

In the opinion of Bond Counsel, assuming compliance with certain covenants in the Indenture (as hereinafter defined), interest on the Bonds is excluded from gross income for purposes of federal income taxation and the Bonds are exempt from all present intangible personal property taxes imposed pursuant to Chapter 199, Florida Statutes. See, however, "Tax Matters" herein for a description of certain federal minimum and other special taxes that may affect the tax treatment of interest on the Bonds.

\$55,630,000
FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BONDS,
SERIES 2005A

Dated: Date of Delivery

Due: February 1, as shown on the inside cover

The Revenue Bonds, Series 2005A (the "Bonds") are being issued by the Florida Municipal Loan Council (the "Issuer"). The Issuer is a separate legal entity created pursuant to an Interlocal Agreement entered into initially by and among the City of Stuart, the City of Deland and the City of Rockledge, each of which is a Florida municipality.

The Bonds are being issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form only, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Bonds will not receive certificates representing their interests in the Bonds so purchased. So long as Cede & Co. is the registered owner of the Bonds, references herein to the registered owners shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See "The Bonds -- Book-Entry Only System" herein for further information.

Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2005. The principal of, premium, if any, and interest on the Bonds will be paid through Wachovia Bank, National Association, as Trustee. So long as DTC or its nominee, Cede & Co., is the registered owner, such payments will be made directly to Cede & Co. Disbursement of such payments to the DTC Participants (as defined herein) is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants (as defined herein), as more fully described herein.

The Bonds are subject to optional and mandatory redemption prior to maturity. See "The Bonds -- Redemption Provisions" herein for further information.

The proceeds to be received by the Issuer from the sale of the Bonds will be used by the Issuer to make loans (the "Loans") to six State of Florida municipalities (City of Bartow, City of Hallandale Beach, City of Hialeah, Town of Indian Shores, City of Inverness and City of Valparaiso) (collectively referred to as the "Borrowers") pursuant to loan agreements between the Issuer and each of the Borrowers (the "Loan Agreements") for the purposes of (i) providing funds to finance various governmental undertakings of the Borrowers and (ii) paying costs and expenses related to the issuance of the Bonds, including the premiums for the municipal bond insurance policy and debt service reserve fund surety bond.

Payments made by the Borrowers in repayment of the loans (the "Loan Repayments") will be assigned by the Issuer to Wachovia Bank, National Association, as Trustee, pursuant to a Trust Indenture, dated as of February 1, 2005 between the Issuer and the Trustee (the "Indenture").

The Bonds are not a general debt, liability or obligation of the Issuer, but are limited obligations of the Issuer, payable solely from the (i) payments to be made by the Borrowers pursuant to the Loan Agreements (as defined herein) (ii) all amounts in certain funds and accounts created pursuant to the Indenture, and (iii) all Revenues, any proceeds of the Bond Insurance Policy (as defined in the Indenture), any proceeds of the Surety Bond (as defined in the Indenture) any and all other property, rights and interest of every kind and nature from time to time hereafter by delivery or by writing of any kind subjected to the Indenture, as and for additional security for the Bonds, by the Issuer or by any other person on its behalf or with its written consent (collectively, the "Trust Estate"), as more fully described herein. The obligations of the respective Borrowers pursuant to the Loan Agreements are not a general debt, liability or obligation of the respective Borrowers, but are limited obligations of the Borrowers payable from the sources described herein. The Bonds are not a debt, liability or obligation of the State of Florida or any political subdivision or entity thereof other than the Issuer.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds.



This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as, and if issued and received by the Underwriter, subject to the approval of legality and tax-exempt status by Bryant Miller & Olive P.A., Tampa, Florida, Bond Counsel. Certain legal matters will be passed upon for the Issuer by its counsel Kraig A. Conn, Esq. counsel to the Issuer, as assistant general counsel to the Florida League of Cities, Inc., for the Insurer by its counsel Kutak Rock, LLP, Omaha, Nebraska, and for the Underwriter by its counsel, Moyle, Flanigan, Katz, Raymond & Sheehan, P.A., West Palm Beach, Florida. Waters and Company, LLC, Birmingham, Alabama has served as financial advisor to the Issuer in connection with the Bonds. Florida League of Cities, Inc. is the administrator of the Issuer's Bond program. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about February 15, 2005.

Banc of America Securities LLC

AMOUNTS, MATURITIES, INTEREST RATES AND PRICES

\$32,100,000 Serial Bonds

<u>Maturity</u> <u>(February 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>
2006	\$1,205,000	3.000%	100.661%
2007	1,290,000	3.000	100.988
2008	1,335,000	3.250	101.725
2009	1,375,000	3.250	101.600
2010	1,420,000	3.000	100.044
2011	1,470,000	4.000	104.475
2012	1,530,000	3.250	99.505
2013	1,575,000	4.250	105.384
2014	1,640,000	3.500	99.390
2015	1,700,000	3.625	99.296
2018	1,915,000	5.000	108.747
2019	2,015,000	5.000	108.319
2020	2,115,000	5.000	107.892
2021	2,085,000	5.000	107.467
2022	2,190,000	5.000	107.044
2023	2,285,000	5.000	106.539
2024	2,420,000	5.000	106.204
2025	2,535,000	5.000	105.704

\$ 3,615,000 3.950% Term Bonds Due February 1, 2017 - Price 100.000%
\$ 6,855,000 4.500% Term Bonds Due February 1, 2029 - Price 98.555%
\$13,060,000 5.000% Term Bonds Due February 1, 2035 - Price 103.976%

Florida Municipal Loan Council

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NO BROKER, DEALER, SALESMAN, OR OTHER PERSON HAS BEEN AUTHORIZED BY THE ISSUER OR THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY OF THE BONDS AND THERE SHALL BE NO OFFER, SOLICITATION, OR SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION, OR SALE.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM PUBLIC DOCUMENTS, RECORDS AND OTHER SOURCES WHICH ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS BY AND IS NOT TO BE CONSTRUED AS A REPRESENTATION OF THE UNDERWRITER. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN CONTAINED ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE BORROWERS SINCE THE DATE HEREOF.

CERTAIN OF THE INFORMATION HEREIN REGARDING THE BORROWERS IS BEYOND THE KNOWLEDGE OF THE ISSUER. WHILE THE ISSUER HAS NO REASON TO BELIEVE THAT SUCH INFORMATION IS INCOMPLETE OR INACCURATE, THE ISSUER HAS NOT INDEPENDENTLY INVESTIGATED OR CONFIRMED THE ACCURACY OR COMPLETENESS THEREOF AND HAS INCLUDED SUCH INFORMATION IN THIS OFFICIAL STATEMENT IN RELIANCE UPON THE REPRESENTATION AND WARRANTY OF THE RESPECTIVE BORROWERS THAT SUCH INFORMATION DOES NOT CONTAIN ANY UNTRUE STATEMENT OF A MATERIAL FACT AND DOES NOT OMIT TO STATE ANY MATERIAL FACT NECESSARY IN ORDER TO MAKE THE STATEMENTS MADE HEREIN, IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY ARE MADE, NOT MISLEADING.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS UNDER THE SECURITIES LAWS OF THE JURISDICTIONS IN WHICH THEY HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, SHALL NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTY THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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OFFICIAL STATEMENT

Relating To

\$55,630,000

FLORIDA MUNICIPAL LOAN COUNCIL

Revenue Bonds

Series 2005A

INTRODUCTION

The purpose of this Official Statement, including the cover page and the Appendices hereto, is to furnish certain information with respect to the original issuance and sale of \$55,630,000 Florida Municipal Loan Council Revenue Bonds, Series 2005A (the "Bonds") to be issued by the Florida Municipal Loan Council (the "Issuer").

This Introduction is only a brief description of the matters described in this Official Statement, and a full review of this Official Statement should be undertaken by potential investors in the Bonds. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The Issuer is a separate legal entity under the laws of the State of Florida. The Issuer was created by an Interlocal Agreement (the "Interlocal Agreement"), dated December 1, 1998, initially among the City of Stuart, the City of Deland and the City of Rockledge, each of which is a Florida municipality. Gadsden County, Florida, Jackson County, Florida and Leon County, Florida have each joined in the Interlocal Agreement subsequent to December 1, 1998.

The Bonds are being issued pursuant to the Constitution of the State of Florida, Chapter 163, Florida Statutes, and other applicable provisions of law (collectively, the "Act"), authorizing resolutions adopted by the Issuer on December 17, 1998 and December 16, 2004 and a Trust Indenture (the "Indenture"), dated as of February 1, 2005, between the Issuer and Wachovia Bank, National Association, as trustee (the "Trustee").

The Bonds are being issued to provide funds to make loans to six municipalities of the State of Florida further described herein. The proceeds to be received by the Issuer from the sale of the Bonds will be loaned to the State of Florida municipalities of the City of Bartow, the City of Hallandale Beach, the City of Hialeah, the Town of Indian Shores, the City of Inverness and the City of Valparaiso (collectively, the "Borrowers," and individually, a "Borrower") pursuant to Loan Agreements, dated as of February 1, 2005, between the Issuer and each Borrower (collectively, the "Loan Agreements"). Each Borrower will use proceeds of the loan made to it by the Issuer (a "Loan") to finance, refinance or reimburse itself for the cost of a governmental undertaking approved by the governing body of that Borrower for a public purpose (a "Project") and to pay a proportionate share of the costs of issuance of the Bonds. Each Project to be financed or refinanced with proceeds of the Bonds is briefly described herein under the caption "Purpose of the Bonds."

Pursuant to each Loan Agreement, each Borrower agrees to make payments (the "Basic Payments") in such amounts and at such times as shall be sufficient to pay the principal of, premium, if any, and interest on the Loan to that Borrower when due. The Basic Payments correlate to the debt service on a principal amount of Bonds equal to the principal amount of the Loan. The aggregate scheduled Basic Payments under all Loan Agreements equals the scheduled payments of principal and interest on the Bonds. Not all Loans mature on the same date. No Borrower is obligated to pay the principal of, premium, if any, or interest on, or any other amount payable with respect to, a Loan made to a different Borrower. The Basic Payments for each Borrower are set forth herein under the caption "Debt Service Requirements."

