41 sites have complete water, wastewater and electric hookups.

In December 1989, API undertook to replat a portion of Ocala Springs in accord with the new concept plan described above. In early 1990, a substantial amount of road clearing work was undertaken for this area; however, there has been no subsequent activity.

A major portion of the Ocala Springs acreage is currently on agricultural lease agreements which can be terminated upon 180 days notice for any reason.



Department of Administration

MAY 1 1974

Division of State Planning

660 Apalachee Parkway - IBM Building

LEGAL DEPT.

GOVERNOR

TALLAHASSEE

32304

L. K. Ireland, Jr.

SECRETARY OF ADMINISTRATION

Earl M. Starnes
STATE PLANNING DIRECTOR

(904) 488-4925

April 29, 1974

*Ocala
12/20/74*

Mr. Robert L. Weintraub
GAC Properties, Incorporated
Post Office Box 3000
Miami, Florida 33138

Dear Mr. Weintraub:

Based on the information you have provided and the specific factual circumstances regarding your development, the Division of State Planning has evaluated your request for a determination of status dated March 22, 1974, and has determined that the proposed Ocala Springs residential development in Marion County is a Development of Regional Impact as legally defined in Chapter 22F-2.10, Florida Administrative Code, and that your rights have vested pursuant to Section 380.06(12), Florida Statutes for platted portions of that development. Therefore, you will not be required to comply with the provisions of Section 380.06, Florida Statutes, and Chapter 22F, Florida Administrative Code, pertaining to this type of development for those areas. All property not platted on August 24, 1971, may be required to comply with the provisions of Section 380.06, Florida Statutes, if it is determined that the non-platted portions will exceed the threshold established for this type of development in Chapter 22F, Florida Administrative Code.

This determination does not obviate the need to comply with other applicable state or local permitting procedures. Any questions regarding this determination may be directed to Ms. Linda Frazier, Associate Planner, Bureau of Land Planning.

I hope this determination will be of assistance to you.

Sincerely,

Earl M. Starnes
Earl M. Starnes
Director
Division of State Planning

EMS/FRsn

cc: Mr. John Hastings
Mr. Jack Sullivan
Mr. Al Baker

Mr. Tom Magee
Mr. Scott Wilson
Mr. Robert Lulofs

RECEIVED
MAY 3 1974

INDUSTRIAL DEVELOPMENT

KOS 1000 4 1111
JUN 24 1985

STATE OF FLORIDA
DEPARTMENT OF
COMMUNITY AFFAIRS
DIVISION OF RESOURCE PLANNING AND MANAGEMENT

LEGAL DEPT

B. BURAHAN
Director



JOHN M. DeGROVE
Secretary

June 21, 1985

Mr. Dennis Getman
Avatar Properties, Inc.
201 Alhambra Circle
Coral Gables, Florida 33134

Dear Mr. Getman:

Re: Binding Letter of Interpretation for
Modification to a Development of
Regional Impact with Vested Rights
File No. BLIM-585-003
Ocala Springs

We have evaluated your application for a Binding Letter dated January 28, 1985, and received February 1, 1985. Based on the information contained in the application and other information obtained during the review of the development proposal, we enter the following Findings of Fact, Conclusions of Law, and Order.

FINDINGS OF FACT

1. On April 29, 1974, the Department issued a binding letter (BLIVR-575-138) which found Ocala Springs to have acquired vested rights under Subsection 380.06(18), Florida Statutes. The vested development plan proposed for the project included 9,700 single family detached homesites, a 400-unit mobile home subdivision, a 1,000-unit multifamily pod, an 824,000-square-foot shopping center, a 52,000-square-foot golf club, and school sites containing 636,149 square feet, on a total project site of approximately 3,665 acres. Now the applicant, via a modified development plan, is proposing to reduce the number of single family detached homesites to 4,479 units, decrease the mobile home subdivision to 251 units, reduce the shopping center to 205,800 square feet, add a 31,000-square-foot office complex, and reduce the school sites to 259,300 square feet. The 52,000-square-foot golf club and the 1,000-unit multifamily pod will remain the same as set out in the original vested plan (See Table I). Table I compares the development allowed in the original vested development plan to the development proposed by the

Mr. Dennis Getman
June 21, 1985
Page Two

modified development plan. The applicant's purpose in submitting this application is to seek a determination from the Department on whether the modified development plan would divest rights to complete the project without the impact review requirements of Section 380.06, Florida Statutes (F.S.).

Avatar Properties, Inc., owns an additional 1,021 acres of adjacent properties on which it proposes to develop 1,170 residential units and 1,164,720 square feet of floor area for non-residential use. The development proposed for these adjacent properties is considered by the applicant to be part of Ocala Springs and is clearly linked to the vested portion of Ocala Springs by sharing a common name, common ownership, common infrastructure, and a common plan of development. The adjacent properties (see shaded portions of Figure 1), however, are not vested for the purposes of Subsection 380.06(18), F.S., and therefore will not be bound by the determinations made in this binding letter. The development proposed by Avatar Properties, Inc., for the adjacent properties is currently being evaluated by the Department pursuant to an application for a binding letter of development of regional impact status (BLID-585-039) under Section 380.06, F.S.

2. The project site is located approximately three miles north of the City of Ocala in north central Marion County (See Figure 1). The site is approximately ten miles from Alachua County, the nearest adjacent county.

3. The applicant is Mr. Dennis Getman, Senior Vice President and General Counsel for Avatar Properties, Inc., which proposes to develop Ocala Springs.

4. Subsections 380.06(4)(b) and (c), Florida Statutes, provide guidelines for reviewing proposed changes to previously vested developments of regional impact as follows:

"(b) In determining whether a proposed substantial change to a development of regional impact concerning which rights had previously vested pursuant to subsection (18) would divest such rights, the state land planning agency shall review the proposed change within the context of:

1. Criteria specified in Subsection 380.06(17)(b);
2. It's conformance with any adopted state comprehensive plan and any rules of the state land planning agency;
3. All rights and obligations arising out of the vested status of such development;

Mr. Dennis Getman
June 21, 1985
Page Three

4. Permit conditions or requirements imposed by the Department of Environmental Regulation, the Department of Natural Resources, or any water management district created by Section 373.069 or any of their successor agencies or by an appropriate federal regulatory agency; and
5. Any regional impacts arising from the proposed change.

(c) If a proposed substantial change to a development of regional impact concerning which rights had previously vested pursuant to subsection (18) would result in reduced regional impacts, the change shall not divest rights to complete the development pursuant to subsection (18)."

Subsection 380.06(17)(b), Florida Statutes, referred to above, states the following:

"(b) In determining whether a development of regional impact previously approved pursuant to this section is subject to further review pursuant to this section, the local government shall consider the following changes which shall be presumed not to be substantial deviations requiring further review:

1. An increase in the number of dwelling units of not more than 5 percent or 200 dwelling units, whichever is less.
2. A decrease in the number of dwelling units which does not require a major redistribution of density.
3. A decrease in the area set aside for common open space of not more than 5 percent or 50 acres, whichever is less.
4. An increase in the area set aside for common open space.
5. An increase in the floor area proposed for nonresidential use of not more than 5 percent or 10,000 square feet, whichever is less.
6. A decrease in the regional impact of the development."

5. Applying the criteria in Subsection 380.06(17), F.S., to the proposed changes in the Ocala Springs development of regional impact, the Department finds that:

- A. There will not be an increase in the number of dwelling units. The modified plan reduces the number of residential units by 5,370.

Mr. Dennis Getman
June 21, 1985
Page Four

- B. There will not be a decrease in the number of dwelling units which would require a major redistribution of density.
- C. There will be no decrease in common open space.
- D. Due to the elimination of a residential pod containing 575 dwelling units, open space will be increased by 329 acres.
- E. There will be no increase in the floor area proposed for nonresidential use.
- F. The modified development will result in a decrease of 5,370 in the total number of dwelling units and a reduction of 964,049 square feet in the amount of nonresidential floor space. These changes will substantially decrease the project's impact on the surrounding transportation network. In a letter of comment to the Department, the Florida Department of Transportation states that, based on the decreased development proposed in the modified development plan, the transportation impacts on the surrounding roadway network would be significantly reduced.

The original vested development plan contained 9,700 single family lots for conventional housing and 400 mobile home lots, with a septic tank proposed for each lot. In the modified development plan each 1/4-acre lot, 1/2-acre lot, and 1 1/2-acre ranchette for conventional housing will have a septic tank, while all multifamily dwellings and mobile home sites will be served by a central wastewater treatment plant. Wastewater effluent will be disposed of by land application to the golf course. By deleting 5,221 conventional housing lots and 149 mobile home lots from the development plan, the modified plan will eliminate an equivalent number of septic tanks and will now provide a sewage treatment plant for all mobile home lots and multifamily dwellings. Therefore, the modified development plan substantially reduces the magnitude of any adverse impacts to groundwater quality which may be caused by septic tanks.

Therefore, the Department finds that the proposed plans for Ocala Springs constitute a substantial change to the vested plan of development. However, an analysis of the impacts resulting from the changes which are proposed to Ocala Springs demonstrates that these changes will result in reduced regional impacts.

Mr. Dennis Getman
June 21, 1985
Page Five

6. On March 8, 1985, notice of this request for a Binding Letter of Interpretation was published in the Florida Administrative Weekly. In addition, Marion County and the Withlacoochee Regional Planning Council were notified.

CONCLUSIONS OF LAW

Although the modified development plan for Ocala Springs, as described in Findings of Fact Nos. 1 through 5, constitutes a substantial change to the vested development plan (since the modified plan will reduce the number of residential units by 5,370 units and will reduce the total amount of nonresidential development by 964,049 square feet), the applicant has supplied sufficient evidence to indicate that the proposed development would result in a reduction of regional impacts. Therefore, the Department concludes that since the proposed modified development plan, as stated in Subsection 380.06(17)(b)6, F.S., would result in reduced regional impacts, the change to the vested development plan shall not divest any rights the developer has previously acquired under Subsection 380.06(18), F.S.

ORDER

The modifications to the Ocala Springs development as described above will not be required to comply with the review requirements of Section 380.06, Florida Statutes. Any future changes to the Ocala Springs plan of development will be considered cumulatively with the changes considered in this binding determination, and will be compared to the original vested plan and its impacts.

This binding letter of interpretation has been issued pursuant to the procedural requirements of Subsection 120.57(2), Florida Statutes, and constitutes final agency action appealable within 30 days to a District Court of Appeal pursuant to Section 120.68, Florida Statutes. If you wish to present oral or written evidence, or a written statement in opposition to this agency action, you must file with the Department a written request for an opportunity to do so within 30 days from this date. Such a request for a reconsideration shall be made in accordance with Rule 9J-2.16, Florida Administrative Code, and will be responded to by the Department pursuant to Subsection 120.57(2)(a), Florida Statutes.

Mr. Dennis Getman
June 21, 1985
Page Six

This determination does not obviate the need to comply with other applicable state or local permitting procedures. Any questions regarding this determination may be directed to Alto P. Thomas in this Bureau.

Sincerely,

Diana Sawaya-Crane
Bureau Chief

DSC/att

cc: Mr. Charles L. Harwood
Mr. Brian Wheeler
Mr. Walter Seiler

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 08-01-2001 BY 60322
UNLESS OTHERWISE SPECIFIED
OTHERWISE, UNCLASSIFIED.

Jane R. Bass _____ Date
Department Clerk

TABLE I

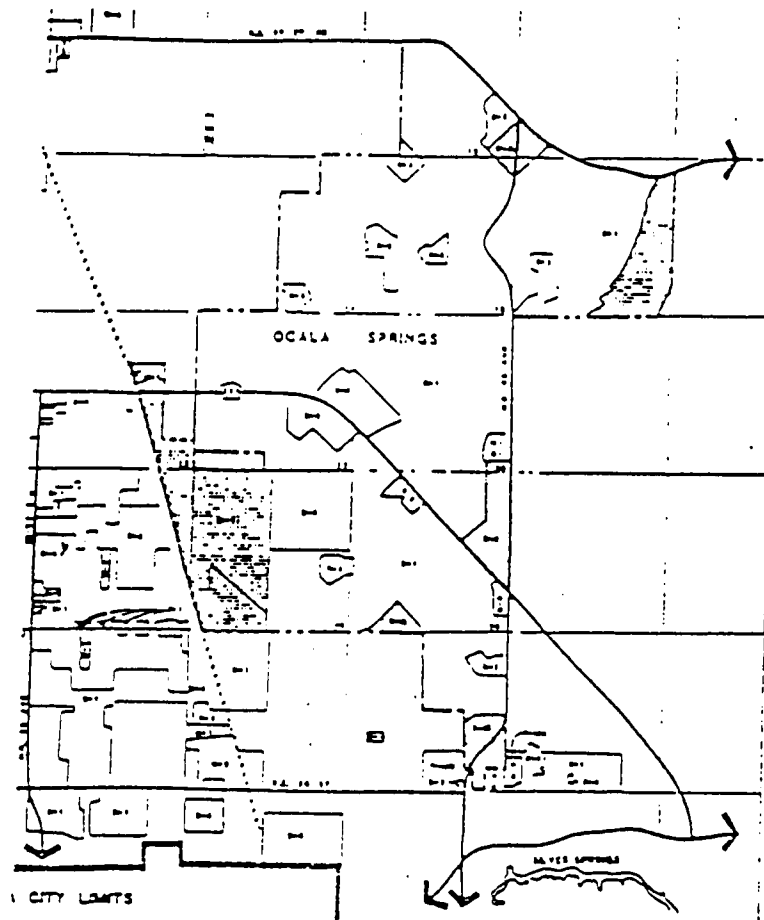
USE	VESTED DEVELOPMENT PLAN	MODIFIED DEVELOPMENT PLAN	AMOUNT OF CHANGE
le Family ing	9,700 DU*	4,479 DU	(-) 5,221 DU
ifamily	1,000 DU	1,000 DU	-----
le Home ivision	<u>400 DU</u>	<u>251 DU</u>	(-) <u>149 DU</u>
dential Subtotal	11,100 DU	5,730 DU	(-) 5,370 DU
ce	-----	31,000 SF	(+) 31,000 SF
ercial	824,000 SF**	205,800 SF	(-) 618,200 SF
ols	636,149 SF	259,300 SF	(-) 376,849 SF
Club	<u>52,000 SF</u>	<u>52,000 SF</u>	-----
esidential otal	1,512,149 SF	548,100 SF	(-) 964,049 SF
lling units			
uare feet			

B-3-7

Attachment 3, Exhibit B

FIGURE 1

The present zoning locations are shown on the exhibit below.



The proposed zoning is as follows:

<u>Zoning Symbol</u>	<u>Land Use</u>
A-3	One family dwelling
R-1	One family dwelling
R-2	One family dwelling
M-H	Mobile home subdivision
R-3	Multi-family
A-1, M-2	Golf course - utility
A-1	Preserve
B-2	Neighborhood commercial
G-U	Police-fire
M-1	Light industrial
B-1	School
B-1	Religious
B-1	Private club

DB # 11, 007



SEP 3 1985
LEGAL DEPT.

STATE OF FLORIDA
DEPARTMENT OF COMMUNITY AFFAIRS

EXECUTIVE CENTER CIRCLE EAST • TALLAHASSEE, FLORIDA 32301

BOB CRAMER
Director

August 30, 1985

TOM LEWIS
Secretary

Mr. Dennis Getman
Senior Vice President and
General Counsel
Avatar Properties Inc.
201 Alhambra Circle
Coral Gables, Florida 33134

Dear Mr. Getman:

Binding Letter of Interpretation for
Development of Regional Impact Status
File No. BLID-585-039
Ocala Springs-----

We have evaluated your application for a Binding Letter dated May 8, 1985, and received May 9, 1985. Based on the information contained in the application and other information obtained during the review of the development proposal, we enter the following Findings of Fact, Conclusions of Law, and Order.

FINDINGS OF FACT

1. The portion of the proposed Ocala Springs development under review in this binding letter is a mixed-use project consisting of 1,398 single family dwelling units, a 1,100,000 square foot/69-acre industrial park, a 66,000 square foot shopping center, and a 147-acre golf course. The present land use for the 1,022-acre project site is 527 acres of cropland and improved pasture and 495 acres of mixed and coniferous forest.

Avatar Properties, Inc., also owns an additional 3,665 acres of adjacent properties on which it proposes to develop 5,730 residential units and 548,100 square feet of floor area for non-residential use. The development proposed for these adjacent properties is considered by the applicant to be part of the Ocala Springs development and is clearly linked to the properties reviewed in this binding letter by sharing a common name, common ownership, common infrastructure, and a common plan of development. The adjacent properties (See the non-shaded portions of

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Figure 1), however, are vested in accordance with Subsection 380.06(18), Florida Statutes, and therefore, will not be bound by the determinations made in this binding letter. Changes to the development plan proposed by Avatar Properties, Inc., for the adjacent vested properties were recently reviewed by the Department pursuant to an application for a binding letter of interpretation for modification to a development of regional impact with vested rights (File No. BLIM-585-003). The Department concluded in the binding letter that, since the proposed modified development plan would result in reduced regional impacts, the change to the vested development plan would not divest any rights previously acquired by the developer.

2. The Ocala Springs property is located in portions of Sections 7 and 18, Township 14 South, Range 23 East and in Sections 22-27 and Section 36, Township 14 South, Range 22 East, less the platted parcels that comprise the vested portions of Ocala Springs. The project site is situated approximately three miles north of the City of Ocala in north central Marion County (see Figure 1). The site is located approximately ten miles from Alachua County, the nearest adjacent county.

3. The applicant is Mr. Dennis Getman, Senior Vice President and General Counsel for Avatar Properties, Inc., which proposes to develop Ocala Springs.

4. The applicable presumptive Development of Regional Impact (DRI) guidelines for the project are Rule 27F-2.05, Industrial Plants and Industrial Parks; Rule 27F-2.10, Residential Developments; and Rule 27F-2.12, Shopping Centers; Florida Administrative Code (F.A.C.).

Rule 27F-2.05, Industrial Plants and Industrial Parks, F.A.C., provides that any proposed industrial, manufacturing, or processing plant under common ownership, or any proposed industrial park under common ownership, which provides sites for industrial, manufacturing, or processing activity, which:

- 1) provides parking for more than one thousand five hundred (1,500) motor vehicles; or
- 2) occupies a site greater than one (1) square mile is presumed to be a DRI.

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The industrial component of the development, with 1,100,000 square feet on 63.90 acres and 1375 parking spaces, does not exceed the presumptive industrial DRI threshold.

Rule 27F-2.10, Residential Developments, F.A.C., states that any proposed residential development that is planned to create or accommodate more than 1,000 dwelling units in a county with a population between 99,999 and 200,000 is presumed to be a DRI. The most recent, official population estimate for Marion County is 148,864.

The residential component of the development, with 1,398 residential units, exceeds the presumptive DRI threshold for residential developments.

Rule 27F-2.12, Shopping Centers, F.A.C., provides that any proposed retail or wholesale business establishment or group of establishments operated under one common property ownership or management that encompasses more than 400,000 square feet of gross floor area, occupies more than 40 acres, or provides parking spaces for more than 2,500 cars is presumed to be a DRI.

The shopping center component of the development, with 66,000 square feet, does not exceed the presumptive DRI threshold for shopping centers.

The residential component of the development, with 1,398 dwelling units, exceeds the presumptive DRI threshold for residential developments. Therefore, the Ocala Springs development is presumed to be a DRI.

5. All commitments made by the applicant, all materials submitted by the applicant in the application, and all other relevant written materials are incorporated herein by reference and made a part hereof.

6. The Department has reviewed the representations made by the applicant in the application and has considered relevant comments made by the reviewing agencies. The Department finds that the only regional issues identified during the review of the binding letter application for this project involve historical and archaeological resources and transportation.

A. Historical and Archaeological Resources

The applicant, in the binding letter application, included a letter in which the Florida Division of Archives, History, and Records Management (DAHRM) indicated that there were no archaeological or historical

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sites shown on the Florida Master Site File maps within the project. However, the DAHRM also indicated that the lack of recorded sites is not considered significant because the area has never been subjected to a systematic, professional survey to locate such sites. It was noted that data from environmentally similar areas in Marion County indicate that archaeological and historical sites, especially the former, are "likely to occur within Parcels 'B' and 'D' (see Figure 2) of the subject tract." Parcel "B" will be preserved as open space in perpetuity. The DAHRM recommended that these areas be subjected to a systematic, professional archaeological and historical survey prior to initiating any land clearing or ground disturbing activities.