Pursuant to each Loan Agreement, each Borrower also agrees to make certain other payments (the "Additional Payments"), including, but not limited to, the fees and expenses of the Issuer, the Program Administrator and the Trustee and the Borrower's proportionate share of any fees, including any rebate obligation with respect to the Bonds related to a particular Borrower's Loan.

The Basic Payments and the Additional Payments are jointly referred to as the "Loan Repayments."

Each Borrower, other than the City of Inverness, has agreed to appropriate in its annual budget, by amendment, if required, and to pay when due under its respective Loan Agreement (such Loan Agreements being referred to herein as the "Covenant Loan Agreements"), as promptly as money becomes available, amounts of Non-Ad Valorem Revenues (hereinafter defined) of such Borrower sufficient to satisfy the Loan Repayment obligations of such Borrower. "Non-Ad Valorem Revenues" means all revenues and taxes of the particular Borrower derived from any source whatever, other than ad valorem taxation on real and personal property, which are legally available for Loan Repayments.

The Loan Agreement between the City of Inverness and the Issuer is referred to herein as the "Inverness Loan Agreement." The Loan Repayment obligations of the City of Inverness will be payable from and secured solely by a pledge of and lien upon the Half Cent Sales Tax Revenues and Discretionary Communications Services Tax Revenues of the City of Inverness. Further information concerning the Inverness Loan Agreement and the Half Cent Sales Tax Revenues and Discretionary Communications Services Tax Revenues is contained herein under the caption "Security and Sources of Payment - City of Inverness Loan."

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee all of the Issuer's right, title and interest (with certain exceptions specified therein) in and to the Loan Agreements, including the Issuer's right to receive Loan Repayments.

The Bonds are not a general debt, liability or obligation of the Issuer, but are limited obligations of the Issuer, payable solely from (i) the payments to be made by the Borrowers pursuant to the Loan Agreements (the "Revenues"), (ii) all amounts in certain funds and accounts created pursuant to the Indenture, and (iii) any proceeds of the Bond Insurance Policy (as defined in the Indenture), any proceeds of the Surety Bond (as defined in the Indenture) any and all other property, rights and interest of every kind and nature from time to time hereafter by delivery or by writing of any kind subjected to the Indenture, as and for additional security for the Bonds, by the Issuer or by any other person on its behalf or with its written consent (collectively, the "Trust Estate"), as more fully described herein. The obligations of the respective Borrowers pursuant to the Loan Agreements are not a general debt, liability or obligation of the respective Borrowers, but are limited obligations of the Borrowers payable from the sources described herein. The Bonds are not a debt, liability or obligation of the State of Florida or any political subdivision or entity thereof other than the Issuer.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation (the "Insurer") simultaneously with the delivery of the Bonds.

There follow in this Official Statement descriptions of the Bonds, the Issuer, the Insurer, the Borrowers and certain other matters. The descriptions and information contained herein do not purport to be complete, comprehensive, or definitive, and all references herein to documents or reports are qualified in their entirety by reference to the complete text of such documents or reports. Copies of documents and reports referred to herein that are not included in their entirety herein may be obtained from the Underwriter at 1640 Gulf-to-Bay Boulevard, FL2-020-01-04, Clearwater, Florida 33755 prior to delivery of the Bonds

and thereafter from the Trustee upon payment of any required fee. Unless otherwise defined herein, terms used in capitalized form in this Official Statement shall have the same meanings as in the Indenture. See Appendices C and D for definitions of certain terms used in this Official Statement.

THE BONDS

General Description

The Bonds are being issued as fully registered bonds without coupons in principal denominations of \$5,000 or any integral multiple thereof (the "Authorized Denominations"). The Bonds will be dated as of the date of their initial issuance and delivery, will bear interest from that date at the rates per annum and will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The Bonds will be subject to the redemption provisions set forth below. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and will be payable semiannually on each February 1 and August 1 (each, an "Interest Payment Date,"), commencing August 1, 2005.

The principal and premium of the Bonds shall be payable when due by check or draft, upon presentation and surrender of the Bonds at the Designated Office (initially, Charlotte, North Carolina) of Wachovia Bank, National Association, as Trustee (the "Trustee"), and interest will be payable by check or draft mailed by the Trustee on each Interest Payment Date to the holders of the Bonds registered as such as of the Record Date; provided, however, that at the expense of and upon the written request of a holder of \$1,000,000 or more (or of all Bonds if less than \$1,000,000 shall be outstanding) interest will be paid by wire transfer to an account in the United States. The Record Date with respect to any Interest Payment Date is the fifteenth day of the calendar month preceding such Interest Payment Date. For so long as the book-entry only system of ownership of the Bonds is in effect, payments of principal, premium, if any, and interest on the Bonds will be made as described below under the caption "Book-Entry Only System."

All payments of principal of, premium, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

Redemption Provisions

Optional Redemption. The Bonds maturing on or before February 1, 2015 are not subject to optional redemption prior to maturity. The Bonds maturing after February 1, 2015 are subject to redemption at the option of the Issuer on or after February 1, 2015 as a whole or in part at any time, in any manner as determined by the Trustee in its discretion taking into consideration the maturity of the Loan being prepaid by a particular Borrower, at the redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

Scheduled Mandatory Redemption. The Bonds maturing on February 1, 2017 are subject to mandatory redemption, in part, by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, on February 1, 2016 and on February 1, 2017, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2016	\$1,770,000
2017*	1,845,000

*Maturity, not a redemption.

The Bonds maturing on February 1, 2029 are subject to mandatory redemption, in part, by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on February 1, 2026 and on each February 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2026	\$1,600,000
2027	1,675,000
2028	1,750,000
2029*	1,830,000

*Maturity, not a redemption.

The Bonds maturing on February 1, 2035 are subject to mandatory redemption, in part, by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on February 1, 2030 and on each February 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2030	\$1,915,000
2031	2,010,000
2032	2,115,000
2033	2,225,000
2034	2,340,000
2035*	2,455,000

*Maturity, not a redemption.

Extraordinary Mandatory Redemption. The Bonds are also subject to extraordinary mandatory redemption as a result of acceleration of a Loan pursuant to a Loan Agreement at any time, in whole or in part, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, but only with the approval of the Insurer, from all Liquidation Proceeds or Insurance Proceeds received by the Trustee as a result of an acceleration of any Loan. "Liquidation Proceeds" means amounts received by the Trustee or the Issuer in connection with the enforcement of any of the remedies under a Loan Agreement after the occurrence of an "event of default" under a Loan Agreement which has not been waived or cured. "Insurance Proceeds" means amounts which are deposited by the Insurer with the

Trustee pursuant to Article IX of the Indenture as a condition of the direction of acceleration of all or a portion of the Bonds by the Insurer.

Whenever any Event of Default shall have occurred with respect to any Loan Agreement, the Issuer or the Trustee, shall, with the written consent of the Insurer, or upon the direction of the Insurer, accelerate the Loan made pursuant to such Loan Agreement. Such Events of Default include, but are not limited to, failure by any Borrower to timely pay any Loan Repayment, a failure by any Borrower to observe and perform any covenant, condition or agreement contained in the Loan Agreement, subject to certain provisions regarding notice and an opportunity to cure, bankruptcy of any Borrower and other events. See "Appendix C - Form of the Indenture" and "Appendix D - Form of the Covenant Loan Agreement," for a further description of the events which might trigger an acceleration.

To the extent that one or more Loan or Loans, but not all Loans, are being accelerated, the Bonds to be redeemed shall be selected by the Trustee by lot or in such other manner as the Issuer in its discretion may deem appropriate, provided, however, that only such Bonds which correspond in terms of amount and scheduled maturity date to the principal loan payment obligations of the Loan or Loans being accelerated are subject to such extraordinary mandatory redemption, and provided further that, in the event the Liquidation Proceeds are not sufficient to redeem all such corresponding Bonds, the portion of the corresponding Bonds to be so redeemed shall be selected on a pro-rata basis based upon the ratio of Liquidation Proceeds to the total amount of Bonds which corresponds to the Loan or Loans being accelerated.

Selection of Bonds to Be Redeemed. The Bonds may be redeemed only in Authorized Denominations. The Bonds or portions of the Bonds to be redeemed shall, except as otherwise specified in the Indenture, be selected by the Registrar by lot or in such other manner as the Trustee in its discretion may deem appropriate.

Notice of Redemption. In the case of every redemption, the Trustee shall cause notice of such redemption to be given to the registered Owner of any Bonds designated for redemption in whole or in part, at such Owner's address as the same shall last appear on the Bond registration books, by mailing a copy of the redemption notice by first class mail at least thirty days prior to the redemption date. The failure of the Registrar to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any other Bonds.

Each notice of redemption shall specify the date fixed for redemption, the redemption price to be paid, the place or places of payment, that payment will be made upon presentation and surrender of the Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue. If less than all of the outstanding Bonds are to be redeemed, the notice of redemption shall specify the numbers of the Bonds or portions thereof, including CUSIP identification numbers to be redeemed.

Notice of redemption is also required to be sent by registered or certified mail or overnight delivery service to certain securities depositories, provided, however, that such mailing is not a condition precedent to any redemption and a failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds.

Effect of Calling for Redemption. On the redemption date, the principal amount of each Bond to be redeemed, together with the accrued interest thereon to such date, shall become due and payable; and from and after such date, notice (if required) having been given and moneys available for such redemption being on deposit with the Trustee in accordance with the provisions of the Indenture, then notwithstanding that any

Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any of such Bonds or portions thereof to be redeemed. From and after such date of redemption (such notice having been given and moneys available solely for such redemption being on deposit with the Trustee), the Bonds or portions thereof to be redeemed shall not be deemed to be Outstanding under the Indenture and the Issuer shall be under no further liability in respect thereof.