According to the applicant, a preliminary survey of the target areas will be undertaken by a professional archaeologist prior to any land disturbance activities. If a regionally significant archaeological or historical site is found on the project site, the applicant will make every reasonable effort, in cooperation with the DAHRM, to protect and/or preserve the designated area. If no significant archaeological or historical sites are found, the area will be developed as one-half acre homesites.

The Department finds that there are presently no known historic or archaeological sites on the property, although there is a reasonable probability that regionally significant archaeological and historical sites exist on the project site. The Department further finds that the applicant has agreed to survey the project area and to work in cooperation with the DAHRM to preserve any significant sites which may be found.

Therefore, based on the information above, and the commitments made by the applicant, the Department finds that this project will not have a substantial impact on regionally significant archaeological or historical resources.

B. Transportation

The proposed Ocala Springs project site is bordered on the north by Anthony Burbank Road and on the west by the Seaboard System Railroad, and is bisected from west to southeast by County Road (C.R.) 326 and from north to south by Northeast 58th Avenue. The Department finds that C.R. 326, S.R. 40, and U.S. 301 are regionally significant roadways in the vicinity of the site which

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could be substantially impacted by the proposed project traffic. These roads are regionally significant because they are federal or state roads or paved roads that cross county lines.

The applicant utilized the trip generation rates published in the Institute of Transportation Engineers' Trip Generation: An Informational Report (3rd Edition, 1982). The traffic generation rates for the Ocala Springs development are summarized in Table I.

The applicant utilized a four percent growth rate for background traffic projections. This rate was applied to the 1984 average daily traffic (ADT) volumes to determine the estimated background traffic volume at the end of each project phase. The project buildout date is 1993.

The applicant utilized the trip distribution techniques of the National Cooperative Highway Research Program (NCHRP) "Report #187: Quick Response Urban Travel Estimation Techniques and Transferable Parameters" to estimate the project's trip distribution. The Ocala Area 1995 Transportation Plan was utilized as the basis for non-project trip information within Marion County.

The applicant determined service volumes for the various roadway facilities from the "UTPS Daily Service Volumes for Level of Service 'C'" published by the Florida Department of Transportation (FDOT). Peak hour service volumes used by the applicant represent 10% of the average daily traffic (ADT) LOS "C" service volumes. Traffic counts were taken from FDOT and Marion County Department of Public Works. Where counts were not available for specific links, estimates were based on extrapolation from adjacent links and the general traffic flow patterns.

The Department finds reasonable, and therefore accepts, the applicant's methodologies utilized in determining trip generation, background traffic projection, trip distribution and assignment, and capacity calculations.

Tables II and III represent the traffic analysis for the proposed Ocala Springs project on an average daily and peak hour basis, respectively. As can be

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noted from these tables, the proposed project will utilize more than ten percent of the LOS "C" service volume on all segments of C.R. 326 (see Table IV), a regionally significant roadway. However, these segments will not be operating below LOS "C" at the project's buildout for both ADT and peak hour traffic conditions. The Department considers a substantial regional impact to occur when project traffic utilizes ten percent or more of the LOS "C" service volume on any segment of a regionally significant road that will be operating below LOS "C" at project buildout.

The Department finds that none of the regionally significant roadways will be operating below LOS "C" at buildout on any segment that the proposed project utilizes ten percent or more of the LOS "C" service volume. Therefore, the Department finds that the Ocala Springs development will not have a substantial impact upon regionally significant roadway facilities.

7. On May 17, 1985, notice of this request for a Binding Letter of Interpretation was published in the Florida Administrative Weekly. In addition, the Withlacoochee Regional Planning Council and Marion County were notified.

CONCLUSIONS OF LAW

1. The portion of the proposed Ocala Springs development under review in this binding letter having 1,398 single family dwelling units, a 66,000 square foot shopping center, a 1,100,000 square foot/69-acre industrial park with 1,375 parking spaces, and a golf course is presumed to be a Development of Regional Impact, pursuant to Chapter 27F-2, Florida Administrative Code.

2. However, based upon Finding of Fact No. 6, the Department concludes that the Ocala Springs development will not substantially impact regionally significant resources or facilities. Thus, the proposed Ocala Springs development will not have a substantial effect upon the health, safety, or welfare of the citizens of more than one county and, therefore, is not a Development of Regional Impact.

ORDER

1. The Ocala Springs development as described above will not be required to comply with the review requirements of Section 380.06, Florida Statutes.

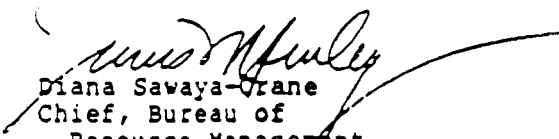
Mr. Dennis Getman
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Page Seven

2. The development evaluated in this binding letter shall be considered cumulatively with any future additional development in terms of the presumptive guidelines and standards contained in Chapter 27F-2, Florida Administrative Code, and its associated regional impacts. Should any of the above representations made by the applicant be substantially changed, further review of the project may be required.

This binding letter of interpretation has been issued pursuant to the procedural requirements of Subsection 120.57(2), Florida Statutes, and constitutes final agency action appealable within 30 days to a District Court of Appeal pursuant to Section 120.68, Florida Statutes. If you wish to present oral or written evidence, or a written statement in opposition to this agency action, you must file with the Department a written request for an opportunity to do so within 30 days from this date. Such a request for a reconsideration shall be made in accordance with Rule 9J-2.16, Florida Administrative Code, and will be responded to by the Department pursuant to Subsection 120.57(2)(a), Florida Statutes.

This determination does not obviate the need to comply with other applicable state or local permitting procedures. Any questions regarding this determination may be directed to Alto P. Thomas in the Bureau of Resource Management at (904) 488-4925.

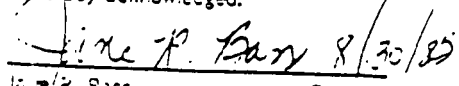
Sincerely,


Diana Savaya-Grane
Chief, Bureau of
Resource Management

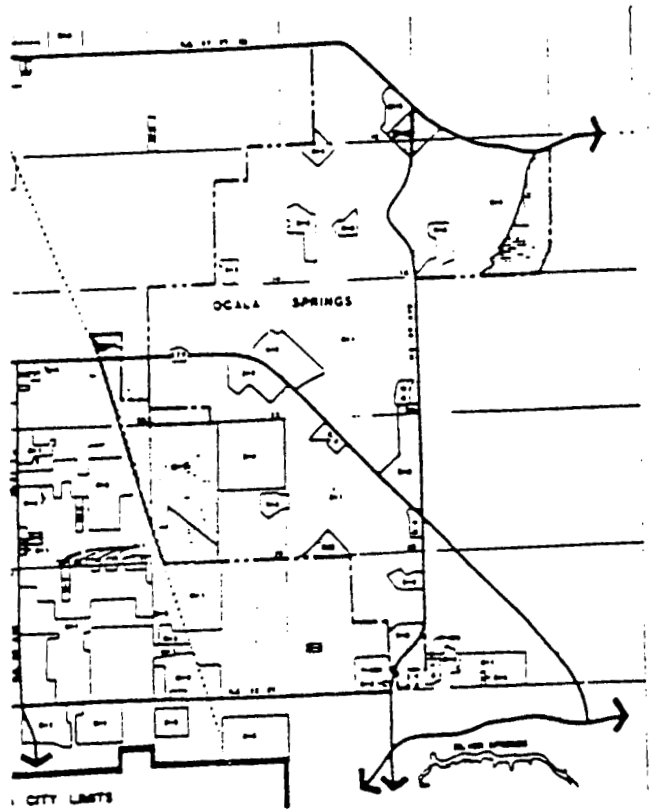
DSC/ats

cc: Mr. Charles L. Harwood
Mr. Brian Wheeler
Mr. Walter Seiler

FILING AND ACKNOWLEDGEMENT
FILED on this date with the designated
Department Clerk, receipt of which
is hereby acknowledged.


Jane R. Egan 8/30/85
Jane R. Egan Date
Department Clerk

The present zoning locations are shown on the exhibit below. Non-vested areas are hatched.



The proposed zoning is as follows:

<u>Zoning Symbol</u>	<u>Land Use</u>
A-3	One family dwelling
R-1	One family dwelling
R-2	One family dwelling
M-H	Mobile home subdivision
A-1, M-2	Golf course - utility
A-1	Preserve
B-2	Neighborhood commercial
G-U	Police-fire
M-1	Light industrial

Figure 1

**LAND USE
PARCEL "B"**

preserve 324.82 ac.

**LAND USE
PARCEL "C"**

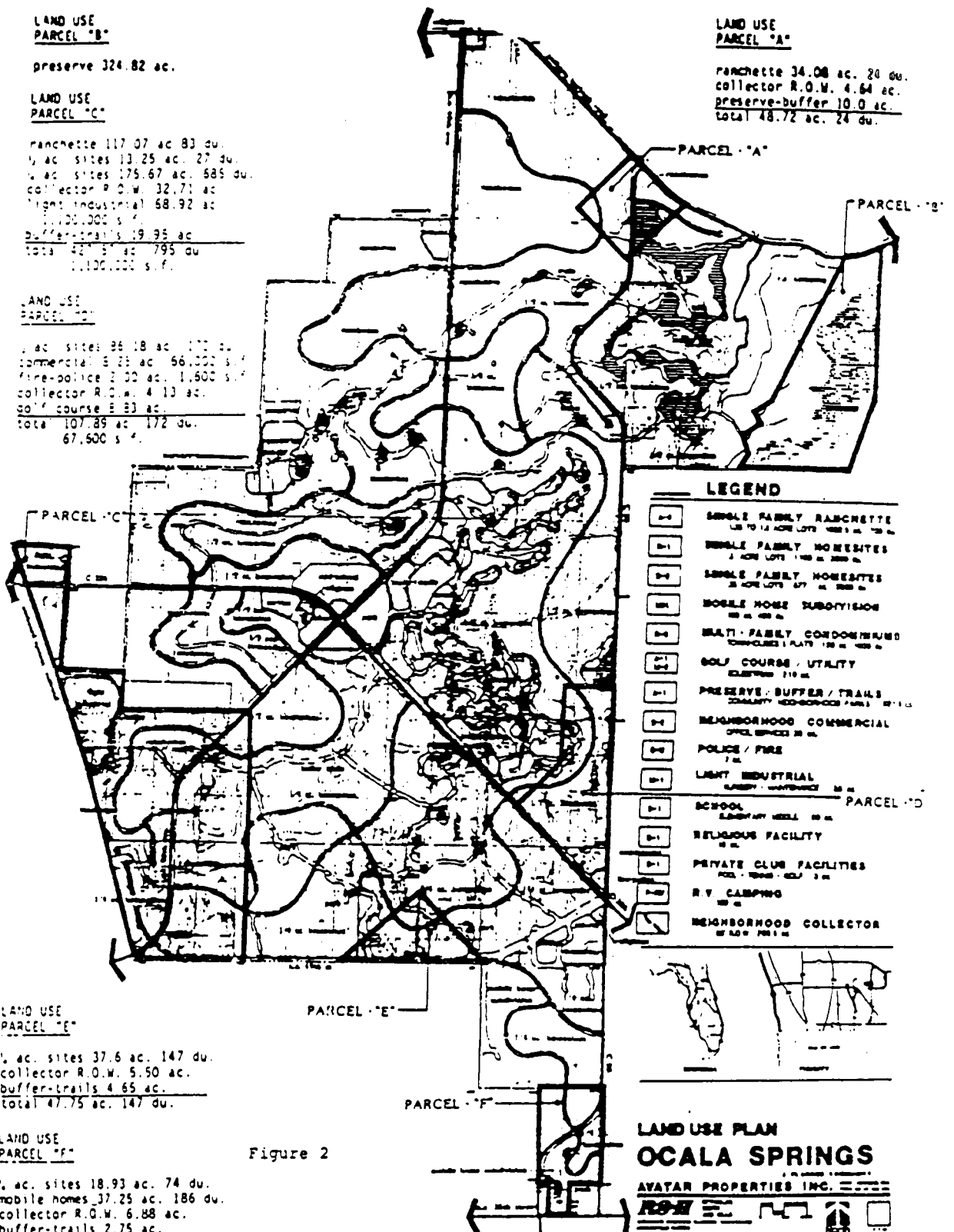
ranchette 117.07 ac. 83 du.
 1/4 ac. sites 13.25 ac. 27 du.
 1/4 ac. sites 175.67 ac. 585 du.
 collector R.O.W. 32.71 ac.
 light industrial 68.92 ac.
 1,100,000 s.f.
 buffer-trails 19.95 ac.
 total 427.52 ac. 795 du.
 1,100,000 s.f.

**LAND USE
PARCEL "D"**

1/4 ac. sites 86.18 ac. 177 du.
 commercial 5.23 ac. 56,000 s.f.
 fire-police 2.00 ac. 1,600 s.f.
 collector R.O.W. 4.13 ac.
 golf course 83 ac.
 total 107.89 ac. 172 du.
 67,600 s.f.

**LAND USE
PARCEL "A"**

ranchette 34.08 ac. 20 du.
 collector R.O.W. 4.64 ac.
 preserve-buffer 10.0 ac.
 total 48.72 ac. 24 du.



**LAND USE
PARCEL "E"**

1/4 ac. sites 37.6 ac. 147 du.
 collector R.O.W. 5.50 ac.
 buffer-trails 4.65 ac.
 total 47.75 ac. 147 du.

**LAND USE
PARCEL "F"**

1/4 ac. sites 18.93 ac. 74 du.
 mobile homes 37.25 ac. 186 du.
 collector R.O.W. 6.88 ac.
 buffer-trails 2.75 ac.

Figure 2

Table I

Ocala Springs Non-Vested Parcels Trip Generation Summary

Parcel	Land Use	Trip Rate ¹ Per Unit	Phase I		Phase II		Phase III	
			# of Units	AWD ² YTE	# of Units	AWD YTE	# of Units	AWD YTE
	RES-ret SF	7.5/du ³					24	180
	RES-ret SF	7.5/du	83	623	83	623	83	623
	RES-SF	10.0/du	253	2,530	712	7,120	712	7,120
	IND-gen light	5.46/1,000 sf	500	2,730	1,100	6,006	1,100	6,006
	RES-SF	10.0/du			172	1,720	172	1,720
	Comm-nbrhood	66.7/1,000 sf			66	4,402	66	4,402
	REC-golf cs	5.33/ac			883	47	883	47
	RES-SF	10.0/du			147	1,470	147	1,470
	RES-SF	10.0/du	74	740	74	740	74	740
	RES-mh	4.8/du	186	893	186	893	186	893
TOTALS				7,516		23,021		23,021

-) Source: Trip generation, 3rd Edition, ITE
-) Average Week Day Vehicle Trip Ends
-) See text for discussion of this rate

TABLE II

Road Segment	ADT Service Volume ¹	ADT ² With- out Project	LOS ³	ADT ² With Project	LOS ³	PROJECT'S TRAFFIC	
						Percent of ADT ²	Percent of ADT ¹ Service Volume
CR 326--US 301-4	11,800	5,978	A	7,678	A	22	14
CR 326--3-5	11,800	6,690	A	10,990	C	39	36
CR 326--4-6	11,800	5,409	A	11,099	C	51	48
CR 326--5-7	11,800	4,982	A	11,792	C	58	58
CR 326--6-8	11,800	3,416	A	9,716	B	65	54
CR 326--7-SB	11,800	2,135	A	3,335	A	35	10
SR 40--PSB-19	27,900	21,919	B	23,819	B	8	7
SR 40--18-20	27,900	19,784	A	20,384	A	3	2
SR 40--19-21	27,900	17,364	A	18,864	A	8	5
SR 40--20-EB	20,400	12,667	A	13,667	A	7	5
US 301--NB-49	27,900	21,350	B	21,950	B	3	2
US 301--48-50	27,900	20,780	A	21,780	B	5	4
US 301--49-51	27,900	22,061	B	23,761	B	7	6
US 301--50-52	27,900	18,645	A	19,245	A	3	2
US 301--51-53	27,900	18,645	A	18,945	A	2	1
US 301--52-54	27,900	19,215	A	19,715	A	3	2
US 301--53-55	42,700	27,897	A	28,397	A	2	1
US 301--54-56	42,700	28,182	A	28,682	A	2	1
US 301--55-SB	55,200	40,137	A	41,937	B	4	3

- (1) Service volume or road capacity for Level of Service "C" conditions.
- (2) Projected Average Daily Traffic on the roadways at buildout of the development.
- (3) Level of Service.

TABLE III

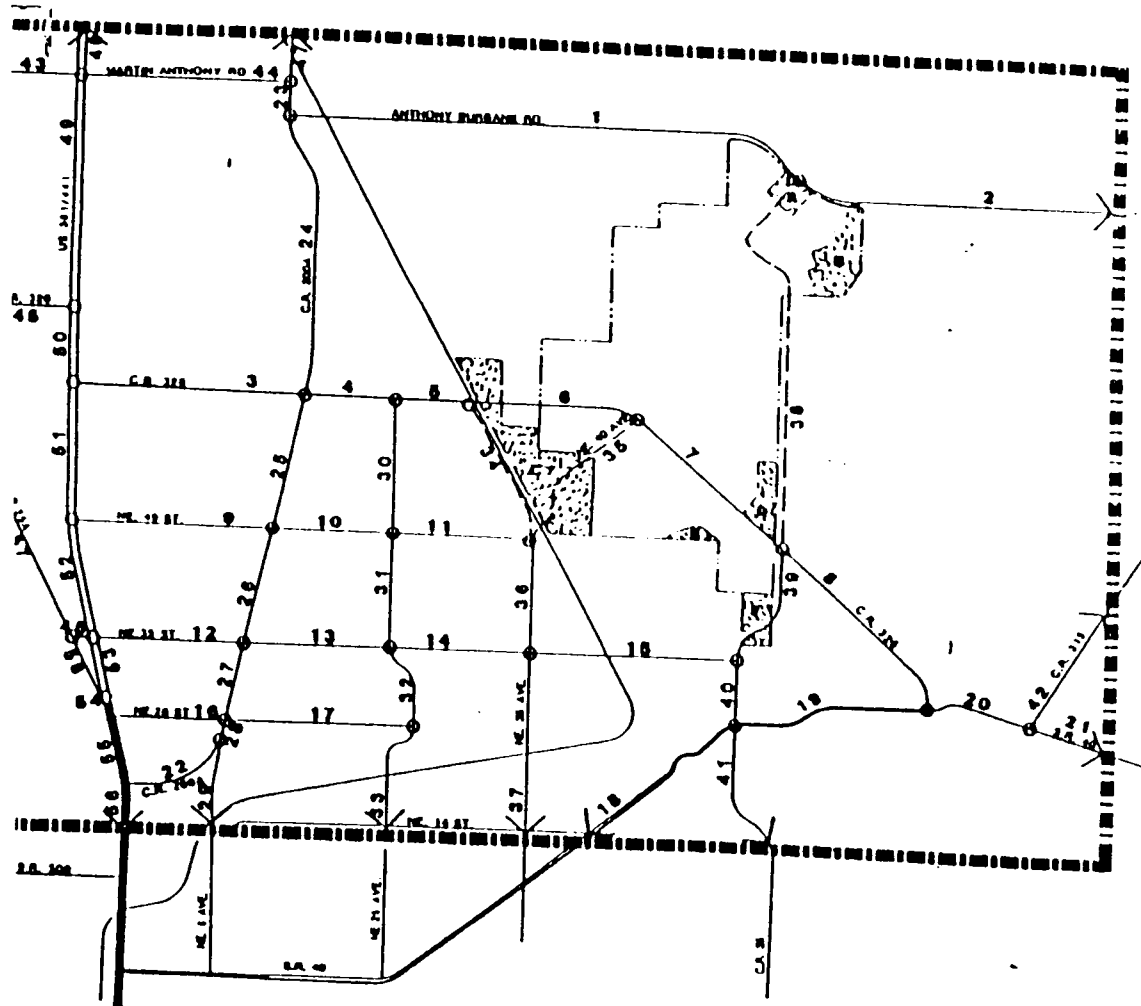
Road Segment	Peak Hour Service Volume ¹	Peak Hour ² W/out Project	LOS ³	Peak Hour ² With Project	LOS ³	Project's Traffic	
						% of Peak Hour Traffic ²	% of Peak Hour Service Volume
CR 326—US 301-4	1,180	598	A	768	A	22	14
CR 326—3-5	1,180	669	A	1,099	C	39	36
CR 326—4-6	1,180	541	A	1,110	C	51	48
CR 326—5-7	1,180	498	A	1,179	C	58	58
CR 326—6-8	1,180	342	A	972	B	65	54
CR 326—7-SB	1,180	213	A	333	A	35	10
SR 40—PSD-19	2,790	2,192	B	2,382	B	8	7
SR 40—18-20	2,790	1,978	A	2,038	A	3	2
SR 40—19-21	2,790	1,736	A	1,886	A	8	5
SR 40—20-EB	2,040	1,267	A	1,367	A	7	5
US 301—NB-49	2,790	2,135	B	2,195	B	3	2
US 301—48-50	2,790	2,078	A	2,178	B	5	4
US 301—49-51	2,790	2,206	B	2,376	B	7	6
US 301—50-52	2,790	1,864	A	1,924	A	3	2
US 301—51-53	2,790	1,864	A	1,894	A	2	1
US 301—52-54	2,790	1,921	A	1,971	A	3	2
US 301—53-55	4,270	2,790	A	2,840	A	2	1
US 301—54-56	4,270	2,818	A	2,868	A	2	1
US 301—55-SB	5,520	4,014	A	4,194	B	4	3

- ¹ Peak Hour Service Volume or Road Capacity for Level of Service "C" Conditions.
- ² Projected Peak Hour Traffic on the roadways at buildout.
- ³ Level of Service.

B-4-12

Attachment 4, Exhibit B

Table IV



OCALA SPRINGS
 AVATAR PROPERTIES INC.
RPM

STUDY AREA AND MAJOR ROADWAY NETWORK

Existing Major Road 32
 Network Link
 (see Table I for link descriptions)

Network Node 0
 End of Link at Other than Node 4

LEGEND

Project Site

Traffic Study Area

Divided Arterial 4 LN

Arterial 4 LN

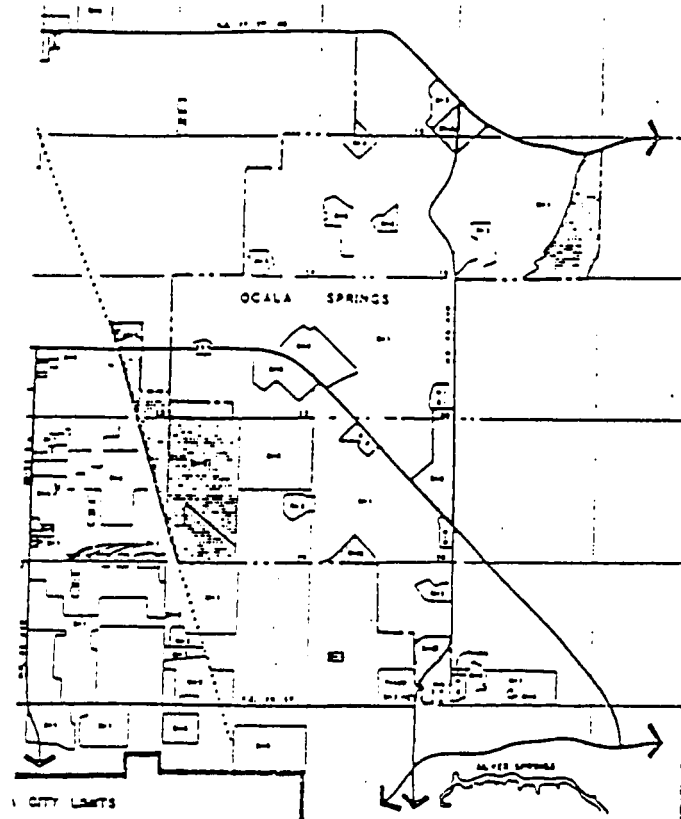
Collector 2 LN

Collector 2 LN(Graded)

Non Vested Parcel

FIGURE 1

The present zoning locations are shown on the exhibit below.



The proposed zoning is as follows:

<u>Zoning Symbol</u>	<u>Land Use</u>
A-3	One family dwelling
R-1	One family dwelling
R-2	One family dwelling
M-H	Mobile home subdivision
R-3	Multi-family
A-1, M-2	Golf course - utility
A-1	Preserve
B-2	Neighborhood commercial
G-U	Police-fire
M-1	Light industrial
B-1	School
B-1	Religious
B-1	Private club

Exhibit C
Types of Water Service

Re: Application for Original Water and Wastewater Certificates for Ocala Springs Utilities Inc. (OSUI) in Marion County

Potable water service will be provided by OSUI. It is contemplated that reclaimed water will be provided for golf course and certain public area irrigation. Detailed information will be submitted with the Application for Rates and Charges.

EXHIBIT D
Land for Water and Wastewater Facilities

Re: Application for Original Water and Wastewater Certificates for Ocala Springs Utilities Inc.
(OSUI) in Marion County

The location of water and wastewater facilities has not been determined since planning for these facilities has not been completed. However, Avatar Properties Inc., the developer, will convey title to OSUI to land for water and wastewater treatment plant facilities and other facilities. See Exhibit E, Attachment 2.

EXHIBIT E
Financial and Technical Ability of Applicant

Re: Application for Original Water and Wastewater Certificates for Ocala Springs Utilities Inc. (OSUI) in Marion County

Ocala Springs Utilities Inc., a wholly-owned subsidiary of Avatar Utilities Inc., incorporated on April 10, 1998 has no assets or employees. It was created for the specific purpose of providing water and wastewater service for Ocala Springs, an API designed, planned community development.

It will receive technical support from other Avatar Utilities Inc. subsidiaries, primarily Florida Cities Water Company and Avatar Utility Services, Inc. as does Poinciana Utilities Inc. and the Divisions of Florida Cities Water Company. As Ocala Springs Utilities Inc. becomes operational, a local operating and customer service staff will be employed. A profile of Avatar Utilities Inc. is at Attachment 1.

Financing for the early stages of development of Ocala Springs Utilities Inc. will be provided by API, the developer of Ocala Springs. The Master Agreement between Ocala Springs Utilities Inc. and API is at Attachment 2.

ATTACHMENT 1, EXHIBIT E

AVATAR UTILITIES INC. COMPANY PROFILE¹

Avatar Utilities Inc. ("AUI"), a utility holding company, has provided water and wastewater services through its subsidiaries since 1956. It is a wholly owned subsidiary of Avatar Holdings Inc. (AHI). AHI stock is listed on the NASDAQ-NMS system under the symbol AVTR.

AUI has assets of \$180.7 million including \$162.5 million (net of depreciation) in plant. Common shareholder equity is \$27.6 million and long term debt \$35.5 million. Annual operating revenues are \$32.9 million.

AUI's operating subsidiaries include Florida Cities Water Company ("FCWC"), Poinciana Utilities Inc. ("PUI") and Ocala Springs Utilities Inc. (OSUI), water and wastewater utilities; Avatar Utilities Services, Inc. ("AUSI"), a data processing and contract operations service company and Barefoot Bay Propane Gas Company, a distributor of propane gas.

AUI subsidiaries have a total of 203 employees including 61 licensed water or wastewater operators, eight professional engineers and three certified public accountants. The corporate offices for all subsidiaries are co-located in Sarasota. Business offices are located in Golden Gate, Ft. Myers, Sarasota, Carrollwood, Poinciana, Barefoot Bay, Sunrise and Miami.

THE UTILITY OPERATING COMPANIES

Services and rates applicable to FCWC and PUI are governed by tariffs approved by the Florida Public Service Commission (PSC) or county commissions in those counties which have chosen to regulate services and rates. OSUI, incorporated in April 1998, currently has no customers; however, its services and rates will be regulated by the PSC.

One measure of success of these companies is the recognition conveyed by awards. FCWC and PUI have received a combined total of 88 industry and regulatory agency awards since 1977 in recognition of excellence in operations, safety and customer communications

Florida Cities Water Company

FCWC owns and operates eight water treatment facilities, six wastewater treatment facilities and associated water distribution and wastewater collection systems. Organized into five operating divisions, it serves approximately 34,000 water and 26,000 wastewater customers (residential, commercial, industrial and public authority) in six Florida communities: Golden Gate (Collier County); North Ft. Myers and Ft. Myers (unincorporated areas of Lee County); Sarasota (unincorporated areas of Sarasota County); Carrollwood, a suburb of Tampa (Hillsborough

¹ All statistical and financial information is at December 31, 1997.

County); and Barefoot Bay (Brevard County).

The Golden Gate Division is located in Collier County and provides service to this residential community located ten miles east of Naples. Water service is provided to 2,900 customers. The water is supplied from surficial aquifers through 6 wells and treatment includes conventional lime softening, filtration and disinfection at one water treatment plant. Wastewater service is provided to 2,000 customers. One plant provides wastewater treatment and the reclaimed water is used for irrigation or discharged to rapid infiltration basins. Rates and service are regulated by Collier County.

The Ft. Myers Division is located in Lee County, one of Florida's fastest growing metropolitan areas, and serves approximately 19,000 water and 9,000 wastewater customers. The service area includes North Ft. Myers, Ft. Myers Beach and south suburban Ft. Myers. The water source is groundwater from both surficial and deep aquifers utilizing over 50 wells. Water treatment is provided by conventional lime softening, filtration and disinfection at three water treatment facilities. Two advanced wastewater treatment plants produce highly-treated effluent that is reused for irrigation or discharged to the Caloosahatchee River. There is significant customer growth potential within the south suburban Ft. Myers certificated service area. Rates and service are regulated by the Public Service Commission.

The Sarasota Division is located in Sarasota County and provides water and wastewater service to approximately 5,600 water and 8,900 wastewater customers located primarily in the Gulf Gate and South Gate communities. Potable water is purchased from the Sarasota County Utilities Department and wastewater treatment is provided by two advanced wastewater treatment plants. The reclaimed water from these plants is reused for irrigation or discharged to surface water bodies. Rates and service are regulated by Sarasota County.

The Carrollwood Division is located in north central Hillsborough (Tampa) County and serves a residential community of approximately 1,200 customers. Three wells/treatment facilities provide water which is drawn from the Floridan aquifer. Wastewater is collected and pumped to the Hillsborough County wastewater system for treatment and disposal. Rates and service are regulated by Hillsborough County.

The Barefoot Bay Division serves Barefoot Bay, a residential community of manufactured, modular homes, located on Florida's east coast about forty miles south of the Kennedy Space Center in Brevard County. Both water and wastewater service is provided to approximately 4,600 customers. Water is withdrawn from the surficial aquifer via seven wells. Water treatment consists of softening, filtration and disinfection. An advanced wastewater treatment plant produces highly-treated effluent that is reused for irrigation.

Poinciana Utilities Inc.

PUI serves Poinciana New Township, a rapidly growing Avatar developed community, located in

Osceola and Polk Counties near Disney World. Water and wastewater service are provided to 6,300 water and 5,900 wastewater customers. The water source is ground water withdrawn through nine wells from the Floridan Aquifer, aerated and disinfected at five water treatment facilities. Four wastewater treatment plants providing secondary or secondary-plus treatment before the reclaimed water is reused for irrigation or discharged to rapid infiltration basins and wetlands. There is substantial customer growth potential within the certificated service area. Rates and service are regulated by the Public Service Commission.

Ocala Springs Utilities Inc.

OSUI currently has no customers or utility plant. It will provide water and wastewater services to Ocala Springs, an active adult community, which will be developed by Avatar Properties Inc., an AHI subsidiary. Ocala Springs is located in the vicinity of the City of Ocala in Marion County, Florida.

THE UTILITY SERVICE COMPANIES

Avatar Utility Services, Inc. (AUSI) has been in business since 1971 and provides data processing and computer services (e.g., customer billing, accounts receivable, general ledger, payroll, etc.) for all AUI operating subsidiaries, Rio Rico Utilities Inc. as well as non-affiliated companies. It also provides meter reading services for certain divisions of Florida Cities Water Company. AUSI provides one or more of the following services to 28 non-affiliated utility entities throughout Florida: water and wastewater systems operation and maintenance, contract meter reading, customer billing, bill printing and bill mailing. AUSI currently reads approximately 190,000 meters (electric, water and gas) and prints and mails almost 100,000 customer bills per month. Its subsidiary, Utility Services Group Inc., is engaged primarily in meter reading services.

OTHER ACTIVITIES

AUI also provides management, accounting and other services to Rio Rico Utilities Inc., a subsidiary of Avatar Holdings Inc., which provides water and wastewater service to the community of Rio Rico, Arizona. Approximately 2,900 water and 1,200 wastewater customers are served in Rio Rico.

ADDITIONAL INFORMATION

Additional information is shown at the following exhibits:

		<u>Page</u>
Organizational Chart -	Figure 1	E-1-4
Customer Information -	Table 1	E-1-5
Water Treatment Facilities -	Table 3	E-1-6
Wastewater Treatment Facilities -	Table 4	E-1-7

Figure 1
AVATAR UTILITIES INC.
ORGANIZATIONAL CHART

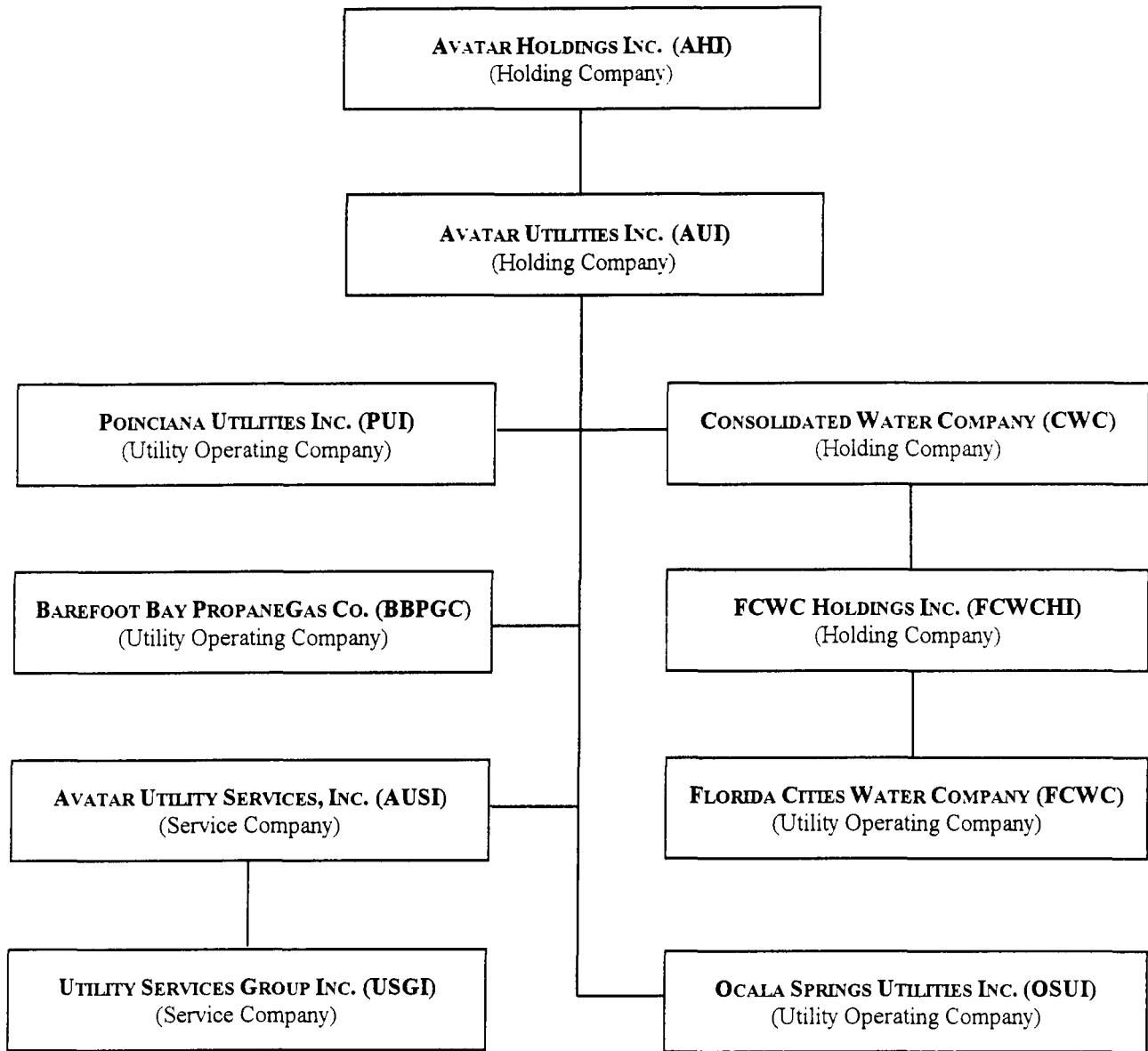


Table 1
 AVATAR UTILITIES INC.
WATER AND WASTEWATER CUSTOMERS

<u>COMPANY</u>		<u>DIVISION</u>	<u>WATER</u>	<u>WWATER</u>
	<u>TOTAL</u>			
Florida Cities Water Co.	Golden Gate	2,893	2,002	4,895
	S. Ft. Myers	15,955	6,382	22,337
	N. Ft. Myers	3,298	2,704	6,002
	Sarasota	5,611	8,889	14,500
	Carrollwood	1,193	1,122	2,315
	Barefoot Bay*	<u>4,599</u>	<u>4,579</u>	<u>9,178</u>
		33,549	25,678	59,227
Poinciana Utilities, Inc.		<u>6,323</u>	<u>5,874</u>	<u>12,197</u>
Total		<u>39,872</u>	<u>31,552</u>	<u>71,424</u>

* Barefoot Bay Propane Gas Company serves approximately 900 gas customers.

Table 2
 AVATAR UTILITIES INC.
WATER TREATMENT FACILITIES

<u>SYSTEM</u>	<u>NUMBER FACILITIES</u>	<u>TYPE TREATMENT</u>	<u>CAPACITY (MGD)</u>
Golden Gate	1	Disinfection Filtration Lime Softening	1.224
Lee County	3	Disinfection Filtration Lime Softening	12.000
Sarasota	<i>(Water purchased from Sarasota County)</i>		
Carrollwood	3	Disinfection Iron Sequestering	1.246
Barefoot Bay	1	Disinfection Filtration Lime Softening	1.000
Poinciana	5	Disinfection Aeration Stabilization	3.768

Table 3
 AVATAR UTILITIES INC.
WASTEWATER TREATMENT FACILITIES

<u>SYSTEM</u>	<u>NUMBER</u> <u>FACILITIES</u>	<u>TREATMENT(1)</u>	<u>CAPACITY</u> <u>(MGD)</u>	<u>DISPOSAL</u>
Golden Gate	1	Secondary-Plus	0.95	Rapid Infiltration Basins
Lee County	2	Advanced	3.75	Reuse & Discharge to Surface Water Body
Sarasota	2	Advanced	3.16	Reuse & Discharge to Surface Water Body
Carrollwood	<i>(Treatment provided by Hillsborough County)</i>			
Barefoot Bay	1	Advanced	0.75	Reuse
Poinciana	4	Secondary-Plus(2) Secondary(3)	1.86	Reuse, Rapid Infiltration Basins, Wetlands Dischg.

Notes:

(1) Treatment definitions:

Secondary - treatment which will remove 90% of the biochemical oxygen demand (BOD) and total suspended solids (TSS) or meet specific limits for these pollutants and providing basic disinfection.

Secondary-Plus - meeting Secondary standards and nitrogen limits.

Advanced - Secondary treatment meeting more stringent limits for BOD than Secondary or Secondary-Plus, the same limit for TSS as Secondary-Plus, and limits for nutrients (usually nitrogen and phosphorus); and providing filtration and basic disinfection.

(Those plants providing reclaimed water for reuse meet additional standards.)

(2) Plant Nos. 1, 3 and 5.

(3) Plant No. 2

ATTACHMENT 2, EXHIBIT E

Master Agreement

This Agreement is made and entered into this 4th day of May 1998 between Ocala Springs Utilities Inc., a Florida Corporation, (hereinafter called "OSUI") and Avatar Properties Inc., a Florida Corporation, (hereinafter called "API");

WITNESSETH

WHEREAS, API is the owner of certain land in Marion County, Florida which API intends to develop as a subdivision known as Ocala Springs (hereinafter called "Ocala Springs");

WHEREAS, central water and wastewater services are essential for the development of Ocala Springs and API desires that OSUI provide same;

WHEREAS, API and OSUI contemplate that the facilities required for said water and wastewater service will include, but will not necessarily be limited to, water supply, water and wastewater treatment, pumping, storage, water distribution, wastewater collection, and wastewater disposal facilities (hereinafter collectively called "Facilities").