Book-Entry Only System

The information provided immediately below concerning DTC and the Book-Entry Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter, the Issuer, the Trustee or the Borrowers.

Unless the book-entry system described herein is terminated, as hereinafter described, The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC or with the Trustee on behalf of DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participant's accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard and Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial

Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults and proposed amendments to Bond documents. Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent only to Cede & Co. for so long as it is the registered owner of the Bonds. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to DTC is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

NONE OF THE ISSUER, THE BORROWERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR THE PERSON FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS. THE ISSUER CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS PAID TO DTC OR ITS NOMINEE, AS THE REGISTERED OWNER, OR ANY NOTICES TO THE BENEFICIAL OWNERS OR THAT THEY WILL

DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

The Issuer and the Trustee have entered into a letter of representations (the "Book-Entry Agreement") with DTC providing for such book-entry only system. However, the book-entry only system may be terminated upon the happening of either of the following: (a) DTC discontinues providing its services as securities depository by giving reasonable notice to the Issuer or the Trustee, or (b) the Issuer, elects to terminate the book-entry only system by notice to DTC. If the Issuer does not replace DTC, the Trustee shall notify DTC of the availability of definitive or temporary Bond certificates (the "Replacement Bonds") to Beneficial Owners requesting the same in an aggregate outstanding amount representing the interest of each such Beneficial Owner, making such adjustments and allowances as the Trustee may find necessary or appropriate as to accrued interest and previous payments of principal. Definitive Replacement Bonds shall be issued only upon surrender to the Trustee of the Bonds of each maturity by DTC, accompanied by registration instructions for the definitive Replacement Bonds for such maturity from DTC. Neither the Issuer nor the Trustee shall be liable for any delay in delivery of such instructions and conclusively may rely on and shall be protected in relying on such instructions of DTC.

THE ISSUER

The Issuer was created pursuant to the Florida Interlocal Cooperation Act of 1969, Section 163.01, Florida Statutes, as amended, through an Interlocal Agreement dated as of December 1, 1998 (the "Interlocal Agreement"), initially by and among the City of Stuart, Florida, the City of Deland, Florida and the City of Rockledge, Florida. Gadsden County, Florida, Jackson County, Florida and Leon County, Florida have each joined in the Interlocal Agreement subsequent to December 1, 1998.

The Issuer is a separate legal entity created for the purpose of enabling participating municipalities and counties or other participating governmental entities to finance or refinance (including reimbursement of prior expenditures) undertakings on a cooperative and cost effective basis and to benefit from the economies of scale associated with larger scale financings which might otherwise be unrealized if separate financings were undertaken. The Bonds are being issued in furtherance of the Issuer's program (the "Program") of making loans to participating governmental units. Pursuant to the Interlocal Agreement, the Issuer has the power to issue, from time to time, in various series, bonds, notes or other obligations to finance and re-finance loans to participating governmental entities.

Membership in the Issuer consists of those governmental entities which from time to time have been admitted to membership by the affirmative vote of two-thirds of the board of directors of the Issuer and which have joined in the Interlocal Agreement. While membership in the Issuer is open to other governmental entities, membership in the Issuer is not a pre-condition to becoming a Borrower under the Program.

The Issuer is governed by a board of directors which consists of not less than one or more than seven elected public officials, each of which shall be appointed by the President of the Florida League of Cities, Inc. There is no limitation upon the term of office of a director, and directors serve until the expiration of their term in elected office, their resignation or their removal. A director may be removed upon the affirmative vote of at least two-thirds of the members of the Issuer.

The duration of the Issuer shall continue so long as any obligation of the Issuer or any obligation of any participating governmental entity issued under the Program remains outstanding.

The Bonds constitute the thirteenth series of bonds to be issued by the Issuer.

The current Board of Directors of the Issuer consists of the following elected officials:

<u>Name</u>	<u>Elected Position</u>
Raul Martinez	Mayor, City of Hialeah
Dottie K. Reeder	Mayor, City of Seminole
Lizbeth Benaquisto	Council Member, Village of Wellington
H.M. (Roy) Tyler	Commissioner, City of Haines City
Larry Ady	Commissioner, City of Belle Isle

THE ADMINISTRATOR AND THE ADMINISTRATION AGREEMENT

The Administrator

The Administrator of the Issuer's Program is the Florida League of Cities, Inc., a Florida non-profit corporation established in 1922. The mission of the Administrator, as outlined in its charter, is primarily to provide assistance to Florida municipalities on matters of common interest. The Administrator will provide loan origination and administration services under the Indenture pursuant to the Program Administration Agreement (hereinafter described).

The Administrator is a Florida corporation not-for-profit. The Administrator is organized on a non-stock membership basis. The members of the Administrator consist of over 400 Florida cities and counties. The Administrator is governed by a Board of Directors consisting of 54 members. Directors are elected by the members of the Administrator.

In addition to the Issuer's twelve outstanding bond issues, the Administrator has also provided loan origination and administration services in connection with other prior loan pools established by entities other than the Issuer and, in that capacity, has participated in the origination of numerous loans to Florida municipalities and counties.

In addition to loan pool origination and administration services, the Administrator provides services to its members in the areas of pool insurance and advice on current and emerging constitutional, legislative, and regulatory issues. The Administrator has 160 full-time employees and an annual operating budget of approximately \$17.0 million.

The Bonds are not obligations of the Administrator. The Administrator is neither obligated nor expected to advance its own funds to pay principal of or interest on the Bonds or to perform the other obligations of the Issuer under the Indenture.

The Administration Agreement

The Issuer and the Administrator have entered into an ongoing Administration Agreement (the "Administration Agreement"). Under the terms of the Administration Agreement, the Administrator agrees to receive and review applications of municipalities and counties to participate in the Program and to forward the same to any institutions as may be providing credit support for the Program. The Administrator agrees to meet with representatives of applicants and to aid applicants in determining whether to participate in the Program. The Administrator agrees to abide by the terms of the Indenture and to use its best efforts to ensure

that the Loans comply with the terms of the Indenture. Under the terms of the Administration Agreement, the Administrator is to be paid a semi-annual fee based upon the principal balance of all Loans outstanding. The annual amount of the fee does not exceed 1/10 of one percent of the par amount of the Loans outstanding, and based upon the original par amount at issuance for each individual Loan, the fee decreases as a percentage as the par amount increases above certain levels.

THE BORROWERS

CERTAIN OF THE INFORMATION HEREIN REGARDING THE BORROWERS IS BEYOND THE KNOWLEDGE OF THE ISSUER. WHILE THE ISSUER HAS NO REASON TO BELIEVE THAT SUCH INFORMATION IS INCOMPLETE OR INACCURATE, THE ISSUER HAS NOT INDEPENDENTLY INVESTIGATED OR CONFIRMED THE ACCURACY OR COMPLETENESS THEREOF AND HAS INCLUDED SUCH INFORMATION IN THIS OFFICIAL STATEMENT IN RELIANCE UPON THE REPRESENTATION AND WARRANTY OF THE RESPECTIVE BORROWERS THAT SUCH INFORMATION DOES NOT CONTAIN ANY UNTRUE STATEMENT OF A MATERIAL FACT AND DOES NOT OMIT TO STATE ANY MATERIAL FACT NECESSARY IN ORDER TO MAKE THE STATEMENTS MADE HEREIN, IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY ARE MADE, NOT MISLEADING.

The Borrowers consist of six municipalities of the State of Florida. A brief description of each Borrower is set forth below. Financial information with respect to each of the Borrowers is contained in Appendices G through M hereof.

The City of Bartow - The City of Bartow is located in Polk County, Florida and was incorporated in 1963. The City of Bartow has an estimated population of approximately 15,500 people.

The City of Hallandale Beach - The City of Hallandale Beach is located in Broward County, Florida and was incorporated in 1927. Until 1999 the name of the city was "City of Hallandale." The City of Hallandale Beach has an estimated population of approximately 35,000 people.

The City of Hialeah - The City of Hialeah is located in Dade County, Florida and was incorporated in 1925. The City of Hialeah has an estimated population of approximately 215,000 people.

The Town of Indian Shores - The Town of Indian Shores is located in Pinellas County, Florida and was incorporated in 1949. The Town of Indian Shores has an estimated year-round population of approximately 1750 people, although the seasonal population is substantially higher (approximately 10,000 persons).

The City of Inverness - The City of Inverness is located in Citrus County, Florida and was incorporated in 1919. The City of Inverness has an estimated population of approximately 7,150 people.

The City of Valparaiso - The City of Valparaiso is located in Okaloosa County, Florida and was incorporated in 1921. The City of Valparaiso has an estimated population of approximately 6500 people.

PURPOSE OF THE BONDS

In General

The proceeds to be received by the Issuer from the sale of the Bonds will be used by the Issuer to make Loans to the Borrowers for the purpose of providing funds to (i) finance or refinance the costs of the Projects and (ii) pay costs and expenses related to the issuance of the Bonds, including the premiums for the Bond Insurance Policy and the Debt Service Reserve Fund Surety Bond described below.

Under the terms of the Indenture, an amount sufficient to pay the costs of issuance of the Bonds will be deposited into the Costs of Issuance Fund and the balance of the proceeds of the Bonds will be deposited into accounts in the Project Loan Fund, to be disbursed upon requisition therefor to the respective Borrowers. Although not actually disbursed to each Borrower, each Borrower is responsible for repayment of that portion of the Bonds corresponding to its pro-rata share of costs of issuance through its debt service payments. The borrowing amount set forth below for each Borrower is the principal amount of the Bonds corresponding to the Loan to such Borrower.