WHEREAS, OSUI intends to file an application before the Florida Public Service Commission (hereinafter called "FPSC") for an Original Certificate for Water and Wastewater for Ocala Springs; and

WHEREAS, at this time, OSUI does not have the financial capability to design and construct Facilities.

NOW THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, it is agreed by and between the parties hereto as follows:

1. API agrees to:
 - a. Design and construct Facilities in strict accordance with plans and specifications meeting the approval of OSUI and governmental agencies having jurisdiction and convey same to OSUI as advances-in-aid-of-construction (hereinafter called "AIAC") or contributions-in-aid-of-construction (hereinafter called "CIAC") until such time as OSUI has the financial capability to perform same. All such work shall be governed by service, extension and other agreements entered into between the parties hereto from time to time.
 - b. Grant title to Facilities and all land required for same to OSUI in a form satisfactory to OSUI including title to utility treatment facilities as required by Rule 25-30.433(10), Florida Administrative Code.
 - c. Finance the initial operations of OSUI through guaranteed revenues or as otherwise mutually agreed until OSUI's operating revenues are adequate to cover operating costs.
2. OSUI agrees to:
 - a. Provide water and wastewater service to Ocala Springs conditioned upon the granting of the Original Certificate for Water and Wastewater by the FPSC.
 - b. Operate and maintain Facilities in accordance with applicable permits, rules and regulations.
3. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective successors and assigns and constitutes the entire understanding and agreement

between the parties relevant to the matters referred to herein. No additions, deletions, modifications or other changes of this Agreement shall have force or effect, or be of any validity unless made in writing and executed by and between the parties with the same formality as this Agreement.

4. Any notice or payments shall be addressed as follows:

To OSUI:

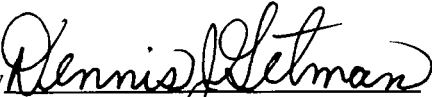
Ocala Springs Utilities Inc.
4837 Swift Road, Suite 100
Sarasota, Florida 34231

To API:

Avatar Properties Inc.
255 Alhambra Circle
Coral Gables, Florida 33134

IN WITNESS WHEREOF, the undersigned have executed this Agreement in three (3) counterparts each which shall be deemed an original on the day and year first above written.

AVATAR PROPERTIES, INC

By 
Dennis J. Getman
Executive Vice President

OCALA SPRINGS UTILITIES INC.

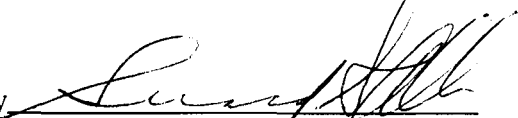
By 
Gerald S. Allen
President

EXHIBIT F
Applicant Financial Statements

Re: Application for Original Water and Wastewater Certificates for Ocala Springs Utilities Inc. (OSUI) in Marion County

Ocala Springs Utilities Inc., a wholly-owned subsidiary of Avatar Utilities Inc., was incorporated recently and has no financial statements. The Avatar Utilities Inc. financial statements are attached hereto at Attachment 1.

Avatar Utilities Inc. and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 1997 and 1996
Unaudited

Avatar Utilities Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31	
	1997	1996
Assets		
Plant property:		
Utility plant	\$228,584,039	\$218,588,659
Construction work in progress	2,857,033	2,017,394
Excess of cost over equity in net assets acquired	886,516	949,843
Other property	738,242	933,867
	<u>233,065,830</u>	<u>222,489,763</u>
Less accumulated depreciation	70,607,734	63,648,368
	<u>162,458,096</u>	<u>158,841,395</u>
Current assets:		
Cash and equivalents	285,861	637,911
Accounts receivable, net of allowance for doubtful accounts (\$61,139 in 1997 and \$56,399 in 1996)	2,049,430	2,210,277
Unbilled revenue	1,415,377	1,586,422
Due from affiliates	395,718	435,444
Materials and supplies, at average cost	263,487	252,184
Prepaid expenses and other current assets	848,494	947,083
	<u>5,258,367</u>	<u>6,069,321</u>
Deferred charges:		
Unamortized debt expense	642,078	697,078
Unamortized rate case expense	607,085	690,692
Allowance for funds prudently invested	5,775,037	6,797,225
Deferred tax asset	3,275,000	4,509,000
Other	2,701,164	2,702,280
	<u>13,000,364</u>	<u>15,396,275</u>
Total Assets	<u>\$180,716,827</u>	<u>\$180,306,991</u>

	December 31	
	1997	1996
Capitalization and Liabilities		
Capitalization:		
Common stockholder's equity		
Common stock—stated value, \$10,000 per share, 1,000 shares authorized; 905 shares issued and outstanding	\$ 9,050,000	\$ 9,050,000
Paid-in capital	7,233,680	7,233,680
Retained earnings	<u>11,351,558</u>	<u>9,252,119</u>
	<u>27,635,238</u>	<u>25,535,799</u>
Minority interest:		
Redeemable preferred stock of subsidiary company	7,200,000	9,000,000
Other	<u>67,632</u>	<u>63,952</u>
	7,267,632	9,063,952
Long-term debt	<u>35,450,000</u>	<u>34,534,166</u>
	<u>70,352,870</u>	<u>69,133,917</u>
Current liabilities:		
Current maturities of long-term debt	2,334,167	3,267,565
Notes payable—bank	1,432,261	4,350,000
Accounts payable and other accrued liabilities	4,369,732	3,830,496
Due to parent company and affiliates	37,430	783,587
Accrued property and other taxes	1,059,144	1,051,225
Accrued interest	<u>353,421</u>	<u>328,480</u>
	9,586,155	13,611,353
Deferred credits:		
Investment tax credits	1,578,079	1,704,691
Regulatory liability	869,259	912,810
Other	<u>3,480,872</u>	<u>2,946,729</u>
	5,928,210	5,564,230
Advances for construction and contributions in aid of construction:		
Advances for construction, net of accumulated amortization (\$9,977,870 in 1997 and \$9,183,893 in 1996)	23,975,599	24,879,938
Contributions in aid of construction, net of accumulated amortization (\$30,883,477 in 1997 and \$27,768,738 in 1996)	70,873,993	67,117,553
	<u>\$180,716,827</u>	<u>\$180,306,991</u>

See accompanying notes.

Avatar Utilities Inc. and Subsidiaries

Consolidated Statements of Income

	Year ended December 31		
	1997	1996	1995
Operating revenues	\$32,860,223	\$31,448,263	\$29,062,348
Operating expenses:			
Operation and maintenance	17,607,487	17,100,879	16,569,692
Depreciation and amortization	4,003,256	3,824,317	3,520,991
Property and other taxes	3,016,129	2,855,494	2,624,906
	<u>24,626,872</u>	<u>23,780,690</u>	<u>22,715,589</u>
Operating income	8,233,351	7,667,573	6,346,759
Other income (expense):			
Allowance for funds used during construction	30,058	264,524	542,952
Litigation expense	-	(850,000)	(1,250,000)
Other	207,479	205,644	(37,518)
	<u>237,537</u>	<u>(379,832)</u>	<u>(744,566)</u>
Income before interest and income taxes	8,470,888	7,287,741	5,602,193
Interest charges:			
Interest	3,335,658	3,415,613	3,462,970
Amortization of debt expense	129,668	136,470	111,288
Minority interest and preferred dividends requirements of subsidiary	680,723	813,586	811,208
	<u>4,146,049</u>	<u>4,365,669</u>	<u>4,385,466</u>
Income before income taxes	4,324,839	2,922,072	1,216,727
Provision for income taxes	1,625,400	1,225,000	626,000
Net income	<u>\$ 2,699,439</u>	<u>\$ 1,697,072</u>	<u>\$ 590,727</u>

See accompanying notes.

Avatar Utilities Inc. and Subsidiaries

Consolidated Statements of Common Stockholder's Equity

	Common Stock	Paid-In Capital	Retained Earnings	Common Stockholder's Equity
Balance at January 1, 1995	\$9,050,000	\$7,233,680	\$7,514,320	\$23,798,000
Net income	-	-	590,727	590,727
Less: Dividends on common stock	-	-	300,000	300,000
Balance at December 31, 1995	9,050,000	7,233,680	7,805,047	24,088,727
Net income	-	-	1,697,072	1,697,072
Less: Dividends on common stock	-	-	250,000	250,000
Balance at December 31, 1996	9,050,000	7,233,680	9,252,119	25,535,799
Net income	-	-	2,699,439	2,699,439
Less: Dividends on common stock	-	-	600,000	600,000
Balance at December 31, 1997	<u>\$9,050,000</u>	<u>\$7,233,680</u>	<u>\$11,351,558</u>	<u>\$27,635,238</u>

See accompanying notes.

Avatar Utilities Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year ended December 31		
	1997	1996	1995
Operating activities			
Net income	\$ 2,699,439	\$ 1,697,072	\$ 590,727
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,003,256	3,824,317	3,520,991
Deferred income taxes	677,900	(879,000)	(2,217,000)
Allowance for funds prudently invested	1,022,188	918,505	908,356
Taxes received on contributions in aid of construction	-	366,422	1,361,041
Changes in operating assets and liabilities:			
Receivables and unbilled revenues	331,893	(133,466)	(453,364)
Other current assets	541,074	(478,277)	13,349
Current liabilities, excluding financing activities	(588,123)	591,686	602,588
Other	218,525	(442,293)	356,248
Net cash provided by operating activities	<u>8,906,152</u>	<u>5,464,966</u>	<u>4,533,436</u>
Investing activities			
Additions to plant property	(6,348,874)	(6,222,432)	(11,704,009)
Net cash used in investing activities	<u>(6,348,874)</u>	<u>(6,222,432)</u>	<u>(11,704,009)</u>
Financing activities			
Proceeds from issuance of long-term debt	3,250,000	-	18,000,000
Increase (decrease) in notes payable—bank	(2,917,739)	1,375,000	(3,750,000)
Repayment of long-term debt	(3,267,564)	(2,386,843)	(9,230,634)
Advances and contributions in aid of construction, net	2,427,478	2,017,114	1,996,985
Common dividends	(600,000)	(250,000)	(300,000)
Dividends paid to minority interest	(1,503)	-	-
Preferred stock redemption	(1,800,000)	-	-
Net cash provided (used) by financing activities	<u>(2,909,328)</u>	<u>755,271</u>	<u>6,666,351</u>
Net increase (decrease) in cash and equivalents	(352,050)	(2,195)	(349,222)
Cash and equivalents at beginning of year	637,911	640,106	989,328
Cash and equivalents at end of year	<u>\$ 285,861</u>	<u>\$ 637,911</u>	<u>\$ 640,106</u>
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	<u>\$ 3,227,845</u>	<u>\$ 3,110,972</u>	<u>\$ 2,973,688</u>
Income taxes, including amounts paid on taxable advances and contributions	<u>\$ 1,980,916</u>	<u>\$ 1,406,162</u>	<u>\$ 2,371,159</u>
Supplemental schedule of noncash investing and financing activities			
Property contributed	<u>\$ 5,179,798</u>	<u>\$ 3,765,841</u>	<u>\$ 3,910,098</u>

See accompanying notes.

Avatar Utilities Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 1997

1. Summary of Significant Accounting and Reporting Policies

Avatar Utilities Inc. (the Company) is a subsidiary of Avatar Holdings Inc. (Avatar). The consolidated financial statements include the Company and its wholly-owned subsidiaries, Consolidated Water Company (Consolidated), Poinciana Utilities Inc. (Poinciana), Barefoot Bay Propane Gas Company and Avatar Utility Services, Inc. (AUSI). Consolidated has a subsidiary, FCWC Holdings Inc. (Holdings) which has a subsidiary, Florida Cities Water Company (Florida Cities). The principle utility operating companies, Florida Cities and Poinciana are engaged in the regulated business of water and wastewater services in Central and Southwest Florida. AUSI provides data processing services (customer billing, bill printing/mailing, accounts receivable, general ledger, and payroll) for all AUT operating subsidiaries as well as non-affiliated companies. AUSI provides meter reading services for certain divisions of Florida Cities and non-affiliated utility entities. AUSI also provides water and wastewater systems operation and maintenance to non-affiliated utility entities. All significant intercompany balances and transactions have been eliminated in consolidation.

The accounting and reporting policies of Florida Cities and Poinciana are subject to regulation by the Florida Public Service Commission (FPSC) and various county regulatory authorities. Accounting records are maintained in accordance with the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners.

Utility Plant

Utility plant is stated at original cost when first constructed or purchased for public utility purposes. Indirect costs capitalized during construction include an allowance for funds used during construction (AFUDC) and various labor-related expenditures. AFUDC represents the estimated costs of funds used to finance the construction of utility plant. AFUDC is applied to construction projects requiring more than three months to complete and where the estimated cost of the project exceeds \$50,000.

The cost of additions to utility plant and replacements of retirement units are capitalized. The cost of depreciable property retired or replaced, plus removal cost, less salvage, is charged to accumulated depreciation. Maintenance and repairs of property is charged to operating expenses.

Depreciation of utility plant for financial statement purposes is computed on the straight-line method at rates based on the estimated useful lives of the assets as directed by the various regulatory authorities.

1. Summary of Significant Accounting and Reporting Policies (continued)

Excess of Cost over Equity in Net Assets Acquired

The excess of cost is amortized on a straight-line basis over forty years.

Cash and Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Unamortized Debt Expense

Debt expense is amortized over the terms of the related debt and preferred stock issues.

Unamortized Rate Case Expense

Rate case expenses are deferred until the regulatory authority rules upon the application for a rate increase at which time they are amortized over the period approved by the regulatory authority.

Advances for Construction

Advances for the construction of main extensions are refundable to real estate developers within the terms of the contracts in which the advances are accepted. Balances which are not refundable at the end of the contract period are credited to contributions in aid of construction. Advances for construction are amortized to the extent permitted by the FPSC.

Contributions in Aid of Construction

Contributions in aid of construction (CIAC) include contributions from customers, real estate developers or home builders to fund construction (primarily main extensions) and the portion of advances for construction which becomes non-refundable. CIAC is amortized to the extent permitted by the appropriate regulatory authorities.

Revenue

Revenue consists of billings to customers for water and wastewater service. Billings are included in revenue as meters are read on a cycle basis throughout each month. Unbilled revenues are accrued based on estimated consumption since the last billing.

1. Summary of Significant Accounting and Reporting Policies (continued)

Income Taxes

The Company is a member of a consolidated group for federal income tax purposes. Income taxes are calculated on a separate return basis. Current taxes are paid to the parent company. The Company follows the practice of deferring investment tax credits for financial reporting purposes and amortizing them over thirty-five years.

The liability method is used in accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Related Party Transactions

The Company's parent and affiliates charge the Company for certain general and administrative expenses representing managerial, financial, legal, and other services. Total expenses allocated annually to the Company during the years ended December 31, 1997, 1996 and 1995 was approximately \$100,000.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The estimated fair value of the Company's long-term debt is determined using discounted cash flow analysis based on the Company's current incremental financing rate for similar types of securities. The carrying amount of long-term debt was \$37,784,167 and \$37,801,731 at December 31, 1997 and 1996, respectively; and the fair value was \$38,507,650 and \$38,695,000 at December 31, 1997 and 1996, respectively.

The carrying amounts of cash and equivalents, accounts receivable, notes payable-bank and redeemable preferred stock, approximate fair value.

Reclassification

Certain prior year amounts have been reclassified to conform to current year's presentation.

2. Allowance for Funds Prudently Invested

The FPSC authorized Florida Cities' Fort Myers water and wastewater divisions to recognize an allowance for funds prudently invested (AFPI) related to excess plant capacity. Facilities were planned and constructed so as to absorb future population growth in the service area. The FPSC's orders specify that the AFPI (which is designed to provide for the full cost of carrying the excess plant including rate of return, depreciation, income taxes, property taxes and regulatory assessment fees) be passed on to new customers in the form of a one-time fee. At December 31, 1997, AFPI totaled \$6,147,000, of which \$372,000 was included in prepaid expenses and other current assets and \$5,775,000 was included in deferred charges. At December 31, 1996, AFPI totaled \$7,169,000 of which \$372,000 was included in prepaid expenses and other current assets and \$6,797,000 was included in deferred charges. Management believes that all recognized amounts attributable to funds prudently invested will be recoverable in the normal course of operations.

3. Preferred Stock

Holdings has 72,000 outstanding shares of 9% Cumulative Preferred Stock, \$0.01 par value, non-voting, with a liquidation value of \$100 per share. Pursuant to the annual redemption requirements of the preferred stock, 18,000 shares per year will be retired, at the liquidation value, in the years 1997 through 2001. Holdings has the option to redeem an additional 18,000 shares, at the liquidation value, in the year 2000.

4. Long-Term Debt

Long-term debt at December 31 is as follows:

	1997	1996
First mortgage bonds		
8.500% Series I, due 2002	\$ 2,730,000	\$ 3,275,000
9.190% Series J, due 2006	5,666,667	6,333,333
7.790% Series K, due 2007	5,545,500	6,000,000
Senior notes 7.27%, due 2010	18,000,000	18,000,000
8.65% note, due 2002	2,592,000	3,110,000
Bank mortgage note, due 2004	3,250,000	1,083,398
	<u>37,784,167</u>	<u>37,801,731</u>
Less current maturities	2,334,167	3,267,565
	<u>\$35,450,000</u>	<u>\$34,534,166</u>

The first mortgage bonds and bank mortgage note are collateralized by substantially all plant property. Sinking fund requirements and installments of long-term debt are as follows: 1998—\$2,334,167; 1999—\$2,484,167; 2000—\$4,120,467; 2001—\$4,120,467; 2002—\$4,120,467; 2003-2007—\$15,687,832; 2008-2010—\$4,909,600.

Under the Company's debt arrangements, the payment of cash dividends and certain other distributions are restricted.

5. Lines of Credit

At December 31, 1997, the Company had available a lines of credit arrangements with a bank expiring June 30, 2000, at the bank's prime rate or lower rate quoted by the bank, which provides for maximum borrowings of \$15,000,000. Under the terms of the line of credit, no compensating balances are required. A commitment fee is required equal to an annual rate of 1/4 of 1% of the unused line. At December 31, 1997, borrowings were \$1,432,261 at 6.97%. At December 31, 1996, borrowings were \$1,500,000 at an average interest rate of 6.75%

6. Income Taxes

The provision (credit) for income taxes consists of the following components:

	1997	1996	1995
Federal income taxes:			
Current	\$809,000	\$1,797,000	\$ 2,426,000
Deferred	557,900	(773,000)	(1,909,000)
State income taxes:			
Current	138,500	307,000	417,000
Deferred	120,000	(106,000)	(308,000)
	<u>\$1,625,400</u>	<u>\$1,225,000</u>	<u>\$ 626,000</u>

Deferred income taxes consist of the following components:

	1997	1996	1995
Depreciation	\$ 612,000	\$ 435,000	\$ 664,000
CIAC	149,000	(1,474,000)	(2,740,000)
Investment tax credits	(86,000)	(88,000)	(88,000)
AFPI	(385,000)	(346,000)	(309,000)
Amortization of company paid			
CIAC tax	339,000	321,000	248,000
Post-retirement benefits	(180,000)	(194,000)	(221,000)
Other	228,900	467,000	229,000
	<u>\$ 677,900</u>	<u>\$ (879,000)</u>	<u>\$(2,217,000)</u>

6. Income Taxes (continued)

Federal income taxes computed by applying the statutory federal income tax rate are reconciled to the provision for income taxes as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Computed taxes at the statutory rate of 34%	\$1,470,000	\$ 994,000	\$ 414,000
Tax effect of:			
Amortization of customer funded CIAC tax	(300,000)	(282,000)	(189,000)
Preferred dividends	230,000	275,000	275,000
Amortization of investment tax credits	(86,000)	(88,000)	(88,000)
State income taxes	171,000	133,000	55,000
Miscellaneous	140,400	193,000	159,000
	<u>\$1,625,400</u>	<u>\$1,225,000</u>	<u>\$ 626,000</u>
Provision for income taxes			

The components of deferred income tax assets and liabilities as of December 31 are as follows:

	<u>1997</u>	<u>1996</u>
Deferred income tax assets:		
Advances and contributions	\$ 14,559,000	\$ 15,627,000
Unamortized ITC	951,000	1,004,000
Other	581,000	524,000
	<u>16,091,000</u>	<u>17,155,000</u>
Deferred income tax liabilities:		
Utility plant	10,224,000	9,677,000
Allowance for funds prudently invested	2,186,000	2,549,000
Other	406,000	420,000
	<u>12,816,000</u>	<u>12,646,000</u>
	<u>\$ 3,275,000</u>	<u>\$ 4,509,000</u>

As indicated in Note 1, the Company is a member of a consolidated group for federal and state income tax purposes, and accordingly, current taxes are paid to the parent company. At December 31, 1997 and 1996, approximately (\$288,051) and \$296,583, respectively, of taxes due to (from) the parent are included in due to parent company and affiliates.

7. Pension Plan

The Company has a non-contributory defined benefit pension plan covering substantially all employees of the Company. The benefits are based on years of service and the employee's average compensation during the last five highest years of earnings. The funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974. The actuarial present value of benefit obligations and funded status as of December 31 are as follows:

	<u>1997</u>	<u>1996</u>
Actuarial present value of accumulated benefit obligation, including vested benefits of \$3,832,000 in 1997 and \$3,288,000 in 1996	<u>\$ 3,942,000</u>	<u>\$ 3,367,000</u>
Projected benefit obligation	<u>\$ 4,574,000</u>	<u>\$ 3,885,000</u>
Plan assets at fair value	<u>4,604,000</u>	<u>(4,060,000)</u>
Projected benefit obligation in excess of plan assets	(30,000)	(175,000)
Unrecognized net gain	271,000	515,000
Unrecognized prior service cost	(315,000)	(362,000)
Unrecognized net asset at January 1, 1986, net of amortization	<u>43,000</u>	<u>58,000</u>
Accrued pension cost	<u>\$ (31,000)</u>	<u>\$ 36,000</u>

Accrued pension cost is included in accounts payable and other current liabilities.

Net periodic pension cost consists of the following components:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Service cost—benefits earned during the period	<u>\$ 204,000</u>	<u>\$ 204,000</u>	<u>\$ 190,000</u>
Interest cost on projected benefit obligation	307,000	284,000	250,000
Actual return on plan assets	(423,000)	(406,000)	(495,000)
Net amortization and deferral and other	<u>122,000</u>	<u>139,000</u>	<u>245,000</u>
	<u>\$ 210,000</u>	<u>\$ 221,000</u>	<u>\$ 190,000</u>

The actuarial assumptions used in determining the present value of the projected benefit obligation were: discount rate, 7-1/2% in 1997, 1996 and 1995, salary increase, 5% in 1997, 1996 and 1995, and asset rate of return, 8% in 1997, 1996 and 1995. Plan assets are invested with a major insurance company in its general asset fund, which is comprised primarily of fixed income securities, and a separate account, which is comprised of equity securities, public bonds and cash equivalents.

8. Postretirement Benefits

The Company provides medical and life insurance benefits to retired employees. Participants contribute a portion of such benefits. The Company records the cost of post-retirement benefits during the employee's years of active service. The Company's funding policy for this cost is on a pay-as-you-go basis.

The plan's funded status and the related accrual of December 31 are as follows:

	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	\$ 729,000	\$ 882,000
Fully eligible active plan participants	593,000	496,000
Other active plan participants	1,586,000	1,460,000
	<u>2,908,000</u>	<u>2,838,000</u>
Plan assets	-	-
Accumulated benefit obligation in excess of plan assets	2,908,000	2,838,000
Unrecognized net gain	2,320,000	2,281,000
Unrecognized transition obligation	(2,489,000)	(2,645,000)
Accrued postretirement benefit cost	<u>\$ 2,739,000</u>	<u>\$ 2,474,000</u>

Accrued postretirement benefit cost is included in other deferred credits.

Net periodic postretirement benefit cost consists of the following components:

	1997	1996	1995
Service cost	\$170,000	\$244,000	\$273,000
Interest cost on benefit obligation	205,000	277,000	283,000
Amortization of transition obligation and gains and losses	(62,000)	67,000	120,000
	<u>\$313,000</u>	<u>\$588,000</u>	<u>\$676,000</u>

The accumulated postretirement benefit obligation is calculated utilizing the following assumptions: discount rate of 7.5% for 1997, 1996, and 1995; medical inflation rates of 10% for 1997 reducing to 6% by 2000; termination rates calculations used the Crocker-Sarason Straight T-8 tables for the December 31, 1997 and 1996 calculations, the T-6 table was used for the December 31, 1995 calculation. This change in termination rates decreased the net periodic benefit cost beginning in 1997. The effect of a 1% increase in the assumed medical inflation rate would be to increase the accumulated postretirement benefit obligation and the service and interest cost components of 1997 net periodic postretirement benefit cost by \$483,000 and \$74,000, respectively.

9. Commitments

The Company and its subsidiaries accounts for leases on the same basis as that used by the respective regulatory authorities in the rate-making process, which determines the revenues utilized to recover the lease costs. The Company and its subsidiaries leases certain office space and transportation equipment under leases expiring through 2000. Total rent expense was \$362,000 for 1997, \$309,000 for 1996 and \$315,000 for 1995. Minimum rental commitments for non-cancelable operating leases in effect at December 31, 1997 are as follows: 1998—\$218,000 1999—\$180,000, 2000—\$58,000; Total—\$456,000. At December 31, 1997, the Company had outstanding commitments of approximately \$1,219,000 for the construction of utility plant.

10. Contingencies

On October 1, 1993, the United States, on behalf of the U.S. Environmental Protection Agency, filed a civil action against the Company in the U.S. District Court for the Middle District of Florida, *United States v. Florida Cities Water Company*, Civil Action No. 93-281-CIV-FTM-21, alleging that the Company's wastewater treatment plant in North Ft. Myers operated in violation of the Federal Clean Water Act ("Act"), 33 U.S.C. § 1251 *et seq.* On May 5 and June 26, 1995, the United States amended its complaint to include allegations against the Company for violations of the Act at two other wastewater treatment plants located in Brevard County and in Hillsborough County. A trial was held in March and April, 1996. On August 20, 1996, the Court issued its final judgment, incorporating earlier rulings. The Court found the Company not liable on certain of the government's claims, but liable on other claims, and awarded the government \$309,710 in civil penalties against the Company. On October 18, 1996, the government filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In June of 1997, the parties filed a joint motion to dismiss all related appeals with prejudice. On August 6, 1997 this motion was granted by the appeals court. The civil penalties have been paid by the Company, and, accordingly, this case is now concluded.

In May 1995, a wastewater rate increase was filed for the North Ft. Myers Division. In November 1995, the FPSC issued an Order authorizing a rate increase of approximately 18% (an annualized revenue increase of approximately \$378,000). That Order was challenged by the Florida Office of Public Counsel (the customer advocate) and certain customers.

Following the challenge, the Company requested implementation of the rates in that Order which was granted by the FPSC in January 1996. The FPSC held a rate hearing in April 1996. In September 1996, the FPSC issued a new Order authorizing final rates which are approximately 5% lower than rates in effect prior to the rate increase filing. The Company filed an appeal with the District Court of Appeal of Florida, First District (DCA) regarding the FPSC final rates. On, January 12, 1998, the DCA reversed and remanded to the FPSC the September Order. The DCA ruled that the FPSC had departed from the essential requirements of the law. The rates implemented in January 1996 are reflected in the financial statements and will remain in effect, subject to refund plus interest, pending the ultimate outcome of this matter. The Company believes that there is a reasonable basis to prevail.

EXHIBIT G
Funding Sources

Re: Application for Original Water and Wastewater Certificates for Ocala Springs Utilities Inc. (OSUI) in Marion County

Funding during the early stages of development of Ocala Springs Utilities Inc. will be provided by API, the developer of Ocala Springs. See Exhibit E.

Separate financial statements for API, a wholly-owned subsidiary of Avatar Holdings Inc., are not available. However, the audited financial statements for Avatar Holdings Inc. are at Attachment 1 hereto.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Stockholders and Board of Directors
Avatar Holdings Inc.

We have audited the accompanying consolidated balance sheets of Avatar Holdings Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the index at Item 14. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avatar Holdings Inc. and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

ERNST & YOUNG LLP

Miami, Florida
March 13, 1998

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands)

	December 31 1997	December 31 1996
<u>Assets</u>		
Cash and cash equivalents	\$4,085	\$6,463
Restricted cash	4,690	1,583
Investments – trading	-	4,535
Contracts and mortgage notes receivables, net	24,319	38,200
Other receivables, net	6,186	7,066
Land and other inventories	161,161	162,204
Property, plant and equipment, net	188,602	186,373
Other assets	19,448	12,915
Regulatory assets	3,318	3,763
Assets of discontinued operations	27,559	20,072
	\$439,368	\$443,185
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities</u>		
Notes, mortgage notes and other debt:		
Corporate	\$44,506	\$33,143
Notes, collateralized by contracts and mortgage notes receivable	23,566	36,030
Real estate	39,163	27,462
Utilities	39,216	42,152
Estimated development liability for sold land	8,697	8,459
Accounts payable	6,081	7,116
Accrued and other liabilities	36,918	30,842
Deferred customer betterment fees	18,667	18,430
Minority interest in consolidated subsidiaries	7,268	9,064
Liabilities of discontinued operations	18,662	11,785
	242,744	224,483
Total Liabilities		
Commitments and contingent liabilities		
Contributions in aid of construction	61,582	59,245
<u>Stockholders' Equity</u>		
Common Stock, par value \$1 per share		
Authorized: 15,500,000 shares		
Issued: 9,170,102 shares in 1997; 12,715,448 shares in 1996	9,170	12,715
Additional paid-in capital	151,422	207,271
(Deficit) retained earnings	(25,550)	1,439
	135,042	221,425
Treasury stock, at cost: 0 shares in 1997; 3,620,346 shares in 1996	-	61,973
	135,042	159,452
Total Stockholders' Equity		
	\$439,368	\$443,185

See notes to consolidated financial statements.

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollars in thousands except per-share amounts)

	For the year ended December 31		
	1997	1996	1995
Revenues			
Real estate sales	\$84,855	\$93,510	\$48,217
Deferred gross profit on homesite sales	3,998	2,639	(720)
Utilities revenues	34,293	32,749	29,669
Interest income	5,200	7,346	9,427
Trading account profit, net	71	2,210	6,912
Other	667	2,405	663
Total revenues	129,084	141,359	94,168
Expenses			
Real estate expenses	93,559	90,475	58,626
Real estate inventory write-down	14,667	1,464	-
Utilities expenses	25,627	25,505	24,923
General and administrative expenses	8,756	8,784	9,210
Interest expense	12,668	12,053	11,518
Other	681	814	811
Total expenses	155,958	139,095	105,088
(Loss) income from continuing operations	(26,874)	2,264	(10,920)
Discontinued operations:			
(Loss) income from operations, less income tax expense of \$0	(115)	(1,224)	581
Net (loss) income	(\$26,989)	\$1,040	(\$10,339)
Basic and Diluted EPS:			
(Loss) income from continuing operations	(\$2.95)	\$0.25	(\$1.20)
(Loss) income from discontinued operations	(\$0.01)	(\$0.14)	\$0.06
Net (loss) income	(\$2.96)	\$0.11	(\$1.14)

See notes to consolidated financial statements.

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Dollars in thousands)

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>(Deficit) Retained Earnings</u>	<u>Treasury Stock</u>
Balance at January 1, 1995	\$12,715	\$207,271	\$10,738	\$61,973
Net loss	-	-	(10,339)	-
Balance at December 31, 1995	<u>12,715</u>	<u>207,271</u>	<u>399</u>	<u>61,973</u>
Net income	-	-	1,040	-
Balance at December 31, 1996	12,715	207,271	1,439	61,973
Issuance of common stock	75	2,503	-	-
Retirement of treasury stock	(3,620)	(58,352)	-	(61,973)
Net loss	<u>-</u>	<u>-</u>	<u>(26,989)</u>	<u>-</u>
Balance at December 31, 1997	<u>\$9,170</u>	<u>\$151,422</u>	<u>(\$25,550)</u>	<u>\$ -</u>

There are 5,000,000 authorized shares of preferred stock, none of which are issued.

See notes to consolidated financial statements.

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)

	For the year ended December 31		
	1997	1996	1995
<u>OPERATING ACTIVITIES</u>			
Net (loss) income	(\$26,989)	\$1,040	(\$10,339)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	11,520	10,278	9,654
Deferred gross profit	(3,998)	(2,639)	720
Cost of homesite sales not requiring cash	3,004	3,956	3,590
Inventory writedown	14,667	1,464	-
Trading account profit, net	(71)	(2,210)	(6,912)
Changes in operating assets and liabilities:			
Restricted cash	(3,107)	420	(731)
Investments – trading	4,606	45,554	11,000
Principal payments on contracts receivable	14,435	14,391	17,571
Receivables	3,444	1,616	(6,560)
Other receivables	880	(362)	(1,174)
Inventories	(16,390)	(27,291)	(34,711)
Other assets	(6,532)	884	2,591
Accounts payable and accrued and other liabilities	8,307	(2,766)	4,228
Assets/liabilities of discontinued operations	(610)	(1,974)	(3,622)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,166	42,361	(14,695)
<u>INVESTING ACTIVITIES</u>			
Investment in property, plant and equipment	(11,407)	(11,465)	(13,473)
NET CASH USED IN INVESTING ACTIVITIES	(11,407)	(11,465)	(13,473)
<u>FINANCING ACTIVITIES</u>			
Net proceeds from revolving lines of credit and long-term borrowings	62,183	73,931	68,348
Principal payments on revolving lines of credit and long-term borrowings	(54,520)	(100,800)	(42,122)
Redemption of preferred stock of subsidiary	(1,800)	-	-
Purchase of 9% debentures	-	-	(387)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,863	(26,869)	25,839
(DECREASE) INCREASE IN CASH	(2,378)	4,027	(2,329)
Cash and cash equivalents at beginning of year	6,463	2,436	4,765
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$4,085	\$6,463	\$2,436

AVATAR HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows -- continued
(Dollars in thousands)

	For the year ended December 31		
	1997	1996	1995
<u>SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES</u>			
Contributions in aid of construction	<u>\$5,250</u>	<u>\$5,584</u>	<u>\$5,000</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>			
Cash paid during the period for:			
Interest - Continuing operations (net of amount capitalized of \$2,927, \$3,573 and \$3,234 in 1997, 1996 and 1995, respectively)	<u>\$9,756</u>	<u>\$9,336</u>	<u>\$10,899</u>
Interest - Discontinued operations (net of amount capitalized of \$272, \$430 and \$0 in 1997, 1996 and 1995, respectively)	<u>\$1,041</u>	<u>\$473</u>	<u>\$221</u>

See notes to consolidated financial statements.

AVATAR HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997
(Dollars in thousands except per-share data)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

The consolidated financial statements include Avatar Holdings Inc. and its subsidiaries ("Avatar"). All significant intercompany accounts and transactions have been eliminated in consolidation.

General:

Avatar is principally engaged in the business of developing and selling single and multifamily residential housing, active adult communities, improved and unimproved real estate, and providing water and wastewater utilities services.

Cash and Cash Equivalents and Restricted Cash:

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Due to the short maturity period of the cash equivalents, the carrying amount of these instruments approximates their fair values. Restricted cash includes deposits of \$4,690 and \$1,583 as of December 31, 1997 and 1996, respectively. These balances are comprised of housing deposits that will become available to the Company when the housing contracts close and utilities deposits from water utilities customers.

Land Inventories:

Land inventories are stated at the lower of cost or estimated net realizable value. Cost includes expenditures for acquisition, construction, development and carrying charges. Interest costs incurred during the period of land development, when applicable, are capitalized as part of the cost of such projects. Land acquisition costs are allocated to individual land parcels based upon the relationship that the estimated sales prices of specific parcels bear to the total sales price of the entire community. Construction and development costs are added to the value of the specific parcels for which the costs are incurred.

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted Statement 121 in the first quarter of 1996, and there was no material impact on the Company's operations or financial position. Reference is made to Note E for a discussion regarding impairment of real estate inventory.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Revenues:

Sales of housing units are recognized in full upon the transfer of title to a purchaser. Revenues from commercial land and bulk land sales are recognized in full at closing, provided the purchaser's initial investment is adequate, all financing is considered collectible and Avatar is not obligated to perform significant future activities.

The Company uses the installment method of profit recognition for sales of homesites, the accrual method of profit recognition for sales of completed vacation ownership intervals, and the percentage of completion method for sales of those vacation ownership intervals that are under construction. Under the installment method, the gross profit on recorded sales is deferred and recognized in income of future periods as principal payments on related contracts are received, and deferred profit is included in the balance sheet, as a reduction of contracts receivable, until recognized. Under the percentage of completion method, the gross profit on recorded sales is recognized based upon the percentage of construction completed.

Utilities revenues are recorded as the service is provided.

Property, Plant and Equipment:

Property, plant and equipment are stated at cost and depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Depreciation, maintenance and operating expenses of equipment utilized in the development of land are capitalized as land inventory cost.

Income Taxes:

Income taxes have been provided using the liability method in accordance with FASB Statement No. 109, "Accounting for Income Taxes." Under Statement No. 109, the liability method is used in accounting for income taxes where deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse.

The cumulative effect of adopting Statement No. 109 for Avatar's utilities subsidiaries was not credited or charged to net income, but was recorded as a regulatory liability or regulatory asset in accordance with accounting procedures applicable to regulated enterprises. The regulatory liabilities and regulatory assets will generally be amortized to income or expense over the useful lives of the utilities systems and reflect probable future revenue reductions or increases from ratepayers.

Deferred Customer Betterment Fees:

Amounts collected from customers for utilities improvements are classified as "Deferred Customer Betterment Fees." These fees will be reclassified to "Contributions in Aid of Construction" when service to the customer begins.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Contributions in Aid of Construction:

Advances from real estate developers and other direct contributions to utilities subsidiaries for plant construction are recorded as "Contributions in Aid of Construction." To the extent required by regulatory agencies, the account balance is amortized over the depreciable life of the utilities plant as an offset to depreciation expense.

Investments:

The Company classified its entire investment portfolio as trading. This category is defined as including debt and marketable equity securities held for resale in anticipation of earning profits from short-term movements in market prices. Trading account securities were carried at fair value that was \$0 at December 31, 1997 and \$4,535 at December 31, 1996.

Stock Options:

In October 1995, the FASB issued Statement No. 123, "Accounting for Stock-Based Compensation." Statement No. 123 allows companies to measure compensation cost in connection with employee stock compensation plans using a fair value based method or to use an intrinsic value based method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options and has added the expanded disclosure in Note N to comply with Statement No. 123.

Postretirement Benefits:

The Company accrues postretirement benefits (such as health care benefits) during the years an employee provides services. These benefits for retirees are currently provided only to the employees of the Company's utilities subsidiaries.

Advertising Costs:

Advertising costs are expensed as incurred. For the years ended December 31, 1997, 1996 and 1995, advertising costs totaled \$3,749, \$3,758 and \$3,265, respectively.

Earnings Per Share:

Earnings per share is computed based on the weighted average number of shares outstanding of 9,113,595 for 1997 and 9,095,102 for both 1996 and 1995. In computing earnings per share for 1997, the conversion of the employee stock options was not assumed, as the effect would be antidilutive. There is no difference between basic and diluted earnings per share for 1997, 1996 and 1995.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Use of Estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results, however, could differ from those estimates.

Impact of Recently Issued Accounting Standards:

In June 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income." Statement No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. Statement No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Statement No. 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Statement No. 130, which is effective for fiscal years beginning after December 15, 1997, will have no impact on the Company's consolidated results of operations, financial position or cash flows.

In June 1997, the FASB issued Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information." Statement No. 131 establishes standards for the reporting of financial information from the operating segments in annual and interim financial statements issued to shareholders. Statement No. 131 also establishes standards for related disclosures with respect to products and services, geographic areas of operations, and major customers. Statement No. 131, which is effective for fiscal years beginning after December 15, 1997, will have no impact on the Company's consolidated results of operations, financial position or cash flows. However, Statement No. 131 may affect reported segments and the Company is reviewing this matter.