City of Bartow - The City of Bartow is borrowing the proceeds of \$4,800,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$4,996,506.65) for the purpose of financing water and wastewater system improvements and various community redevelopment projects. The Bartow Loan is expected to be repaid over a period of 20 years. Although Bartow is entering into a Covenant Loan Agreement, for internal budgetary purposes, the City intends to obtain funds to repay a portion of the Loan from revenues derived from its water and sewer system and a portion of the loan from tax increment revenues received in its community redevelopment trust fund.

City of Hallandale Beach - The City of Hallandale Beach is borrowing the proceeds of \$8,800,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$9,160,445.45) for the purpose of financing water and wastewater system improvements. The Hallandale Loan is expected to be repaid over a period of 20 years. Although Hallandale is entering into a Covenant Loan Agreement, for internal budgetary purposes, the City intends to obtain funds to repay the Loan from revenues derived from its water and sewer system.

City of Hialeah - The City of Hialeah is borrowing the proceeds of \$29,090,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$29,996,744.95) for the purpose of financing various roadway capital projects. The Hialeah Loan is expected to be repaid over a period of 30 years.

Town of Indian Shores - The Town of Indian Shores is borrowing the proceeds of \$5,930,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$6,115,378.90) for the purpose of financing the cost of relocating overhead electric utility lines to underground. The Indian Shores Loan is expected to be repaid over a period of 30 years.

City of Inverness - The City of Inverness is borrowing the proceeds of \$5,455,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$5,625,322.30) for the purpose of financing the cost of a new city hall. The Inverness Loan is expected to be repaid over a period of 30 years.

City of Valparaiso - The City of Valparaiso is borrowing the proceeds of \$1,555,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$1,599,360.00) for the purpose of refinancing existing debt and financing improvements to the city library and water system. The Valparaiso Loan is expected to be repaid over a period of 15 years.

The annual debt service on each Loan is set forth below under the caption "Debt Service Requirements."

Estimated Sources and Uses

The following table sets forth the estimated sources and uses of funds in connection with the Bonds:

SOURCES OF FUNDS:	
Par Amount	\$55,630,000.00
Net Original Issue Premium	<u>\$1,863,758.25</u>
 TOTAL SOURCES:	 \$57,493,758.25
USES OF FUNDS:	
Deposit to Project Loan Fund	\$56,469,508.05
Costs of Issuance(1)	<u>\$1,024,250.20</u>
 TOTAL USES:	 \$57,493,758.25

(1) This includes legal fees, underwriter's discount, bond insurance and reserve surety premiums, costs of printing and other incidental expenses.

SECURITY AND SOURCES OF PAYMENT

Limited Obligations; Trust Estate

The Bonds are not a general debt, liability or obligation of the Issuer, but are limited obligations of the Issuer, payable solely from (i) the payments to be made by the Borrowers pursuant to the Loan Agreements (the "Revenues"), (ii) all amounts in certain funds and accounts created pursuant to the Indenture, and (iii) any proceeds of the Bond Insurance Policy (as defined in the Indenture), any proceeds of the Surety Bond (as defined in the Indenture) any and all other property, rights and interest of every kind and nature from time to time hereafter by delivery or by writing of any kind subjected to the Indenture, as and for additional security for the Bonds, by the Issuer or by any other person on its behalf or with its written consent (collectively, the "Trust Estate"), as more fully described herein. The obligations of the respective Borrowers pursuant to the Loan Agreements are not a general debt, liability or obligation of the respective Borrowers, but are limited obligations of the Borrowers payable from the sources described herein. The Bonds are not a debt, liability or obligation of the State of Florida or any political subdivision or entity thereof other than the Issuer.

A portion of the proceeds to be received by the Issuer from the sale of the Bonds will be loaned by the Issuer to the Borrowers pursuant to the Loan Agreements. Each Loan Agreement provides that the particular Borrower will make payments to the Trustee (the "Basic Payments") in such amounts and at such times so as to provide sufficient funds to pay the principal of, premium, if any, and interest on the Loan to the Borrower. Each Loan Agreement represents the several obligation of the relevant Borrower and no Borrower is obligated under the Loan Agreement of any other Borrower. Therefore, each Borrower is only responsible for making Basic Payments that constitute the security for a proportionate share of the debt service on the Bonds. The aggregate principal and interest payments included in the Basic Payments scheduled to be made by the Borrowers equal the scheduled debt service on the Bonds.

Each Borrower, other than the City of Inverness, has agreed to appropriate in its annual budget, by amendment, if required, and to pay when due under its respective Loan Agreement (such Loan Agreements

being referred to herein as the "Covenant Loan Agreements"), as promptly as money becomes available, amounts of Non-Ad Valorem Revenues (hereinafter defined) of such Borrower sufficient to satisfy the Loan Repayment obligations of such Borrower. "Non-Ad Valorem Revenues" means all revenues and taxes of the particular Borrower derived from any source whatever, other than ad valorem taxation on real and personal property, which are legally available for Loan Repayments.

The Loan Agreement between the City of Inverness and the Issuer is referred to herein as the "Inverness Loan Agreement." The Loan Repayment obligations of the City of Inverness will be payable from and secured solely by a pledge of and lien upon the Half Cent Sales Tax Revenues and Discretionary Communications Services Tax Revenues of the City of Inverness. Further information concerning the Inverness Loan Agreement and the Half Cent Sales Tax Revenues and Discretionary Communications Services Tax Revenues is contained herein under the caption "Security and Sources of Payment - City of Inverness Loan."

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee all of the Issuer's right, title and interest (with certain exceptions specified therein) in and to the Loan Agreements, including the Issuer's right to receive Loan Repayments, as the source of payment of and security for the Bonds.

Reserve Fund

The Indenture establishes a Reserve Fund which is required to be and which shall be funded at closing by the Debt Service Reserve Fund Surety Bond described below.

The Debt Service Reserve Fund Surety Bond also serves as the reserve fund for the Issuer's (i) Revenue Bonds, Series 2001A, issued November 15, 2001, and outstanding as of the date of this Official Statement in the principal amount of \$80,895,000, (ii) Revenue Bonds, Series 2002A, issued May 17, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$47,050,000, (iii) Revenue Bonds, Series 2002B, issued August 15, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$66,385,000, (iv) Revenue Bonds, Series 2002C, issued November 22, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$25,235,000, (v) Revenue Bonds, Series 2003A, issued May 16, 2003, and outstanding as of the date of this Official Statement in the principal amount of \$75,430,000, (vi) Revenue Bonds, Series 2003B, issued December 17, 2003, and outstanding as of the date of this Official Statement in the principal amount of \$45,545,000 (vi) Revenue Bonds, Series 2004A-1, issued July 14, 2004, and outstanding as of the date of this Official Statement in the principal amount of \$15,585,000 and (vii) Revenue Bonds, Series 2004A-2, issued July 14, 2004, and outstanding as of the date of this Official Statement in the principal amount of \$15,650,000. The Insurer has also issued financial guaranty insurance policies with respect to these prior bonds of the Issuer.

The Indenture provides that the Issuer may issue additional bonds and that the Debt Service Reserve Fund Surety Bond may serve as the reserve fund for such additional bonds, but only with the written consent of the Insurer. The Issuer may also substitute an Alternate Surety Bond for the Debt Service Reserve Fund Surety Bond, again only with the written consent of the Insurer.

Moneys on deposit in the Reserve Fund (including the Debt Service Reserve Fund Surety Bond) shall be applied to cure any deficiency in the Revenue Fund. Under the provisions of the Internal Revenue Code applicable to the Bonds, it is generally not feasible to establish a debt service reserve fund with respect to general obligation bonds or the portion of bonds ultimately payable from a general obligation pledge. Thus, amounts on deposit in the Reserve Fund are available to cure a deficiency in the Revenue Fund resultant from the failure of any Borrower to timely pay debt service on its Loan.

MBIA Insurance Corporation (the "Insurer") has committed to issue a debt service reserve surety bond (the "Debt Service Reserve Fund Surety Bond"). The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Issuer or the Trustee to the Insurer to the effect that insufficient amounts are on deposit in the Revenue Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, the Insurer will promptly deposit with the Issuer or the Trustee an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Issuer or the Trustee; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Issuer or the Trustee to the Insurer, the Insurer will make a deposit of funds in an account with the Trustee sufficient for the payment of amounts which are then due to the Trustee (as specified in the Demand for Payment, subject to the Debt Service Reserve Fund Surety Bond coverage).

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Trustee which have not been reimbursed by the Issuer. The Issuer and the Insurer have entered into a Financial Guaranty Agreement (the "Agreement"). Pursuant to the Agreement, the Issuer is required to reimburse the Insurer from amounts it has received, within one year of any deposit, the amount of such deposit made by the Insurer with the Trustee under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required deposits to the Revenue Fund have been made.

Under the terms of the Agreement, the Trustee is required to reimburse the Insurer, from the funds supplied to the Trustee, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated. No optional redemption of Bonds corresponding to a Loan with respect to which a draw has been made under the Debt Service Reserve Fund Surety Bond may be made until the Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond is provided as an alternative to the Issuer depositing funds in the Reserve Fund. The Debt Service Reserve Fund Surety Bond has already been issued in the face amount of \$13,135,750 and the premium therefor has been previously paid. At the time of issuance of the Bonds, the face amount of the Debt Service Reserve Fund Surety Bond will be increased by \$2,781,500 to \$15,917,250, and the premium for such increase will be paid by the Issuer at the time of delivery of the Bonds.