Acquisitions:

In accordance with the Company's plan to develop active adult communities at various properties, the Company acquired, on October 3, 1997, key executives, systems and software from Hilcoast Development Corp. (Hilcoast), the developers of Century Village, in exchange for 75,000 shares of Avatar common stock. This acquisition was accounted for as a purchase. Additionally, Avatar acquired an option to purchase from a direct wholly owned subsidiary of Hilcoast, all rights to use the name "Century Village", together with any trademarks or other intellectual property rights. The option is exercisable by the Company until October 3, 1998, and upon closing the purchase, the Company would be obligated to issue a number of shares of Avatar common stock having a fair market value on the day immediately preceding the closing equal to \$1,719. The excess purchase price over the estimated fair value of the acquired assets is being amortized using the straight-line method over 10 years.

In order to expand its upscale homebuilding business, the Company, on December 4, 1997, entered into an asset purchase agreement to acquire certain assets of Brookman-Fels, Jeff Ian, Inc. (Brookman-

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Fels), for an aggregate of \$3,899 payable in installments commencing February 1, 1998 and ending November 1, 2002. This acquisition was accounted for as a purchase. The excess purchase price over the estimated fair value of the acquired assets is being amortized using the straight-line method over 5 years. Brookman-Fels is a well-known regional developer of custom and semi-custom homes and single-family residential communities in South Florida.

Reclassifications:

Certain 1996 and 1995 financial statement items have been reclassified to conform to the 1997 presentations.

NOTE B - REAL ESTATE SALES

The components of real estate sales are as follows:

	<u>For the year ended December 31</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
Revenues from homebuilding activities	\$57,912	\$49,672	\$13,260
Resort revenues	13,787	16,087	14,151
Gross homesite sales *	2,552	12,387	12,561
Proceeds from sale of recreation facility	-	8,300	-
Rental, leasing, cable and other real estate operations	5,163	5,362	5,621
Commercial/industrial land sales	<u>5,441</u>	<u>1,702</u>	<u>2,624</u>
Total real estate sales	<u>\$84,855</u>	<u>\$93,510</u>	<u>\$48,217</u>

* 1996 includes \$3,714 of land sales generated by the Homebuilding Division and \$4,276 for bulk land sales.

NOTE C - INVESTMENTS

As of December 31, 1996, the Company classified its entire investment portfolio as trading. This category is defined as including debt and marketable equity securities held for resale in anticipation of earning profits from short-term movements in market prices. Trading account securities are carried at fair market value and both realized and unrealized gains and losses are included in net trading account profit. Fair values for actively traded debt securities and equity securities are based on quoted market prices on national markets. Fair values for thinly traded investment securities are generally based on prices quoted by investment brokerage companies. As of December 31, 1997, the Company had liquidated its trading account and used such funds, net of related debt, as working capital.

Avatar's investment portfolio at December 31, 1996 included corporate bonds and other bonds rated B- or above by Moody's and/or Standard and Poor's, non-rated bonds of companies which are in bankruptcy and have defaulted as to payments of principal and interest on such bonds, equity securities, money market accounts and U.S. Government and Agency securities.

NOTE C - INVESTMENTS - continued

The following table sets forth the fair values of investments:

	<u>1997</u>	<u>1996</u>
Non-rated bonds	\$ -	\$ 77
Equity securities	-	81
Other rated bonds	-	2,172
Money market accounts	-	2,205
Total market value	<u>\$ -</u>	<u>\$4,535</u>
Aggregate cost	<u>\$ -</u>	<u>\$3,975</u>

NOTE D - CONTRACTS AND MORTGAGE NOTES RECEIVABLES

Contracts and mortgage notes receivables are summarized as follows:

	<u>December 31</u>	
	<u>1997</u>	<u>1996</u>
Contracts and mortgage notes receivable	<u>\$40,478</u>	<u>\$61,534</u>
Less:		
Allowance for doubtful accounts	-	179
Market valuation reserve	43	133
Deferred gross profit	15,659	21,878
Other	457	1,144
	<u>16,159</u>	<u>23,334</u>
	<u>\$24,319</u>	<u>\$38,200</u>

Contracts and mortgage notes receivable were generated through the sale of homesites at various sales offices located throughout the northeast, midwest and west coast of the United States. A significant portion of the contracts and mortgage notes receivable at December 31, 1997 resulted from sales made to customers in the northeast.

Contracts receivable are collectible primarily over a ten year period and bear interest at rates primarily ranging from 7 1/2% to 12% per annum (weighted average rate 9.9%). The Company generally requires that customers pledge the homesites as collateral for contracts and mortgages receivable and such collateral can be repossessed by the Company in the event of default. A contract receivable is considered delinquent if the scheduled installment payment remains unpaid 30 days after its due date. Delinquent principal amounts of contracts and mortgage notes receivable at December 31, 1997 and 1996 were \$5,286 or 13.1% and \$7,099 or 9.6%, respectively. Estimated maturities for the five years subsequent to 1997 are 1998 - \$12,038; 1999 - \$8,318; 2000 - \$5,326; 2001 - \$3,945; and 2002 - \$3,173.

NOTE E - LAND AND OTHER INVENTORIES

Inventories consist of the following:

	December 31	
	1997	1996
Land developed and in process of development	\$98,407	\$105,617
Land held for future development or sale	31,552	33,544
Dwelling units completed or under construction	30,334	22,270
Other	868	773
	<u>\$161,161</u>	<u>\$162,204</u>

During 1997, there were indicators of impairment present in accordance with Statement 121 and the Company recorded an impairment loss of \$14,667 to the carrying value of its Harbor Islands community. This impairment loss was due to a revision to the existing development plan in connection with the Company's new business strategy during 1997. The portion of the Harbor Islands community that the Company does not plan to develop has been valued based on an independent appraisal less the estimated cost of sale. Certain land held for future development by the Company has been valued at the estimated discounted cash flows in accordance with Statement 121 as the undiscounted cash flows were less than the carrying amount of the assets.

In 1996, the Company recorded an impairment loss of \$1,464 on a certain tract of land located at the Company's Banyan Bay site. Fair value was determined based on a purchase offer received for the land.

NOTE F - ESTIMATED DEVELOPMENT LIABILITY FOR SOLD LAND

The estimated cost to complete consists of required land and utilities improvements in all areas designated for homesite sales and are summarized as follows:

	December 31	
	1997	1996
Gross unexpended costs (net of recoveries of \$11,359 in 1997 and \$11,941 in 1996)	\$12,030	\$11,685
Less costs relating to unsold homesites	<u>3,333</u>	<u>3,226</u>
Estimated development liability for sold land	<u>\$8,697</u>	<u>\$8,459</u>

These estimates are based on engineering studies of quantities of work to be performed based on current estimated costs. These estimates are reevaluated annually and adjusted accordingly.

A major portion of the estimated development liability for sold land relates to utilities extensions for homesites at Avatar's Arizona community (Rio Rico) which were sold prior to 1980.

At Rio Rico, Avatar entered into various service and construction agreements with Citizens Utilities Company (Citizens), a non-related company, generally providing for Avatar to construct certain utilities facilities and deed them to Citizens. Avatar's expenditures, related to the construction of some of these facilities, are expected to be reimbursed from Citizens' present and future customers. Some of these reimbursable amounts are determined by specific formulas. The recovery of these expenditures is

NOTE F - ESTIMATED DEVELOPMENT LIABILITY FOR SOLD LAND - continued

dependent upon the community attaining an occupancy and/or usage level sufficient to allow reimbursement prior to the expiration of the agreements. During 1993, Avatar purchased Citizens' water and wastewater treatment division, thereby voiding the portion of the existing agreement relating to water and wastewater extensions, leaving only the electrical portion.

Avatar may be obligated to expend approximately \$7,357 (current costs) to complete water and wastewater utilities facilities at its Poinciana subdivision. These possible future obligations are based on internal engineering studies and are not included in the estimated development liability discussed above. As such, past and future expenditures are expected to be recovered from customers' fees and future revenues.

Expenditures, net of recoveries, for homesite improvement costs totaling \$12,030 are estimated as follows: 1998-\$2,000 and thereafter-\$10,030. Because the timing of the expenditures after 1998 is dependent upon certain future occurrences beyond Avatar's control, projection by year after 1998 is not presently practicable.

NOTE G - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation consist of the following:

	<u>December 31</u>	
	<u>1997</u>	<u>1996</u>
Utilities land, plant and equipment	\$242,428	\$230,600
Land and improvements	12,160	12,395
Buildings and improvements	17,821	17,941
Machinery, equipment and fixtures	13,695	13,513
Other	386	639
	<u>286,490</u>	<u>275,088</u>
Less accumulated depreciation	<u>97,888</u>	<u>88,710</u>
	<u>\$188,602</u>	<u>\$186,378</u>

Depreciation charged to operations during 1997, 1996 and 1995 was \$6,961, \$5,989 and \$5,603, respectively, net of amortization of contributions and advances in aid of construction of \$4,559, \$4,289 and \$4,051 during 1997, 1996 and 1995, respectively.

NOTE H - NOTES, MORTGAGE NOTES AND OTHER DEBT

Notes, mortgage notes and other debt are summarized as follows:

	December 31	
	1997	1996
Corporate:		
Bank credit lines	\$14,000	\$3,350
8% senior debentures, due 2000, net of unamortized discount of \$697 and \$899, respectively	6,930	6,728
9% senior debentures, due 2000, net of unamortized discount of \$1,769 and \$2,275, respectively	23,576	23,070
	<u>\$44,506</u>	<u>\$33,148</u>
Notes, collateralized by contracts and mortgage notes receivable:		
Bank credit lines	<u>\$23,566</u>	<u>\$36,030</u>
Real estate:		
Mortgage note obligations, interest rates ranging from 8.875% to 9.25%, due from 1999 - 2002	\$5,865	\$4,969
Note payable, non-interest bearing, due 1998-2002	3,899	-
Development and construction loans, due 1998-2002 interest rates ranging from 8.75% to 10.0%	29,399	22,493
	<u>\$39,163</u>	<u>\$27,462</u>
Utilities:		
Bank credit lines	\$1,432	\$4,350
Utilities first mortgage bonds due serially from 1998-2007, interest rates ranging from 7.79% to 9.19%	13,942	15,608
Utilities senior notes, 7.27%, due 2000 - 2010	18,000	18,000
Utilities promissory notes, due 1998 - 2002	5,842	4,194
	<u>\$39,216</u>	<u>\$42,152</u>

At December 31, 1997, Avatar had secured bank credit lines of \$43,566 and unsecured bank credit lines of \$15,000. The unused portions of secured and unsecured credit lines were \$6,000 and \$13,568, respectively, at December 31, 1997. The weighted average interest rate on short term borrowing at December 31, 1997 was 9.8%. Interest rates for borrowings range from 6.97% to 9.19% on the unsecured bank credit lines and from 8.75% to 10.0% on the secured bank credit lines at December 31, 1997. Additionally, certain credit lines provide for fixed rate borrowings pursuant to Eurodollar interest rates. Under the terms of these agreements, Avatar is restricted from paying dividends and is required to maintain a minimum net worth, as defined. Certain real property and contracts and mortgage notes receivable of \$32,565 at December 31, 1997 collateralize the secured lines.

NOTE H - NOTES, MORTGAGE NOTES AND OTHER DEBT - continued

During 1996, an Avatar subsidiary and Stanco Partners Ltd. entered into a joint venture agreement (the Joint Venture) and acquired Casa Del Mar (CDM), an Ormond Beach, Florida beachfront hotel. In connection with the acquisition of Casa Del Mar, the Joint Venture entered into a loan agreement with \$5,439 and \$5,674 outstanding at December 31, 1997 and 1996, respectively. The debt is guaranteed by a subsidiary of Avatar as well as the Joint Venture Partners. This Joint Venture is included in the timeshare operations, which has been classified as a discontinued operation as discussed in Note T.

Maturities of notes, mortgage notes and other debt at December 31, 1997, are as follows:

	Corporate	Notes, collateralized by contracts and mortgage notes receivable	Real Estate	Utilities	Total
1998	\$ -	\$ -	\$13,509	\$2,334	\$15,843
1999	14,000	18,340	2,255	2,484	37,079
2000	30,506	-	14,503	5,553	50,562
2001	-	5,226	2,825	4,121	12,172
2002	-	-	5,033	4,127	9,160
Thereafter	-	-	1,038	20,597	21,635
	<u>\$44,506</u>	<u>\$23,566</u>	<u>\$39,163</u>	<u>\$39,216</u>	<u>\$146,451</u>

During the first quarter of 1998, the Company repaid \$33,000 aggregate amount of 8% Senior Debentures due 2000 and 9% Senior Debentures due 2000 from the net proceeds from the issuance on February 2, 1998 of \$115,000 principal amount of 7% Convertible Subordinated Notes due 2005 (reference is made to Note U).

During the first quarter of 1998, the Company repaid \$5,226 from a real estate line secured by contracts and mortgage receivables.

Interest capitalized during 1997, 1996 and 1995 amounted to \$3,199, \$4,003 and \$3,234, respectively.

Property, plant and equipment and inventory pledged as collateral for notes, mortgage notes and other indebtedness had a net book value of approximately \$163,000 at December 31, 1997.

Included in notes, mortgage notes and other debt at December 31, 1997 is a related party \$3,899 note payable to Brookman-Fels in installments commencing February 1, 1998 and ending November 1, 2002. In connection with the acquisition of Brookman-Fels (as discussed in Note A), the Company entered into employment contracts with its three principals. In addition, pursuant to a Joint Venture Agreement in place at the time of the acquisition, the Company paid Brookman-Fels approximately \$440 and \$240 in fees and reimbursed expenses, respectively, during 1997.

NOTE I - MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES

As of December 31, 1997 and 1996, preferred stock outstanding is as follows:

	December 31	
	1997	1996
9% cumulative preferred stock	\$7,200	\$9,000
Other	68	64
	<u>\$7,268</u>	<u>\$9,064</u>

NOTE I - MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES - continued

Avatar's utilities subsidiary's 9% cumulative preferred stock issue provides for redemption of a minimum of \$1,800 of the preferred stock to be redeemed each year beginning in 1997. During 1997 \$1,800 of preferred stock was redeemed. Redemption of all outstanding shares shall occur no later than March 1, 2001. Charges to operations recorded as "Other Expenses" relating to preferred stock dividends of subsidiaries amounted to \$681 in 1997, \$814 in 1996, and \$811 in 1995.

NOTE J - RETIREMENT PLANS

Avatar has two defined contribution savings plans that cover substantially all employees. Under one of the savings plans, Avatar contributes to the plan based upon specified percentages of employees' voluntary contributions. The other savings plan does not provide for contributions by Avatar.

Avatar's non-contributory defined benefit pension plan covers substantially all employees of its subsidiary, Avatar Utilities Inc. The benefits are based on years of service and the employees' compensation during the five highest years of earnings. Avatar's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

The following table sets forth the defined benefit plan's funded status as of December 31, 1997, 1996 and 1995 and the retirement expense recognized in the consolidated statements of operations for the years then ended.

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Actuarial present value of benefit obligations:			
Accumulated benefit obligation, including vested benefits of \$3,832, \$3,288, and \$2,924, respectively	<u>\$3,942</u>	<u>\$3,367</u>	<u>\$3,025</u>
Projected benefit obligation for services rendered to date	(\$4,574)	(\$3,885)	(\$3,646)
Plan assets at fair value	<u>4,604</u>	<u>4,060</u>	<u>3,642</u>
Projected benefit obligation less than (in excess of) plan assets	30	175	(4)
Unrecognized net gain	(271)	(515)	(413)
Prior service cost not yet recognized in net periodic pension cost	315	362	409
Unrecognized net assets at January 1, 1986, net of amortization	<u>(43)</u>	<u>(58)</u>	<u>(73)</u>
Accrued pension cost included in accrued and other Liabilities	<u>\$31</u>	<u>(\$36)</u>	<u>(\$81)</u>
Net retirement cost included the following components:			
Defined benefit plan:			
Service cost - benefits earned during the period	\$204	\$204	\$190
Interest cost on projected benefit obligation	307	284	250
Actual return on plan assets	(423)	(406)	(495)
Net amortization and deferral	<u>122</u>	<u>139</u>	<u>245</u>
Net pension cost	210	221	190
Defined contribution plan	<u>125</u>	<u>122</u>	<u>117</u>
Total retirement expense	<u>\$335</u>	<u>\$343</u>	<u>\$307</u>

NOTE J - RETIREMENT PLANS -- continued

The actuarial assumptions used in determining the present value of the projected benefit obligation were: weighted average discount rate of 7.5% in 1997, 1996 and 1995, rate of increase in future compensation levels of 5% in 1997, 1996 and 1995, and expected long-term rate of return on plan assets of 8% in 1997, 1996 and 1995.

Plan assets are invested in the general asset fund of a major insurance company, which is composed primarily of fixed income securities, and a separate account, which is composed of equity securities, public bonds or cash equivalents.

NOTE K - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

A utilities subsidiary of Avatar sponsors a defined non-contributory benefit postretirement plan that provides medical and life insurance benefits to both salaried and nonsalaried employees after retirement. Participants contribute a portion of such benefits. The utilities' funding policy for its postretirement plan is to fund on a pay-as-you-go basis.

The following table sets forth the plan's status as of December 31, 1997, 1996 and 1995:

Accumulated postretirement benefit obligation:	1997	1996	1995
Retirees	(\$729)	(\$882)	(\$948)
Fully eligible active plan participants	(593)	(496)	(768)
Other active plan participants	(1,586)	(1,460)	(2,299)
	<u>(2,908)</u>	<u>(2,838)</u>	<u>(4,015)</u>
Plan assets at fair value	0	0	0
Accumulated postretirement benefit obligation in excess of plan assets	(2,908)	(2,838)	(4,015)
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	(2,320)	(2,281)	(715)
Unrecognized transition obligation	2,489	2,645	2,798
Accrued postretirement benefit cost included in accrued and other liabilities	<u>(\$2,739)</u>	<u>(\$2,474)</u>	<u>(\$1,932)</u>
Net periodic postretirement benefit cost included the following components:			
Service cost	\$170	\$244	\$273
Interest cost on accumulated postretirement benefit obligation	205	277	283
Amortization of transition obligation over 20 years	155	155	155
Other	<u>(217)</u>	<u>(88)</u>	<u>(35)</u>
Net periodic postretirement benefit cost	<u>\$313</u>	<u>\$588</u>	<u>\$676</u>

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits assumed for 1997, 1996 and 1995 was 10%, 10% and 11%, respectively; the rate of increase was assumed to decrease to 6% by the year 2000 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point each year would increase the accumulated postretirement benefit obligation as of December 31, 1997 by \$484 and the aggregate of the service and interest cost components of net periodic postretirement benefit for the year then ended by \$74.

NOTE K - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - continued

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5% for 1997, 1996 and 1995.

NOTE L - LEASE COMMITMENTS

Avatar leases the majority of its administration and sales offices under operating leases that expire at varying times through 2001. Rental expenses for the years 1997, 1996 and 1995 were \$2,089, \$1,769, and \$1,469, respectively. Minimum rental commitments under noncancelable operating leases as of December 31, 1997 were as follows: 1998 - \$2,169; 1999 - \$1,750; 2000-\$772; 2001 - \$107; 2002 -\$5.

NOTE M - ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities are summarized as follows:

	<u>December 31</u>	
	<u>1997</u>	<u>1996</u>
Property taxes	\$4,658	\$5,788
Customer deposits and advances	10,595	5,225
Interest	1,048	1,027
Other	20,617	18,802
	<u>\$36,918</u>	<u>\$30,842</u>

As of December 31, 1997, the Company had certain incentive compensation agreements providing for a cash payment (to the extent vested), within ten days following the respective fifth anniversary date (payment terms are subject to renewal agreements) of the respective agreement (or the termination date, if earlier), in an amount equal to the excess of a formula amount based upon the closing prices of Avatar common stock during a specified period prior to the respective fifth anniversary date (or termination date, if earlier) over the closing price of Avatar common stock on the date of the respective agreement. Each eligible employee will vest in the rights to this incentive compensation with respect to one-fifth thereof in each of the first through fifth anniversaries, subject to certain terms and conditions of the contracts should their employment status change prior to the fifth anniversary. For the years ended December 31, 1997, 1996 and 1995, the Company recorded incentive compensation of (\$471), (\$213) and \$39, respectively, associated with these agreements. The liability for incentive compensation included in other liabilities at December 31, 1997 and 1996 is \$351 and \$822, respectively.

NOTE N - STOCK OPTIONS

The Company's 1997 Incentive and Capital Accumulation Plan (the "Incentive Plan") was adopted by the Incentive Plan Committee, ratified by the Board of Directors on February 13, 1997 and approved by the stockholders at the Annual Meeting on May 29, 1997. The Incentive Plan makes available 425,000 shares of Avatar common stock subject to certain adjustments. On February 13, 1997 Avatar entered into a Nonqualified Stock Option Agreement (the Options) with the Company's President and granted him an option to purchase 225,000 shares of Avatar common stock at \$34 per share (such price being in the judgment of the Incentive Plan Committee not less than 100% of the Fair Market Value as defined in the Incentive Plan). The Options will become exercisable with respect to 45,000 shares on February 13, 1998 and on each February 13 thereafter through 2002, and any unexercised portion of the Options will expire on February 13, 2007.

NOTE N - STOCK OPTIONS - continued

A summary of the status of the Company's Incentive Plan as of December 31, 1997 and changes during the year ending is presented below:

	<u>Options (000's)</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at beginning of year	-	\$ -
Granted	225	34
Exercised	-	-
Forfeited	-	-
	<u>225</u>	<u>\$34</u>
Outstanding at end of year	-	-
Exercisable at end of year	-	-
Weighted-average per share fair value of options granted during the year	<u>\$16.59</u>	

The Company applies APB 25 and related interpretations in accounting for the Incentive Plan. No compensation expense was recognized in 1997 because all stock options granted have an exercise price greater than the average market value of the Company's stock on the date of grant. If the Company elected to account for the Incentive Plan under Statement No. 123, compensation cost for the Incentive Plan would be determined based on the fair value at the grant dates. The weighted average fair value of options granted during 1997 was \$16.59. The fair value of each option granted in 1997 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6.38%; expected volatility of 17.6%; dividend yields of 0.0% and expected life of 10 years.

The following table summarizes the Company's pro forma income from continuing operations, net (loss) income and earnings per share in accordance with Statement No. 123 for the year ended December 31, 1997:

	<u>As Reported</u>	<u>Pro forma</u>
Loss from continuing operations	(\$26,874)	(\$27,534)
Net loss	(\$26,989)	(\$27,649)
Basic and Diluted Per Share Data:		
Loss from continuing operations	(\$2.95)	(\$3.02)
Net loss	(\$2.96)	(\$3.03)

NOTE O - INCOME TAXES

Under the installment method of tax reporting for homesite and vacation ownership sales, Avatar anticipates that its 1997 consolidated federal income tax return will reflect a net operating loss carryforward of approximately \$52,000, which expires in years 2003 through 2012. In addition, investment tax credits and alternative minimum tax credit carryforwards of approximately \$5,000 are available, a portion of which expires in years 1998 to 2001. The Internal Revenue Service has not examined these carryforwards.

The Company has recorded a valuation allowance of \$51,000 with respect to the deferred income tax assets that remain after offset by the deferred income tax liabilities. Included in the valuation allowance for deferred income tax assets is approximately \$9,000 which, if utilized, will be credited to additional paid-in capital.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax assets and liabilities as of December 31, 1997 and 1996 are as follows:

	<u>1997</u>	<u>1996</u>
Deferred income tax assets		
Net operating loss carryover	\$20,000	\$15,000
Tax over book basis of land inventory	31,000	24,000
Unrecoverable land development costs	3,000	3,000
Tax over book basis of depreciable assets	5,000	7,000
Alternative minimum tax and investment tax credit carryforward	5,000	5,000
Other	<u>2,000</u>	<u>2,000</u>
Total deferred income taxes	66,000	56,000
Valuation allowance for deferred income tax assets	<u>(51,000)</u>	<u>(41,000)</u>
Deferred income tax assets after valuation allowance	15,000	15,000
Deferred income tax liabilities		
Book over tax income recognized on homesite sales	(2,000)	(3,000)
Book over tax income recognized on vacation ownership sales	(4,000)	(3,000)
Deferred carrying charges on utilities plants	(2,000)	(2,000)
Other	<u>(7,000)</u>	<u>(7,000)</u>
Total deferred income tax liabilities	<u>(15,000)</u>	<u>(15,000)</u>
Net deferred income taxes	<u>\$0</u>	<u>\$0</u>

NOTE O - INCOME TAXES -- continued

A reconciliation of income tax expense (credit) to the expected income tax expense (credit) at the federal statutory rate of 34% for the year ended December 31 is as follows:

	1997	1996	1995
Income tax expense (credit) computed at statutory rate	(\$9,137)	\$770	(\$3,713)
Income tax effect of non-deductible dividends on preferred stock of subsidiary	232	277	276
State income tax expense (credit), net of federal effect	(1,032)	147	(331)
Other	(63)	(194)	(132)
Change in valuation allowance on deferred tax assets	10,000	(1,000)	4,000
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

In years 1988 through 1996, the Company elected the installment method for recording a substantial amount of its homesite and vacation ownership sales in its federal income tax return, which deferred taxable income into future fiscal periods. As a result of such election, the Company may be required to pay compound interest on certain federal income taxes in future fiscal periods attributable to the taxable income deferred under the installment method. The Company believes that the potential interest amount, if any, will not be material to its financial position and results of operations of the affected future periods.

NOTE P - CONTINGENCIES

Avatar is involved in various pending litigation matters primarily arising in the normal course of its business. Although the outcome of these matters cannot be determined, management believes that the resolution of these matters will not have a material effect on Avatar's business or financial position.

On October 1, 1993, the United States, on behalf of the U.S. Environmental Protection Agency, filed a civil action against Florida Cities Water Company ("Florida Cities"), a utilities subsidiary of Avatar Holdings Inc. ("Avatar"), in the U.S. District Court for the Middle District of Florida, United States v. Florida Cities Water Company, Civil Action No. 93-281-CIV-FTM-21, alleging that Florida Cities' Waterway Estates treatment plant, located in Lee County, Florida operated in violation of the Federal Clean Water Act ("Act"), 33 U.S.C. §1251 et seq. On May 5 and June 26, 1995, the United States amended its complaint to include allegations against Florida Cities for violations of the Act at two other Florida wastewater treatment plants, Barefoot Bay, located in Brevard County, and Carrollwood, located in Hillsborough County. In addition, the government amended the complaint to include Avatar, the parent corporation, as a defendant. A trial was held in March and April 1996. On August 20, 1996, the Court issued its final judgment, incorporating earlier rulings. The Court found Avatar not liable on any of the government's claims and entered judgment in Avatar's favor. The Court found Florida Cities not liable on certain of the government's claims, but liable on other claims, and awarded the government \$310 in civil penalties against Florida Cities. On October 18, 1996, the government filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. During June 1997, the parties filed a joint motion to dismiss all related appeals with prejudice. The U.S. Court of Appeals dismissed all appeals with prejudice on August 6, 1997, and the civil penalties have been paid by Florida Cities.

NOTE Q - FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS

	For the year ended December 31		
	1997	1996	1995
Revenues:			
Real estate			
Unaffiliated customers	\$94,791	\$108,610	\$64,499
Intersegment	100	100	100
	<u>94,891</u>	<u>108,710</u>	<u>64,599</u>
Utilities			
Unaffiliated customers	34,293	32,749	29,669
	<u>34,293</u>	<u>32,749</u>	<u>29,669</u>
Elimination of intersegment revenues	(100)	(100)	(100)
Total Revenues	<u>\$129,084</u>	<u>\$141,359</u>	<u>\$94,168</u>
Operating profit:			
Real estate	(\$22,091)	\$7,987	(\$3,237)
Utilities	7,885	6,330	3,835
Total operating profit	<u>(14,206)</u>	<u>14,317</u>	<u>598</u>
Interest expense	(12,668)	(12,053)	(11,518)
(Loss) income from continuing operations	(\$26,874)	\$2,264	(\$10,920)
(Loss) income from discontinued operations	(115)	(1,224)	581
Net (loss) income	<u>(\$26,989)</u>	<u>\$1,040</u>	<u>(\$10,339)</u>
Depreciation:			
Real estate	\$2,955	\$2,180	\$2,117
Utilities	4,006	3,809	3,486
Total	<u>\$6,961</u>	<u>\$5,989</u>	<u>\$5,603</u>
Capital expenditures:			
Real estate	\$2,019	\$3,324	\$2,138
Utilities	13,947	12,336	17,382
Total	<u>\$15,966</u>	<u>\$15,660</u>	<u>\$19,520</u>
	December 31		
	1997	1996	1995
Identifiable assets:			
Real estate	\$275,485	\$252,273	\$239,459
Utilities	163,562	186,020	182,661
Total identifiable assets	<u>439,047</u>	<u>438,293</u>	<u>422,120</u>
General corporate assets	321	4,892	48,512
Total Assets	<u>\$439,368</u>	<u>\$443,185</u>	<u>\$470,632</u>

NOTE Q - FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS -- continued

- (a) Avatar's businesses are primarily conducted in the United States.
- (b) In computing operating profit, interest has been reflected separately.
- (c) Intersegment revenues contain primarily intercompany interest and management fees charged to affiliates.
- (d) Identifiable assets by segment are those assets that are used in the operations of each segment. General corporate assets are principally cash, receivables and investments.
- (e) No significant part of the business is dependent upon a single customer or group of customers.
- (f) Cable TV, mortgage and hotel and recreational operations which primarily serve Avatar communities do not qualify individually as separate reportable segments and are included in the real estate segment.
- (g) General corporate expenses are included in the real estate segment.

NOTE R- FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Company's financial instruments, all of which are held for purposes other than trading except for investments - trading at December 31, 1997 and 1996, are as follows:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$4,085	\$4,085	\$6,463	\$6,463
Restricted cash	4,690	4,690	1,583	1,583
Investments - trading	-	-	4,535	4,535
Contracts and mortgage notes receivables	24,319	23,789	38,200	39,299
Other receivables	6,186	6,186	7,066	7,066
Notes, mortgage notes and other debt:				
Corporate:				
Bank credit lines:				
Long term bank credit lines	14,000	13,837	3,350	3,350
Senior debentures	30,506	30,506	29,798	30,936
Total corporate	<u>\$44,506</u>	<u>\$44,343</u>	<u>\$33,148</u>	<u>\$34,286</u>
Notes, collateralized by contracts and mortgage notes receivable	<u>\$23,566</u>	<u>\$23,447</u>	<u>\$36,030</u>	<u>\$36,115</u>
Real estate:				
Note payable	\$3,899	\$3,118	\$ -	\$ -
Short term development and construction loans	12,344	12,344	12,323	12,371
Long term development and construction loans	22,920	23,346	15,139	24,117
Total real estate	<u>\$39,163</u>	<u>\$38,808</u>	<u>\$27,462</u>	<u>\$36,488</u>
Avatar Utilities Inc.:				
Short term bank credit lines	\$1,432	\$1,432	\$4,350	\$4,350
Mortgage obligations, first mortgage bonds, and promissory notes	37,784	35,561	37,802	35,618
Total Utilities	<u>\$39,216</u>	<u>\$36,993</u>	<u>\$42,152</u>	<u>\$39,968</u>
Discontinued Operations:				
Cash and cash equivalents	\$371	\$371	\$251	\$251
Contracts and mortgage notes receivables	\$15,197	\$14,787	\$11,057	\$10,806
Other receivables	\$691	\$691	\$221	\$221
Notes, collateralized by contracts and mortgage notes receivable	\$12,952	\$13,683	\$7,998	\$8,229
Real estate	\$4,568	\$4,771	\$2,193	\$2,239

NOTE R- FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

The Company in estimating the fair value of financial instruments used the following methods and assumptions:

Cash and cash equivalents and restricted cash: The carrying amount reported in the balance sheet for cash approximates its fair value.

Investments - trading: The carrying amount in the balance sheet for investments is at fair market value (See Note A).

Contracts and mortgage notes receivables: The fair value amounts of the Company's contracts, mortgage notes and other receivables are estimated based on a discounted cash flow analysis.

Other receivables: The carrying amount reported in the balance sheet for other receivables approximates its fair value.

Notes, mortgage notes and other debt: The carrying amounts of the Company's borrowings under its short term bank credit lines and short term development and construction loans approximate their fair value. The fair values of the Company's mortgage obligations, mortgage bonds and promissory notes are estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Senior debentures: At December 31, 1997, the carrying amount in the balance sheet for the Company's senior debentures approximates its fair value. At December 31, 1996, the fair values are estimated based on quoted market prices.

NOTE S - QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1997 and 1996 is as follows:

	1997 Quarter			
	First	Second	Third	Fourth
Net revenues	\$32,019	\$34,226	\$28,167	\$34,672
Expenses	33,876	34,689	33,132	54,261
(Loss) income from continuing operations	(1,857)	(463)	(4,965)	(19,589)
(Loss) income from discontinued operations	(130)	882	(48)	(819)
Net (loss) income	<u>(\$1,987)</u>	<u>\$419</u>	<u>(\$5,013)</u>	<u>(\$20,408)</u>
Basic and Diluted EPS:				
Net (loss) income	<u>(\$0.22)</u>	<u>\$0.05</u>	<u>(\$0.55)</u>	<u>(\$2.24)</u>
	1996 Quarter			
	First	Second	Third	Fourth
Net revenues	\$27,315	\$36,065	\$31,378	\$46,601
Expenses	27,975	36,027	32,169	42,924
(Loss) income from continuing operations	(660)	38	(791)	3,677
(Loss) income from discontinued operations	(416)	55	434	(1,297)
Net (loss) income	<u>(\$1,076)</u>	<u>\$93</u>	<u>(\$357)</u>	<u>\$2,380</u>
Basic and Diluted EPS:				
Net loss	<u>(\$0.12)</u>	<u>\$0.01</u>	<u>(\$0.04)</u>	<u>\$0.26</u>

- 1) During December 1997, the Company recorded an impairment loss of \$14,667 to the carrying value of the Harbor Islands community.
- 2) During the fourth quarter of 1997, the Company recorded \$2,000 of construction costs for houses which closed prior to the fourth quarter of 1997.

NOTE T - DISCONTINUED OPERATIONS

During 1997, the Company developed a formal plan for the disposition of its timeshare business. A letter of intent for the sale of the business was executed during the third quarter of 1997; however, negotiations were discontinued during the first quarter of 1998. Management is currently in discussion with various parties to market the sale of this operation. Accordingly, net assets and liabilities of the timeshare business have been segregated from the continuing operations in the accompanying balance sheets, and operating results are segregated and reported as discontinued operations in the accompanying consolidated statements of operations and cash flows.

Information relating to the discontinued operations for the years ended December 31, 1997, 1996 and 1995 are as follows (dollars in thousands):

	For the year ended December 31,		
	1997	1996	1995
<u>Revenues</u>			
Real estate sales	\$12,094	\$10,011	\$7,771
Interest income	1,799	972	226
Other	707	356	-
Total revenues	<u>14,600</u>	<u>11,339</u>	<u>7,997</u>
<u>Expenses</u>			
Real estate expenses	13,464	11,679	7,269
General and administrative expenses	-	-	38
Interest expense	1,251	884	109
Total expenses	<u>14,715</u>	<u>12,563</u>	<u>7,416</u>
Net (loss) income from discontinued operations	<u>(\$115)</u>	<u>(\$1,224)</u>	<u>\$581</u>

NOTE T - DISCONTINUED OPERATIONS - continued

The net assets and liabilities of the discontinued operations included in the accompanying balance sheets as of December 31, 1997 and 1996 are as follows (dollars in thousands):

	December 31, 1997	December 31, 1996
Assets		
Cash and cash equivalents	\$371	\$251
Contracts and mortgage notes receivables, net	15,197	11,057
Other receivables, net	691	221
Land and other inventories	8,903	6,007
Property, plant and equipment, net	238	237
Other assets	2,159	2,299
Total Assets	\$27,559	\$20,072
Liabilities		
Notes, mortgage notes and other debt:		
Notes, collateralized by contracts and mortgage notes receivable	\$12,952	\$7,998
Real estate	4,568	2,193
Accounts payable	694	349
Accrued and other liabilities	448	1,245
Total Liabilities	\$18,662	\$11,785

NOTE U - SUBSEQUENT EVENT

On February 2, 1998 the Company issued \$115,000 principal amount of 7% Convertible Subordinated Notes due 2005 (the "Notes"). The Notes are convertible into common stock of Avatar at the option of the holder at any time at or before maturity, unless previously redeemed, at a conversion price of \$31.80 per share. These Notes are designed to enhance the Company's liquidity resources and to give it increased operating and financial flexibility. The Notes are subordinated to all present and future senior indebtedness of Avatar and are effectively subordinated to all indebtedness and other liabilities of subsidiaries of Avatar. The net proceeds of \$111,550 after deducting expenses were used to repay \$33,000 aggregate amount of 8% Senior Debentures due 2000 and 9% Senior Debentures due 2000. The remaining proceeds will be used to implement the development of the Company's new active adult communities, to expand its homebuilding operations, to reduce higher interest rate borrowings, to provide additional working capital and for other corporate purposes.



P.S.C. DESCRIPTION
For
AVATAR PROPERTIES, Inc.

THAT PART OF SECTION 7, TOWNSHIP 14 SOUTH, RANGE 23 EAST, LYING SOUTH AND WEST OF ANTHONY-BURBANK ROAD (NE 97TH STREET ROAD), BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE SW CORNER OF SAID SECTION 7; THENCE N 00°00'42" W, ALONG THE WEST LINE OF SAID SECTION 7, 1356.70 FEET, TO THE CENTERLINE OF SAID ANTHONY-BURBANK ROAD; THENCE SOUTHEASTERLY, ALONG SAID CENTERLINE, A CHORD BEARING AND DISTANCE OF S 45°12'04" E, 194.74 FEET; THENCE CONTINUE ALONG SAID CENTERLINE, SOUTHEASTERLY, A CHORD BEARING AND DISTANCE OF S 61°26'52" E, 2506.48 FEET, TO THE SOUTH LINE OF SAID SECTION 7; THENCE S 89°28'26" W, ALONG SAID SOUTH LINE, 2339.66 FEET, TO THE POINT OF BEGINNING.

THAT PART OF THE EAST 3/4 OF SECTION 12, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LYING SOUTH AND WEST OF ANTHONY-BURBANK ROAD (NE 97TH STREET ROAD), BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS;

BEGINNING AT THE SE CORNER OF SAID SECTION 12, THENCE S 89°44'31" W, ALONG THE SOUTH LINE OF SAID SECTION 12, 3939.66 FEET, TO THE SW CORNER OF SAID EAST 3/4 OF SECTION 12; THENCE N 00°04'57" E, ALONG THE WEST LINE OF SAID EAST 3/4, 2647.09 FEET; THENCE CONTINUE ALONG SAID WEST LINE, N 00°04'54" E, 1290.63 FEET, TO CENTERLINE OF SAID ANTHONY-BURBANK ROAD; THENCE EASTERLY, ALONG SAID CENTERLINE, A CHORD BEARING AND DISTANCE OF N 89°00'47" E, 1222.21 FEET; THENCE CONTINUE ALONG SAID CENTERLINE, SOUTHEASTERLY, A CHORD BEARING AND DISTANCE OF S 60°35'41" E, 289.66 FEET; THENCE CONTINUE ALONG SAID CENTERLINE, SOUTHEASTERLY, A CHORD BEARING AND DISTANCE OF S 45°12'04" E, 3660.59 FEET, TO THE EAST LINE OF SAID SECTION 12; THENCE S 00°00'42" E, ALONG SAID EAST LINE, 1356.70 FEET, TO THE POINT OF BEGINNING.



SECTION 18, TOWNSHIP 14 SOUTH, RANGE 23 EAST,
LESS AND EXCEPT:

BEGINNING AT NE CORNER OF SAID SECTION 18; THENCE
S 00°13'02" W, ALONG THE EAST LINE OF SAID SECTION 18, 464.79 FEET,
TO THE CENTERLINE OF ANTHONY-BURBANK ROAD; THENCE
SOUTHWESTERLY, ALONG SAID CENTERLINE, A CHORD BEARING AND
DISTANCE OF S 65°18'41" W, 378.24 FEET; THENCE CONTINUE ALONG
SAID CENTERLINE, SOUTHWESTERLY, A CHORD BEARING AND DISTANCE
OF S 76°49'44" W, 298.34 FEET; THENCE CONTINUE ALONG SAID
CENTERLINE, NORTHWESTERLY, A CHORD BEARING AND DISTANCE OF
N 84°18'56" W, 681.00 FEET; THENCE CONTINUE ALONG SAID
CENTERLINE, NORTHWESTERLY, A CHORD BEARING AND DISTANCE OF
N 62°07'46" W, 179.86 FEET; THENCE CONTINUE ALONG SAID
CENTERLINE, NORTHWESTERLY, A CHORD BEARING AND DISTANCE OF
N 84°11'10" W, 769.59 FEET; THENCE CONTINUE ALONG SAID
CENTERLINE, NORTHWESTERLY, A CHORD BEARING AND DISTANCE OF
N 61°26'52" W, 906.77 FEET, TO THE NORTH LINE OF SAID SECTION 18;
THENCE N 89°28'26" E, ALONG SAID NORTH LINE, 3034.81 FEET. TO THE
POINT OF BEGINNING;

AND ALSO LESS AND EXCEPT:

BEGINNING AT THE SE CORNER OF SAID SECTION 18; THENCE
N 89°46'58" W, ALONG THE SOUTH LINE OF SAID SECTION 18, 380.00
FEET; THENCE N 19°41'19" E, 1140.00 FEET, TO THE EAST LINE OF SAID
SECTION 18; THENCE S 00°13'02" W, ALONG SAID EAST LINE, 1074.80
FEET, TO THE POINT OF BEGINNING.