Anti-Dilution Covenant

Each of the Borrowers other than the City of Inverness (herein referred to as the "Covenant Borrowers"), pursuant to their respective Loan Agreement, has covenanted (such covenant being referred to as the "Anti-Dilution Covenant") that as soon as practicable upon the issuance of debt which is secured by its Non-Ad Valorem Revenues, it will deliver to the Issuer and the Insurer a certificate setting forth the calculations of the financial ratios described below and certifying that it is in compliance with such covenants:

(i) Non-Ad Valorem Revenues (average of actual receipts over the prior two years) must cover projected maximum annual debt service on debt secured by and/or payable solely from such Non-Ad Valorem Revenues by at least 150%; and

(ii) projected maximum annual debt service requirements for all debt secured by and/or payable solely from such Non-Ad Valorem Revenues will not exceed 20% of Governmental Fund Revenues (defined as General Fund, Special Fund, Debt Service Fund and Capital Projects Fund), exclusive of (x) ad valorem revenues restricted to payment of debt service on any debt and (y) any debt proceeds, based on the particular Borrower's audited financial statements (average of actual receipts over the prior two years).

For purposes of the foregoing, "maximum annual debt service" means the lesser of the actual maximum annual debt service on all debt or 15% of the original par amount of the debt, in each case, secured by the Borrower's Non-Ad Valorem Revenues.

Additional Bonds; Permitted Parity Indebtedness

No additional Bonds or debt of the Issuer may be issued pursuant to the Indenture. However, the Issuer may issue additional indebtedness, including future series of bonds, for any other purposes of the Issuer (including in order to make loans to borrowers), provided that such indebtedness may not be payable from the Trust Estate pledged to the repayment of the Bonds.

There is no limitation on the issuance of additional debt by the Borrowers except as may result from compliance with the obligations described above under the caption "Anti-dilution Covenant."

The Covenants to Budget and Appropriate

The information under this caption applies only to the Covenant Borrowers.

In General. In each Loan Agreement, each Covenant Borrower covenants and agrees to appropriate (such covenant being referred to as the "Covenant to Budget and Appropriate") in its annual budget, by amendment if required, and to pay when due under its Loan Agreement, as promptly as money becomes available, amounts of Non-Ad Valorem Revenues of the Covenant Borrower to satisfy its Loan Repayment obligations. Such covenant is subject in all respects to the payment of obligations secured by a pledge of Non-Ad Valorem Revenues heretofore or hereinafter entered into. The Covenant Borrowers do not covenant to maintain any services or programs which generate Non-Ad Valorem Revenues or to maintain the charges they collect as of the date of this Official Statement for any such services or programs.

"Non-Ad Valorem Revenues" means all revenues and taxes of the Borrower derived from any source whatever, other than ad valorem taxation on real and personal property, and which are legally available for Loan Repayments.

In Florida, the revenues received by municipalities may be classified based upon whether such revenues are derived from ad valorem taxation. Ad valorem taxes are taxes levied by municipalities upon taxable real and tangible personal property located within the geographic jurisdiction of the municipality. Ad valorem taxes are levied based upon the assessed value of taxable property, and are imposed at a uniform rate per thousand dollars of assessed value. This rate is referred to as the "millage rate," with one mill representing one dollar of ad valorem taxes per thousand dollars of assessed valuation. Exclusive of millage levied pursuant to the approval of the qualified electors of a municipality, municipalities may not levy ad valorem taxes at a rate in excess of ten mills annually.

Revenues received by a municipality other than from ad valorem taxation are referred to as "Non-Ad Valorem Revenues." Florida municipalities collect Non-Ad Valorem Revenues from a variety of sources. Certain Non-Ad Valorem Revenues are not lawfully available to be used by municipalities to satisfy their Loan Repayments.

Under the terms of the Loan Agreements, each Covenant Borrower may pledge its Non-Ad Valorem Revenues to obligations that it issues in the future and certain Covenant Borrowers may have already pledged certain of their Non-Ad Valorem Revenues to existing indebtedness. In the event of any such pledge, such Non-Ad Valorem Revenues would be required to be applied to said obligations prior to being used to repay a Loan.

The amount and availability of Non-Ad Valorem Revenues of each of the Covenant Borrowers are subject to change, including reduction or elimination by change of state law or changes in the facts and circumstances according to which certain of the Non-Ad Valorem Revenues are collected. The amount of Non-Ad Valorem Revenues collected by a Covenant Borrower is, in certain circumstances, beyond the control of the Covenant Borrower.

City of Inverness Loan

The Loan Repayment obligations of the City of Inverness are payable from and are secured by a pledge of and lien upon the Half Cent Sales Tax Revenues and Discretionary Communications Services Tax Revenues of the City, which are collectively referred to herein as the "Pledged Revenues" of the City. Except as described under this caption, the Inverness Loan Agreement is substantially similar to the standard Covenant Loan Agreement.

"Discretionary Communications Services Tax Revenues" means all amounts received by the City from the discretionary communications services tax authorized by Section 202.19, Florida Statutes or any successor provision of law.

"Half-Cent Sales Tax Revenues" means all amounts received by the City from the Local Government Half-Cent Sales Tax Clearing Fund pursuant to Part VI, Chapter 218, Florida Statutes or any successor provision of law.

Discretionary Communications Services Tax in General. Each municipality in Florida is permitted to levy a discretionary communications services tax. A municipality which levies the tax is, subject to certain exemptions, required to levy it on all "communications services" which originate or terminate in the State of Florida and which are charged to a service address within the particular municipality.

"Communications services" is defined in the CSTA to mean the transmission, conveyance or routing of voice, data, audio, video, or any other information or signals, including cable services, to a point, or between points, by or through any electronic, radio, satellite, cable, optical, microwave, or other medium or method now in existence or hereafter devised, regardless of the protocol used for such transmission or conveyance. However, the term "communications services" does not include "information services," installation or maintenance of wiring or equipment on a customer's premises, the sale or rental of tangible personal property, the sale of advertising, including, but not limited to directory advertising, bad check charges, late payment charges, billing and collection services or internet access service, electronic mail service, electronic bulletin board service or similar on-line computer services. "Information service" means, in general, the offering of a capability for generating, acquiring, storing, transforming, processing, retrieving, using, or making available information via communications services, including but not limited to, electronic publishing, web-hosting service and end-user 900 number service.

Services provided to the federal, state or local governments are exempt from the Discretionary Communications Services Tax. Sales to certain non-profit homes for the aged, religious institutions and educational institutions are also exempt from the tax. In addition, the Discretionary Communications Services Tax does not apply to any direct-to-home satellite service. Under certain circumstances, the Discretionary Communications Services Tax may not exceed \$25,000 per calendar year on communication services charges billed to a service address located in a municipality imposing the tax for interstate communications services that originate outside Florida and terminate within Florida.

The maximum rate at which any municipality may impose the Discretionary Communications Services Tax is 5.22%, although certain municipalities may not levy at a rate in excess of 5.10%.

The Discretionary Communications Services Tax is required to be paid by the purchaser of the communication service and collected from such purchaser by the dealer of the communications services. Failure to pay, collect and remit the tax as required by law may subject the offender to criminal penalties.

The proceeds of the tax are required to be remitted by the dealer to the State of Florida Department of Revenue ("FDOR"). Providers of communications services may deduct 0.75% of the tax due and accounted for and remitted to the FDOR as a collection fee (or 0.25% in the case of providers who do not employ an enhanced zip code database or a database that is either supplied or certified by the FDOR).

FDOR is permitted to deduct its cost of administering the tax, not to exceed 1% of the total tax collections, and then distributes the remaining proceeds to the taxing municipality on a monthly basis. Under the CSTA, local governments must work with FDOR to properly identify service addresses to each taxing authority. If the City of Inverness fails to provide FDOR with accurate service address information, it risks losing tax proceeds that it should receive. The City of Inverness has advised the Issuer that it believes it has provided FDOR with all information that the FDOR has requested as of the date hereof and that such information is accurate.

Revenues raised by a municipality from the Discretionary Communications Services Tax may be used for any public purpose, including pledging such revenues to indebtedness.

The City of Inverness has imposed a Discretionary Communications Services Tax since October 1, 2001, the first date on which the tax was authorized under Florida law. The City imposes the Discretionary Communications Services Tax at the current maximum rate permitted.

Historical Collection Data. The following table sets for the amount of Discretionary Communications Services Tax Revenues of the City for the fiscal years ended September 30, 2002 through 2004.

Discretionary Communication Services Tax Revenues Fiscal Years Ended September 30			
Discretionary Communications Services Tax Revenues	<u>2002</u>	<u>2003</u>	<u>2004</u>
	\$388,393	\$391,577	\$377,619

Half-Cent Sales Tax in General. The State of Florida levies and collects a sales tax on, among other things, the sales price of each item or article of tangible personal property sold at retail in the State of Florida, subject to certain exceptions and dealer allowances. In 1982, the Florida legislature created the Local Government Half-Cent Sales Tax Program which distributes sales tax revenue and money from the State's General Revenue Fund to counties and municipalities that meet strict eligibility requirements. In 1982, when the Half-Cent Sales Tax Program was created, the general rate of sales tax in the State was increased from 4% to 5%, and one-half of the fifth cent was devoted to the Program, thus giving rise to the name "Half-Cent Sales Tax." Although the amount of sales tax revenue deposited into the Half-Cent Sales Tax Program is no longer one-half cent on every dollar of the sales price of an item subject to sales tax, the name "Half-Cent Sales Tax" has continued to be utilized.

The proportion of sales tax revenues deposited in the Local Government Half-Cent Sales Tax Trust Fund in the State Treasury (the "Trust Fund") is approximately 8.8%. Therefore, approximately 8.8% of the sales tax remitted to the State of Florida by each sales tax dealer located within a particular county (the

"Half-Cent Sales Tax Revenues") is deposited in the Trust Fund and is earmarked for distribution to the governing body of such county and each participating municipality within that county pursuant to a distribution formula. The Half-Cent Sales Tax Revenues are distributed from the Trust Fund on a monthly basis to participating units of local government in accordance with Part VI, Chapter 218, Florida Statutes (the "Sales Tax Act"). The general rate of sales tax in the State is currently 6%, and therefore, for every dollar of taxable sales price of an item, approximately .54¢ is deposited into the Trust Fund.

The amount of Half-Cent Sales Tax Revenues distributed to the City of Inverness is subject to increase or decrease due to (i) increases or decreases in the dollar volume of taxable sales within Citrus County, Florida (the county in which the City is located), (ii) legislative changes relating to the sales tax, which may include changes in the scope of taxable sales, changes in the tax rate and changes in the amount of sales tax revenue deposited in the Trust Fund, (iii) changes in the relative population of Citrus County, Florida and the municipalities therein, including the City of Inverness, which effect the percentage of Half-Cent Sales Tax Revenues distributed to the City of Inverness, and (iv) other factors, some or all of which may be beyond the control of the City of Inverness.

Eligibility. To be eligible to participate in the Half-Cent Sales Tax Program, each municipality, including the City of Inverness, is required to have

- (i) reported its finances for its most recently completed fiscal year to the State Department of Financial Services as required by Florida law;
- (ii) made provisions for annual post audits of financial accounts in accordance with provisions of law;
- (iii) levied, as shown on its most recent financial report, ad valorem taxes, exclusive of taxes levied for debt service or other special millages authorized by the voters, to produce the revenue equivalent to a millage rate of 3 mills on the dollar based upon 1973 taxable values or, in order to produce revenue equivalent to that which would otherwise be produced by such 3 mill ad valorem tax, to have received certain revenues from the county, an occupational license tax, utility tax, or ad valorem tax, or any combination of those four sources;
- (iv) certified that persons in its employ as law enforcement officers meet certain qualifications for employment, and receive certain compensation;
- (v) certified that persons in its employ as firefighters meet certain employment qualifications and are eligible for certain compensation;
- (vi) certified that each dependent special district that is budgeted separately from the general budget of such municipality has met the provisions for annual post audit of its financial accounts in accordance with law; and
- (vii) certified to the Department of Revenue that it has complied with certain procedures regarding the establishment of the ad valorem tax millage of the municipality as required by law.

The City of Inverness has complied with all of the requirements for eligibility set forth in the Sales Tax Act for the current fiscal year. The City of Inverness covenants in the Inverness Loan Agreement to take

all lawful action necessary or required to remain an eligible recipient of its portion of the funds in the Trust Fund so long as the Inverness Loan remains outstanding.

Although the Sales Tax Act does not impose any limitation on the number of years during which the City of Inverness can receive distributions of the Half-Cent Sales Tax Revenues from the Trust Fund, there may be amendments to the Sales Tax Act in subsequent years imposing additional requirements of eligibility for municipalities and counties participating in the Half-Cent Sales Tax Revenues or the distribution formula in Section 218.62, Florida Statutes may be revised. To be eligible to participate in the Trust Fund in future years, the City of Inverness must comply with the financial reporting and other requirements of the Sales Tax Act. Otherwise, the City of Inverness would lose its Trust Fund distributions for twelve (12) months following a "determination of noncompliance" by the State Department of Revenue.

Distribution. Half-Cent Sales Tax Revenues collected within a county are distributed among such county and the eligible municipalities therein in accordance with the following formula:

$$\begin{array}{l} \text{County's Share} \\ \text{(percentage of} \\ \text{total Half-Cent Sales} \\ \text{Tax Revenues)} \end{array} = \frac{\text{unincorporated county population} + \frac{2}{3} \text{ incorporated area population}}{\text{total county population} + \frac{2}{3} \text{ incorporated area population}}$$

$$\begin{array}{l} \text{Municipal} \\ \text{Share} \\ \text{(percentage of} \\ \text{total Half-Cent Sales} \\ \text{Tax Revenues)} \end{array} = \frac{\text{municipality population}}{\text{total county population} + \frac{2}{3} \text{ incorporated area population}}$$

Historical Collection and Distribution Data. The following table sets forth historical sales tax collection information for the State of Florida and Citrus County, Florida.

**State of Florida and Citrus County
Total Historical Sales Tax Collections
State Fiscal Years 1999 through 2003**

State Fiscal Year Ended <u>June 30</u>	Total Collections State of Florida ⁽¹⁾	Percentage <u>Increase</u>	Total Collections Citrus County ⁽¹⁾	Percentage <u>Increase</u>
2000	\$14,933,807,688	N/A	\$59,401,515	N/A
2001	15,733,732,456	5.35%	63,579,259	7.0%
2002	15,985,431,641	1.59	65,370,675	2.7
2003	16,329,118,390	2.15	65,833,008	0.7
2004	17,639,363,906	8.00	73,499,783	11.6

⁽¹⁾ Represent net total collections after refunds and adjustments.
Source: Florida Department of Revenue.

The table below sets forth the total distribution of Half-Cent Sales Tax Revenues to Citrus County, Florida and the municipalities therein for the State fiscal years ended June 30, 2000 through 2004.

**State Distributions of Half-Cent Sales Tax Revenues to Citrus County, Florida
and Municipalities Therein
State fiscal years ended June 30**

<u>State Fiscal Year Ended June 30</u>	<u>Half-Cent Sales Tax Distributions</u>	<u>Percentage Increase (Decrease)</u>
2000	\$5,469,915	N/A
2001	5,837,430	6.7%
2002	6,296,568	7.9
2003	6,469,595	2.7
2004	7,299,958	12.8

Source: Florida Department of Revenue.

The percentage of the total Half-Cent Sales Tax Revenues distributed to Citrus County, Florida and the municipalities therein in a particular fiscal year that is distributed to the City of Inverness is referred to as the "Distribution Factor" for the City of Inverness. The table below sets forth the Distribution Factors for the City of Inverness for the State's fiscal years ended June 30, 2000 through 2004 and ending June 30, 2005.

Sales Tax Distribution Factors

<u>State Fiscal Year Ended/Ending June 30</u>	<u>Inverness Distribution Factor</u>	<u>Percentage Decrease</u>
2001	5.68598 %	N/A
2002	5.439105	(4.3%)
2003	5.374521	(1.2)
2004	5.297833	(1.4)
2005	5.286609	(0.2)

Source: Florida Department of Revenue.

The table below sets forth the annual collections and changes of the Half-Cent Sales Tax Revenues received by the City of Inverness for the City's fiscal years ended September 30, 2000 through 2004.

<u>Fiscal Year Ended</u>	<u>Half-Cent Sales Tax Revenue Collections</u>	<u>Percentage Increase (Decrease)</u>
2001	\$337,618	N/A
2002	346,549	2.6
2003	354,922	2.4
2004	389,699	9.8

Source: City of Inverness.

Pro-forma Debt Service Coverage. The following table sets forth the pro-forma debt service coverage for the Inverness Loan for the fiscal years ended September 30, 2002, 2003 and 2004.

Historical Coverage of Maximum Annual Debt Service Fiscal Years Ended September 30			
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Inverness Pledged Revenues	\$734,941	\$746,499	\$767,318
Debt Service ⁽¹⁾	\$348,000	\$348,000	\$348,000
Debt Service Coverage	2.11x	2.15x	2.20x

⁽¹⁾ Maximum annual debt service for the Basic Payments portion of City of Inverness Loan.

Under the Inverness Loan Agreement, the City of Inverness covenants to take all lawful steps necessary in order to impose on a continuing basis the Discretionary Communications Services Tax at such rate and on such services as permitted by law in order to receive Pledged Revenues sufficient at all times to timely pay the Loan Repayments.

Under the terms of the Inverness Loan Agreement, the City of Inverness is permitted to issue additional debt payable from and secured by a lien upon and pledge of the Pledged Revenues on a parity with the Loan Repayment obligations under the Inverness Loan Agreement provided that, among other things, the amount of Pledged Revenues received by the City for any twelve consecutive months within the 30 months immediately preceding the date of the additional debt equals at least 135% of the maximum annual debt service on the Inverness Loan Agreement (Basic Payments only) and the proposed parity debt. The Inverness Loan Agreement does not contain any limitation upon the issuance of indebtedness of the City of Inverness that is not payable from or secured by the Pledged Revenues; the Anti-dilution Covenant described herein is not contained in the Inverness Loan Agreement.

The City of Inverness does not plan on incurring any indebtedness payable from the Pledged Revenues for the foreseeable future.

Financial Statements of the Borrowers

Appendices G through L include financial information about each of the Borrowers.

FINANCIAL GUARANTY INSURANCE

General

Payment of the principal of and interest on the Bonds will be insured by a Financial Guaranty Insurance Policy (the "Policy") to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds.

Financial Guaranty Insurance

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix F for a specimen of the Insurer's Policy.

The Insurer's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to clauses (i) through (iii) of this paragraph. The Insurer's Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws

also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and the Insurer set forth under the heading "Financial Guaranty Insurance." Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guaranty Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on Form 10-Q and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004, MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA."

Fitch Ratings rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be reversed or withdrawn.

The insurance provided by the Insurer's Policy is not covered by the Florida Insurance Guaranty Association created under Chapter 631, Florida Statutes.

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DEBT SERVICE REQUIREMENTS

The following table sets forth the total annual scheduled debt service requirements for the Bonds.