ALL OF SECTIONS 13, 24, AND 25, TOWNSHIP 14 SOUTH, RANGE
22 EAST.

THE E 1/2 OF SECTION 14, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LESS
THE NW 1/4 OF THE NE 1/4 AND ALSO LESS: COMMENCING THE SW
CORNER OF THE SE 1/4 OF SAID SECTION 14; THENCE N 00°31'45" E, 931.68
FEET, TO THE POINT OF BEGINNING; THENCE N 86°38'25" E, 933.25 FEET;
THENCE N 02°21'35" W, 397.28 FEET; THENCE S 86°38'25" W, 638.66 FEET;
THENCE S 02°21'35" E, 373.28 FEET; THENCE S 86°38'25" W, 292.96 FEET;
THENCE S 00°31'45" W, 24.05 FEET, TO THE POINT OF BEGINNING.

SECTION 23, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LESS: BEGINNING AT
THE SW CORNER OF SAID SECTION 23, THENCE N 00°00'48" W ALONG THE
WEST LINE OF SAID SECTION 23, 661.34 FEET; THENCE N 89°57'10" E,
2314.73 FEET; THENCE S 00°00'26" W, 661.79 FEET, TO THE SOUTH LINE OF
SAID SECTION 23; THENCE S 89°57'50" W, ALONG SAID SOUTH LINE, 2314.66,
FEET TO THE POINT OF BEGINNING.



THAT PART OF SECTION 26, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LYING EAST OF THE CSX RAILROAD (FORMERLY KNOWN AS SEABOARD COAST RAILROAD),

LESS AND EXCEPT:

COMMENCING AT THE NE CORNER OF THE NW 1/4 OF SAID SECTION 26; THENCE S 00°06'47" W, ALONG THE EAST LINE OF SAID NW 1/4, 1364.87 FEET; THENCE S 89°56'52" W, 631.93 FEET, TO THE POINT OF BEGINNING; THENCE S 00°06'47" W, 1072.31 FEET; THENCE S 89°56'52" W, 840.80 FEET, TO THE EASTERLY RIGHT-OF-WAY LINE OF NE 40TH AVENUE ROAD; THENCE N 00°00'00" E, ALONG SAID EASTERLY RIGHT-OF-WAY LINE, 429.33 FEET, TO THE POINT OF CURVATURE OF A CURVE CONCAVE TO THE EAST, HAVING A RADIUS OF 1450.00 FEET AND A CENTRAL ANGLE OF 26°19'45"; THENCE NORTHEASTERLY, ALONG SAID RIGHT-OF-WAY LINE AND CURVE, 666.32 FEET; THENCE N 89°56'52" E, 692.50 FEET, TO THE POINT OF BEGINNING.

THAT PART OF THE EAST 1/2 OF SECTION 27, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LYING EAST OF THE CSX RAILROAD (FORMERLY KNOWN AS SEABOARD COAST RAILROAD).

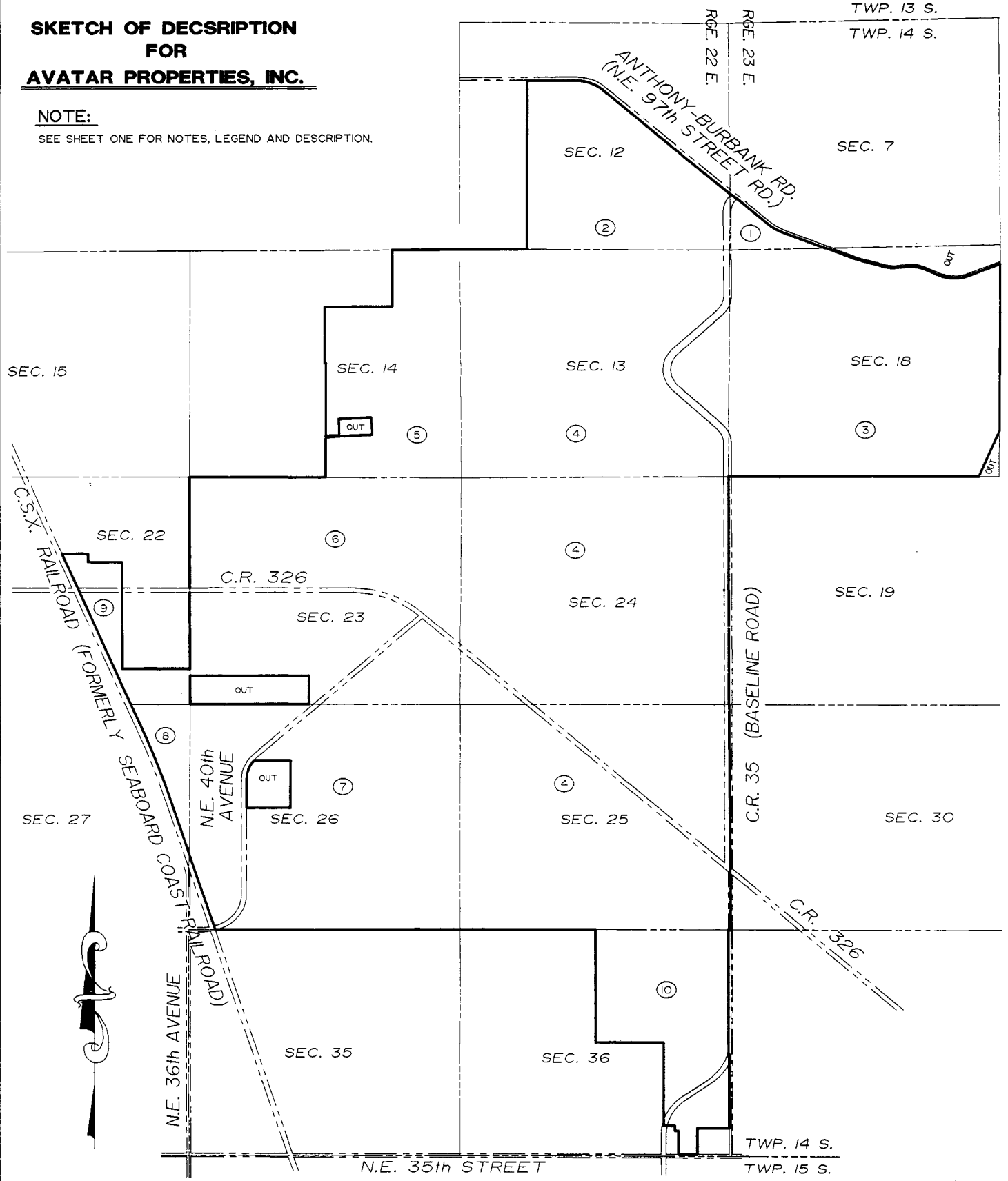
THE SE 1/4 OF THE SE 1/4 OF SECTION 22, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LYING EAST OF THE CSX RAILROAD (FORMERLY KNOWN AS SEABOARD COAST RAILROAD), LESS THE NORTH 7 1/2 CHAINS; THE W 1/2 OF SAID SE 1/4 OF SECTION 22, LYING EAST OF SAID RAILROAD; THE SOUTH 13 CHAINS OF THE SW 1/4 OF THE NE 1/4 OF SAID SECTION 22, LYING EAST OF SAID RAILROAD, LESS THE NORTH 3 CHAINS OF THE SOUTH 13 CHAINS OF THE E 1/2 OF THE SW 1/4.

THE NE 1/4; THE N 3/4 OF THE E 1/2 OF THE SE 1/4; THE EAST 6 CHAINS OF THE SW 1/4 OF THE SE 1/4 OF THE SE 1/4; EXCEPT: EAST 14 FEET OF SOUTH 210 FEET; THE EAST 60 FEET OF THE WEST 264 FEET OF THE NORTH 105 FEET OF THE SW 1/4 OF THE SE 1/4 OF THE SE 1/4; ALL IN SECTION 36, TOWNSHIP 14 SOUTH, RANGE 22 EAST.

**SKETCH OF DESCRIPTION
FOR
AVATAR PROPERTIES, INC.**

NOTE:

SEE SHEET ONE FOR NOTES, LEGEND AND DESCRIPTION.



GRAPHIC SCALE



(IN FEET)
1 inch = 2000 ft.

JOB NO.: 77712.02 FILE NO.: 3M/940

Berryman & Henigar
 BSI Consultants, Inc. • Henigar & Ray, Inc.
 (LB # 6615)
 1414 S.W. MARTIN LUTHER KING JR. AVE. OCALA, FLORIDA 34474-3129 (352) 368-5055

LEGEND:

- = INTERIOR PARCEL LIMITS
- ===== = OVERALL DESCRIPTION LIMITS
- = SECTION LINE
- = RIGHT-OF-WAY LINE
- FB/P/G = FIELD BOOK / PAGE
- P.S.M. = PROFESSIONAL SURVEYOR AND MAPPER
- L.B. = LICENSED BUSINESS
- SEC. = SECTION
- TWP. = TOWNSHIP
- RGE. = RANGE
- ① = PARCEL / DESCRIPTION CROSS REFERENCE.

DESCRIPTION:

- ① THAT PART OF SECTION 7, TOWNSHIP 14 SOUTH, RANGE 23 EAST, LYING SOUTH AND WEST OF ANTHONY-BURBANK ROAD (NE 97TH STREET ROAD), BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:
BEGINNING AT THE SW CORNER OF SAID SECTION 7; THENCE N 00°00'42" W, ALONG THE WEST LINE OF SAID SECTION 7, 1356.70 FEET, TO THE CENTERLINE OF SAID ANTHONY-BURBANK ROAD; THENCE SOUTHEASTERLY, ALONG SAID CENTERLINE, A CHORD BEARING AND DISTANCE OF S 45°12'04" E, 194.74 FEET; THENCE CONTINUE ALONG SAID CENTERLINE, SOUTHEASTERLY, A CHORD BEARING AND DISTANCE OF S 61°26'52" E, 2506.48 FEET, TO THE SOUTH LINE OF SAID SECTION 7; THENCE S 89°28'26" W, ALONG SAID SOUTH LINE, 2339.66 FEET, TO THE POINT OF BEGINNING.
- ② THAT PART OF THE EAST 3/4 OF SECTION 12, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LYING SOUTH AND WEST OF ANTHONY-BURBANK ROAD (NE 97TH STREET ROAD), BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:
BEGINNING AT THE SE CORNER OF SAID SECTION 12; THENCE S 89°44'31" W, ALONG THE SOUTH LINE OF SAID SECTION 12, 3939.66 FEET, TO THE SW CORNER OF SAID EAST 3/4 OF SECTION 12; THENCE N 00°04'57" E, ALONG THE WEST LINE OF SAID EAST 3/4, 2647.09 FEET; THENCE CONTINUE ALONG SAID WEST LINE, N 00°04'54" E, 1290.63 FEET, TO CENTERLINE OF SAID ANTHONY-BURBANK ROAD; THENCE EASTERLY, ALONG SAID CENTERLINE, A CHORD BEARING AND DISTANCE OF N 89°00'47" E, 1222.21 FEET; THENCE CONTINUE ALONG SAID CENTERLINE, SOUTHEASTERLY, A CHORD BEARING AND DISTANCE OF S 60°35'41" E, 289.66 FEET; THENCE CONTINUE ALONG SAID CENTERLINE, SOUTHEASTERLY, A CHORD BEARING AND DISTANCE OF S 45°12'04" E, 3660.59 FEET, TO THE EAST LINE OF SAID SECTION 12; THENCE S 00°00'42" E, ALONG SAID EAST LINE, 1356.70 FEET, TO THE POINT OF BEGINNING.
- ③ SECTION 18, TOWNSHIP 14 SOUTH, RANGE 23 EAST, LESS AND EXCEPT:
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BEGINNING AT THE SE CORNER OF SAID SECTION 18; THENCE N 89°46'58" W, ALONG THE SOUTH LINE OF SAID SECTION 18, 380.00 FEET; THENCE N 19°41'19" E, 140.00 FEET, TO THE EAST LINE OF SAID SECTION 18; THENCE S 00°13'02" W, ALONG SAID EAST LINE, 1074.80 FEET, TO THE POINT OF BEGINNING.
- ④ ALL OF SECTIONS 13, 24, AND 25, TOWNSHIP 14 SOUTH, RANGE 22 EAST.
- ⑤ THE E 1/2 OF SECTION 14, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LESS THE NW 1/4 OF THE NE 1/4 AND ALSO LESS: COMMENCING THE SW CORNER OF THE SE 1/4 OF SAID SECTION 14; THENCE N 00°31'45" E, 931.68 FEET, TO THE POINT OF BEGINNING; THENCE N 86°38'25" E, 933.25 FEET; THENCE N 02°21'35" W, 397.28 FEET; THENCE S 86°38'25" W, 638.66 FEET; THENCE S 02°21'35" E, 373.28 FEET; THENCE S 86°38'25" W, 292.96 FEET; THENCE S 00°31'45" W, 24.05 FEET, TO THE POINT OF BEGINNING.
- ⑥ SECTION 23, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LESS: BEGINNING AT THE SW CORNER OF SAID SECTION 23, THENCE N 00°00'48" W ALONG THE WEST LINE OF SAID SECTION 23, 661.34 FEET; THENCE N 89°57'10" E, 234.73 FEET; THENCE S 00°00'26" W, 661.79 FEET, TO THE SOUTH LINE OF SAID SECTION 23; THENCE S 89°57'50" W, ALONG SAID SOUTH LINE, 2344.66, FEET, TO THE POINT OF BEGINNING.
- ⑦ THAT PART OF SECTION 26, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LYING EAST OF THE CSX RAILROAD (FORMERLY KNOWN AS SEABOARD COAST RAILROAD), LESS AND EXCEPT:
COMMENCING AT THE NE CORNER OF THE NW 1/4 OF SAID SECTION 26; THENCE S 00°06'47" W, ALONG THE EAST LINE OF SAID NW 1/4, 1364.87 FEET; THENCE S 89°56'52" W, 631.93 FEET, TO THE POINT OF BEGINNING; THENCE S 00°06'47" W, 1072.31 FEET; THENCE S 89°56'52" W, 840.80 FEET, TO THE EASTERLY RIGHT-OF-WAY LINE OF NE 40TH AVENUE ROAD; THENCE N 00°00'00" E, ALONG SAID EASTERLY RIGHT-OF-WAY LINE, 429.33 FEET, TO THE POINT OF CURVATURE OF A CURVE CONCAVE TO THE EAST, HAVING A RADIUS OF 1450.00 FEET AND A CENTRAL ANGLE OF 26°19'45"; THENCE NORTHEASTERLY, ALONG SAID RIGHT-OF-WAY LINE AND CURVE, 666.32 FEET; THENCE N 89°56'52" E, 692.50 FEET, TO THE POINT OF BEGINNING.
- ⑧ THAT PART OF THE EAST 1/2 OF SECTION 27, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LYING EAST OF THE CSX RAILROAD (FORMERLY KNOWN AS SEABOARD COAST RAILROAD).
- ⑨ THE SE 1/4 OF THE SE 1/4 OF SECTION 22, TOWNSHIP 14 SOUTH, RANGE 22 EAST, LYING EAST OF THE CSX RAILROAD (FORMERLY KNOWN AS SEABOARD COAST RAILROAD), LESS THE NORTH 7 1/2 CHAINS; THE W 1/2 OF SAID SE 1/4 OF SECTION 22, LYING EAST OF SAID RAILROAD; THE SOUTH 13 CHAINS OF THE SW 1/4 OF THE NE 1/4 OF SAID SECTION 22, LYING EAST OF SAID RAILROAD, LESS THE NORTH 3 CHAINS OF THE SOUTH 13 CHAINS OF THE E 1/2 OF THE SW 1/4.
- ⑩ THE NE 1/4; THE N 3/4 OF THE E 1/2 OF THE SE 1/4; THE EAST 6 CHAINS OF THE SW 1/4 OF THE SE 1/4 OF THE SE 1/4; EXCEPT: EAST 14 FEET OF SOUTH 210 FEET; THE EAST 60 FEET OF THE WEST 264 FEET OF THE NORTH 105 FEET OF THE SW 1/4 OF THE SE 1/4 OF THE SE 1/4; ALL IN SECTION 36, TOWNSHIP 14 SOUTH, RANGE 22 EAST.

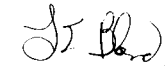
NOTES:

- 1. BEARINGS AND DIMENSIONS ARE BASED ON INFORMATION FOUND IN DEEDS OF RECORD, TAX ROLL DESCRIPTIONS, AND VARIOUS RECORD PLATS OF OCALA SPRINGS.
- 2. THIS DRAWING (SEE SHEET 2) REPRESENTS A SKETCH OF DESCRIPTION AND DOES NOT REPRESENT A CURRENT OR COMPLETE BOUNDARY SURVEY BY THIS FIRM.
- 3. THIS SKETCH HAS BEEN PREPARED WITHOUT THE BENEFIT OF A CURRENT TITLE REPORT OR ABSTRACT AND MAY NOT INDICATE CURRENT OWNERSHIP, ENCUMBRANCES, DESCRIPTIONS OR OTHER MATTERS OF RECORD.
- 5. THIS DESCRIPTION AND MAP WERE PREPARED TO MEET THE REQUIREMENTS OF THE FLORIDA PUBLIC SERVICE COMMISSION. BOUNDARY DIMENSIONS AND REFERENCES, OTHER THAN SECTION, TOWNSHIP AND RANGE NUMBERS ARE NOT SHOWN.
- 4. COPIES OF THIS SKETCH ARE NOT VALID WITHOUT THE ORIGINAL SIGNATURE AND RAISED SEAL OF THE FLORIDA LICENSED PROFESSIONAL SURVEYOR AND MAPPER LISTED HEREON.

SURVEYOR'S CERTIFICATE:

I HEREBY CERTIFY THAT THIS SKETCH OF DESCRIPTION IS TRUE AND CORRECT TO THE BEST OF OUR KNOWLEDGE AND BELIEF AND THAT IT CONFORMS TO THE MINIMUM TECHNICAL STANDARDS AS SET FORTH BY THE FLORIDA BOARD OF PROFESSIONAL SURVEYORS AND MAPPERS IN CHAPTER 61G17-6, FLORIDA ADMINISTRATIVE CODE, PURSUANT TO SECTION 427.027, FLORIDA STATUTES.

DATE SIGNED: 6-24-98



LAWRENCE E. BLAND
P.S.M. #4834
STATE OF FLORIDA

SKETCH OF DESCRIPTION
FOR
AVATAR PROPERTIES, INC.

 **Berryman & Henlgar**
BSI Consultants, Inc. • Henlgar & Ray, Inc.
(LB # 6615)

1414 S.W. MARTIN LUTHER KING JR. AVE. OCALA, FLORIDA 34474-3129 (904) 368-5055

PROPERTIES IN TOWNSHIP 14 SOUTH, RANGES 22 & 23 EAST, MARION COUNTY, FLORIDA

DRAWN BY: leb	DATE OF SKETCH: 4-29-1998	SCALE: 1" = 2000'
CHECKED BY: LEB	REVISIONS: DESCRIPTION # 616-1998 / LEB	F.B./P.G.: M91A1
COGO DISK/FILE: NONE	DESCRIPTION # 10 / 6-24-1998 / LEB	JOB NO.: 7772.02
DRAWING DISK/FILE: MB88/AVTRS0D		FILE NO.: 3M/940

EXHIBITS J & K
Affidavits of Notices

Re: Application for Original Water and Wastewater Certificates for Ocala Springs Utilities Inc.
(OSUI) in Marion County

Notices and affidavits of notices will be provided as late filed exhibits.