Year Ending February 1 (Inclusive)	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Debt Service</u>
2006	\$1,205,000.00	\$2,385,746.91	\$3,590,746.91
2007	1,290,000.00	2,446,130.02	3,736,130.02
2008	1,335,000.00	2,407,430.02	3,742,430.02
2009	1,375,000.00	2,364,042.52	3,739,042.52
2010	1,420,000.00	2,319,355.02	3,739,355.02
2011	1,470,000.00	2,276,755.02	3,746,755.02
2012	1,530,000.00	2,217,955.02	3,747,955.02
2013	1,575,000.00	2,168,230.02	3,743,230.02
2014	1,640,000.00	2,101,292.52	3,741,292.52
2015	1,700,000.00	2,043,892.52	3,743,892.52
2016	1,770,000.00	1,982,267.50	3,752,267.50
2017	1,845,000.00	1,912,352.50	3,757,352.50
2018	1,915,000.00	1,839,475.00	3,754,475.00
2019	2,015,000.00	1,743,725.00	3,758,725.00
2020	2,115,000.00	1,642,975.00	3,757,975.00
2021	2,085,000.00	1,537,225.00	3,622,225.00
2022	2,190,000.00	1,432,975.00	3,622,975.00
2023	2,285,000.00	1,323,475.00	3,608,475.00
2024	2,420,000.00	1,209,225.00	3,629,225.00
2025	2,535,000.00	1,088,225.00	3,623,225.00
2026	1,600,000.00	961,475.00	2,561,475.00
2027	1,675,000.00	889,475.00	2,564,475.00
2028	1,750,000.00	814,100.00	2,564,100.00
2029	1,830,000.00	735,350.00	2,565,350.00
2030	1,915,000.00	653,000.00	2,568,000.00
2031	2,010,000.00	557,250.00	2,567,250.00
2032	2,115,000.00	456,750.00	2,571,750.00
2033	2,225,000.00	351,000.00	2,576,000.00
2034	2,340,000.00	239,750.00	2,579,750.00
2035	<u>2,455,000.00</u>	<u>122,750.00</u>	<u>2,577,750.00</u>
Total	\$55,630,000.00	\$44,223,649.59	\$99,853,649.59

The following tables set forth the annual Basic Payments for each Borrower.

Year Ending February 1 (inclusive)	City of <u>Bartow</u>	City of Hallandale <u>Beach</u>	City of <u>Hialeah</u>	Town of <u>Indian Shores</u>	City of <u>Inverness</u>	City of <u>Valparaiso</u>
2006	\$357,145.52	\$651,524.35	\$1,761,064.64	\$359,238.10	\$328,355.56	\$133,418.74
2007	370,322.52	677,452.50	1,832,795.00	371,727.50	345,300.00	138,532.50
2008	375,222.52	678,152.50	1,832,045.00	373,577.50	342,300.00	141,132.50
2009	369,372.52	677,752.50	1,829,495.00	375,002.50	344,050.00	143,370.00
2010	368,522.52	682,027.50	1,831,457.50	371,265.00	345,637.50	140,445.00
2011	372,972.52	681,677.50	1,834,207.50	372,815.00	342,337.50	142,745.00
2012	370,172.52	682,477.50	1,835,407.50	373,015.00	342,937.50	143,945.00
2013	368,672.52	680,452.50	1,835,257.50	373,952.50	344,200.00	140,695.00
2014	369,960.02	679,302.50	1,833,057.50	373,427.50	344,100.00	141,445.00
2015	367,435.02	680,477.50	1,834,782.50	373,702.50	344,725.00	142,770.00
2016	374,460.00	680,615.00	1,834,770.00	373,627.50	345,012.50	143,782.50
2017	375,177.50	683,827.50	1,836,527.50	372,900.00	344,680.00	144,240.00
2018	370,500.00	681,250.00	1,837,100.00	376,975.00	344,150.00	144,500.00
2019	373,000.00	683,250.00	1,838,350.00	373,975.00	346,900.00	143,250.00
2020	374,750.00	684,000.00	1,837,600.00	375,725.00	344,150.00	141,750.00
2021	375,750.00	683,500.00	1,839,850.00	376,975.00	346,150.00	--
2022	371,000.00	686,750.00	1,839,850.00	377,725.00	347,650.00	--
2023	370,750.00	683,500.00	1,837,600.00	372,975.00	343,650.00	--
2024	374,750.00	689,000.00	1,843,100.00	377,975.00	344,400.00	--
2025	372,750.00	687,750.00	1,840,850.00	377,225.00	344,650.00	--
2026	--	--	1,841,100.00	375,975.00	344,400.00	--
2027	--	--	1,844,350.00	375,400.00	344,725.00	--
2028	--	--	1,845,125.00	374,375.00	344,600.00	--
2029	--	--	1,843,425.00	377,900.00	344,025.00	--
2030	--	--	1,844,250.00	375,750.00	348,000.00	--
2031	--	--	1,845,500.00	376,750.00	345,000.00	--
2032	--	--	1,848,250.00	377,000.00	346,500.00	--
2033	--	--	1,852,250.00	376,500.00	347,250.00	--
2034	--	--	1,852,250.00	380,250.00	347,250.00	--
2035	--	--	1,853,250.00	378,000.00	346,500.00	--
Total	\$7,422,685.70	\$13,614,739.35	\$55,114,917.14	\$11,241,700.60	\$10,333,585.56	\$2,126,021.24

TAX MATTERS

General

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements which must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income for purposes of Federal income taxation. Non-compliance may cause interest on the Bonds to be included in Federal gross income retroactive to the date of issuance of the Bonds, regardless of the date on which such non-compliance occurs or is ascertained. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Bonds and the other amounts are to be invested and require that certain investment earnings on the foregoing must be rebated on a periodic basis to the Treasury Department of the United States. The Issuer has covenanted in the Indenture and the Borrowers have covenanted in the Loan Agreements to comply with such requirements in order to maintain the exclusion from Federal gross income of the interest on the Bonds.

In the opinion of Bond Counsel, assuming compliance with the aforementioned covenants, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is excluded from gross income for purposes of Federal income taxation. Interest on the Bonds is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals or corporations; however, interest on the Bonds may be subject to the alternative minimum tax when any Bond is held by a corporation. The alternative minimum taxable income of a corporation must be increased by 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (before this adjustment and the alternative tax net operating loss deduction). "Adjusted Current Earnings" will include interest on the Bonds. In addition, in the opinion of Bond Counsel the Bonds are exempt from all present intangible personal property taxes imposed pursuant to Chapter 199, Florida Statutes.

Except as described above, Bond Counsel will express no opinion regarding the Federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of Bonds. Prospective purchasers of Bonds should be aware that the ownership of Bonds may result in collateral Federal income tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by 15% of certain items, including interest on the Bonds, (iii) the inclusion of interest on the Bonds in earning of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of interest on Bonds in passive income subject to Federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year, and (v) the inclusion of interest on the Bonds in "modified adjusted gross income" by recipients of certain Social Security and Railroad Retirement benefits for purposes of determining whether such benefits are included in gross income for Federal income tax purposes.

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE BONDS AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE BONDHOLDERS. PROSPECTIVE BONDHOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

During recent years legislative proposals have been introduced in Congress, and in some cases enacted, that altered certain Federal tax consequences resulting from the ownership of obligations that are similar to the Bonds. In some cases these proposals have contained provisions that altered these consequences on a retroactive basis. Such alteration of Federal tax consequences may have affected the market value of obligations similar to the Bonds. From time to time, legislative proposals are pending which could have an effect on both the Federal tax consequences resulting from ownership Bonds and their market value. No assurance can be given that legislative proposals will not be introduced or enacted that would or might apply to, or have an adverse effect upon, the Bonds.

Tax Treatment of Bond Premium

The Bonds, other than the Bonds maturing in the years 2012, 2014, 2015, 2017 and 2029, were offered at a price in excess of the principal amount thereof. Under the Code, the excess of the cost basis of a bond over the principal amount of the bond (other than for a bondholder who holds a bond as inventory, stock in trade, or for sale to customers in the ordinary course of business) is generally characterized as "bond premium." For federal income tax purposes, bond premium is amortized over the term of the bonds. A bondholder will therefore be required to decrease his basis in the Bonds by the amount of the amortizable bond premium attributable to each taxable year he holds such Bond. The amount of the amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes.

In addition, the Bonds maturing in the years 2018 through 2025 and in 2035 were offered at prices in excess of the principal amount thereof to achieve a yield based upon the date on which such Bonds are subject to optional redemption by the Issuer (the "Call Date") rather than the maturity date (the "Callable Premium Bonds"). Under the Code, the excess of the cost basis of a Callable Premium Bond over the amount payable at the Call Date of the Callable Premium Bond that minimizes the yield to a purchaser of a Callable Premium Bond (the "Lowest Yield Call Date") (other than for a bondholder who holds a bond as inventory, stock in trade, or for sale to customers in the ordinary course of business) is generally characterized as "bond premium." For federal income tax purposes, bond premium is amortized over the period to the Lowest Yield Call Date of a Callable Premium Bond. A bondholder will therefore be required to decrease his basis in the Callable Premium Bond by the amount of the amortizable bond premium attributable to each taxable year he holds such Callable Premium Bond. The amount of the amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes.

Holders of the Bonds described above should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption, or other disposition of such Bonds.

Tax Treatment of Original Issue Discount

Under the Code, the difference between the principal amount of the Bonds maturing in the years 2012, 2014, 2015 and 2029 and the initial offering price to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers, at which price a substantial amount of the Bonds of the same maturity was sold is "original issue discount." Original issue discount will accrue over the term of such Bonds at a constant interest rate compounded periodically. A purchaser who acquires such Bonds in the initial offering at a price equal to the initial offering price thereof to the public will be treated as receiving an amount of interest excludable from gross income for federal income tax purposes equal to the original issue discount accruing during the period he holds such Bonds, and will increase his adjusted basis in such Bonds by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Bonds. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of the Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those above. Owners of such Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale, redemption or other disposition of Bonds and with respect to the state and local tax consequences of owning and disposing of such Bonds.

LITIGATION

On the date of delivery of the Bonds, counsel to each respective Borrower, will render an opinion that there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending, or to the best of such counsel's knowledge after due inquiry threatened, against or affecting such Borrower wherein an unfavorable decision, ruling or finding would adversely affect such Borrower, its financial condition or its ability to comply with its obligations under the Loan Agreement or the validity or enforceability of the Loan Agreement.

On the date of delivery of the Bonds, counsel to the Issuer will render an opinion that there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body,

pending, or to the best of his knowledge, after due inquiry of the Issuer, threatened against or affecting the Issuer, wherein an unfavorable decision, ruling or finding would adversely affect the validity of the Bonds, the Indenture or the Loan Agreements.

VALIDATION

On February 13, 2003, the Circuit Court of the Second Judicial Circuit of Florida in and for Leon County, Florida, entered an order validating the Bonds. The time for filing an appeal from such judgment expired with no appeal having been filed.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale by the Issuer of the Bonds are subject to the approving opinion of Bryant Miller & Olive P.A. bond counsel. Bond counsel has not undertaken to independently verify, and therefore expresses no opinion as to the accuracy, completeness or fairness of any of the statements in this Official Statement or in the Appendices hereto, except as to the fairness and accuracy of the information in the sections hereof captioned "The Bonds" (except for the information contained in the subheading thereunder captioned "Book-Entry Only System" as to which no opinion will be expressed), "Security and Sources of Payment" (except for the information under the subheadings thereunder captioned "City of Inverness Loan" as to which no opinion will be expressed) and "Tax Matters." A form of the approving opinion of bond counsel is included herein as Appendix E. Certain legal matters will be passed upon for the Issuer by its counsel, Kraig A. Conn, Esquire, counsel to the Issuer, as assistant general counsel to the Florida League of Cities, Inc. and for the Underwriter by its counsel, Moyle, Flanigan, Katz, Raymond & Sheehan, P.A. Certain legal matters will be passed upon for certain of the Borrowers by their respective counsel.

Bond Counsel, counsel to the Issuer and counsel to the Underwriter will receive fees for services rendered in connection with the issuance of the Bonds, which fees are contingent upon the issuance and sale of the Bonds.

RATINGS

Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies and Fitch, Inc. have assigned ratings of "AAA" and "AAA," respectively, to the Bonds with the understanding that upon delivery of the Bonds, a financial guaranty insurance policy will be issued by the Insurer. In addition, S&P has assigned a rating of "A-" to the Bonds without regard to the insurance policy. The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained only from the rating agencies. The ratings are not a recommendation to buy, sell or hold the Bonds and there is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of either or both of the rating agencies, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the Underwriter nor the Issuer has undertaken responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of the ratings of the Bonds, or to oppose any proposed revision or withdrawal.

UNDERWRITING

Banc of America Securities LLC, the Underwriter, has agreed, subject to certain customary conditions precedent, to purchase the Bonds at a price of \$57,160,534.55 (which includes net original issue

premium of \$1,863,758.25 and underwriter's discount of \$333,223.70), and to reoffer the Bonds at the prices shown on the inside cover hereof. If obligated to purchase any of the Bonds, the Underwriter will be obligated to purchase all of the Bonds. The initial public offering prices may be changed from time to time by the Underwriter.

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds. Depending upon prevailing market conditions, including the financial condition or market positions of firms which may make the secondary market, evaluation of the Borrowers' capabilities and the financial condition and results of their operations, there may not be a secondary market for the Bonds from time to time, and investors in the Bonds may be unable to divest themselves of their interests therein.

FINANCIAL ADVISOR TO THE ISSUER

The Issuer has retained Waters and Company, LLC, Birmingham, Alabama, as Financial Advisor in connection with the Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE

In compliance with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, 240.15c2-12) (the "Rule"), the Issuer and each Borrower have entered into a covenant (each, a "Continuing Disclosure Covenant") that constitutes the written undertaking for the benefit of the holders of the Bonds required by Section (b)(5)(i) of the Rule. The form of the Continuing Disclosure Covenants for the Issuer and the Borrowers are contained in Appendices A and B hereof.

ENFORCEABILITY OF REMEDIES

The remedies available to the owners of the Bonds upon an event of default under the Indenture and any policy of insurance referred to herein are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the federal bankruptcy code, the Indenture, the Bonds and any policy of insurance referred to herein may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the remedies provided in the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after such delivery.

MISCELLANEOUS

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such reference or summary is qualified in its entirety by reference to each such document, statute, report or other instrument. So far as any statements made in this Official Statement involve matters of opinion or are estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

FLORIDA MUNICIPAL LOAN COUNCIL

By: /s/ Raul Martinez

Its Chairman

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APPENDIX A

CONTINUING DISCLOSURE AGREEMENT FOR BORROWERS

This **CONTINUING DISCLOSURE AGREEMENT** dated as of February 1, 2005 (the "Continuing Disclosure Agreement") is executed and delivered by _____, a Florida municipality ("Borrower"), and by Florida League of Cities, Inc., a Florida corporation not-for-profit, as Dissemination Agent (the "Dissemination Agent") hereunder. Additional capitalized terms used herein shall have the meanings ascribed thereto in Section 2 hereof.

SECTION 1. Nature of Undertaking. This Continuing Disclosure Agreement constitutes an undertaking by the Borrower under paragraph (b)(5) of the Rule to provide Financial Information and notice of the occurrence of certain events with respect to the Bonds, as provided in paragraph (b)(5)(i)(C) of the Rule, and otherwise to assist the Participating Underwriter in complying with paragraph (b)(5) of the Rule with respect to the Offering of the Bonds. Among other things, the Borrower is hereby undertaking (i) to disseminate an Annual Report not later than 270 days after the end of each Fiscal Year of the Borrower in accordance with Section 4 hereof, which contains Financial Information with respect to the Borrower, (ii) if an Annual Report does not contain the Audited Financial Statements, to disseminate the Audited Financial Statements in accordance with Section 4 hereof as soon as practicable after they shall have been approved by the Governing Body, (iii) to provide notice in a timely manner, in accordance with Section 6 hereof, of the occurrence of any of the Listed Events related to the Borrower and (iv) to provide notice in a timely manner, in accordance with Section 4(e) hereof, of any failure to disseminate an Annual Report in accordance with the preceding clause (i) of this sentence.

SECTION 2. Definitions. In addition to the definitions set forth above and in the herein-defined Indenture, which shall apply to any capitalized terms used herein, the following capitalized terms shall have the following meanings, unless otherwise defined therein:

"Annual Report" means a document or set of documents which (a) identifies the Borrower; (b) contains (or includes by reference to documents which were provided to each Repository or filed with the SEC or, if by reference to the Final Official Statement, filed with the MSRB prior to the date that the Annual Report containing such reference is provided to the Dissemination Agent in accordance with Section 4 hereof): (i) Financial Information and Operating Data for the Borrower; (ii) Audited Financial Statements if such Audited Financial Statements shall have been approved by the Governing Body at the time the Annual Report is required to be provided to the Dissemination Agent in accordance with Section 4 hereof; and (iii) Unaudited Financial Statements if the Audited Financial Statements shall not have been approved by the Governing Body at the time the Annual Report is required to be provided to the Dissemination Agent in accordance with Section 4 hereof; (c) in the event that the Borrower delivers a Continuing Disclosure Certificate to the Dissemination Agent pursuant to Section 5(b) hereof, contains (in the case of the Annual Report disseminated on or immediately after the date such Continuing Disclosure Certificate is so delivered) a narrative explanation of the reasons for the changes in Financial Information and/or Operating Data set forth in such Continuing Disclosure Certificate and the effect of the changes on the types of Financial Information and/or Operating Data being provided in such Annual Report; and (d) in the event that

the Borrower authorizes a change in the accounting principles by which its Audited Financial Statements are prepared, contains (in the case of the Annual Report disseminated on or immediately after the date of such change) (1) a comparison between the Financial Information prepared on the basis of the new accounting principles which is contained in such Annual Report and the Financial Information prepared on the basis of the former accounting principles which was contained in the previous Annual Report disseminated immediately prior to such Annual Report and (2) a discussion of the differences between such accounting principles and the effect of such change on the presentation of the Financial Information being provided in such Annual Report.

"Annual Report Certificate" means an Annual Report Certificate in the form attached hereto as Exhibit A.

"Annual Report Date" means the date which is 270 days after the end of a Fiscal Year.

"Audited Financial Statements" means the financial statements of the Borrower which have been examined by independent certified public accountants in accordance with generally accepted auditing standards.

"Bondholder" means (i) the registered owner of a Bond and (ii) the beneficial owner of a Bond, as the term "beneficial owner" is used in any agreement with a securities depository for the Bonds and as the term may be modified by an interpretation by the SEC of paragraph (b)(5) of the Rule.

"Bonds" means the \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2005A.

"Continuing Disclosure Agreement" means this Continuing Disclosure Agreement, as the same may be supplemented and amended pursuant to Section 8 hereof.

"Continuing Disclosure Certificate" means a Continuing Disclosure Certificate in the form attached hereto as Exhibit B delivered by the Borrower to the Dissemination Agent pursuant to Section 5 hereof.

"Dissemination Agent" means Florida League of Cities, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent which is appointed pursuant to Section 3 hereof or to which the responsibilities of Dissemination Agent under this Continuing Disclosure Agreement shall have been assigned in accordance with Section 9 hereof.

"Event Notice" means notice of the occurrence of a Listed Event.

"Final Official Statement" means the Final Official Statement prepared in connection with the Offering of the Bonds.

"Financial Information" means financial information related to the Borrower of the types identified in the Continuing Disclosure Certificate most recently delivered by the Borrower to the Dissemination Agent in accordance with Section 5 hereof. The Financial Information (i) shall be

prepared for the Fiscal Year immediately preceding the date of the Annual Report containing such Financial Information, and (ii) shall be prepared on the basis of the Audited Financial Statements to be provided to the Dissemination Agent concurrently with the Annual Report, provided that, if the Audited Financial Statements are to be provided to the Dissemination Agent subsequent to the date that the Annual Report is provided to the Dissemination Agent, such Financial Information may be prepared on the basis of the Unaudited Financial Statements.

"Governing Body" shall mean the governing body of the Borrower which shall approve the Audited Financial Statements.

"Indenture" means the Trust Indenture dated as of February 1, 2005 by and between Florida Municipal Loan Council, as Issuer, and Wachovia Bank, National Association, as Trustee.

"Insurer" means MBIA Insurance Corporation.

"Issuer" means Florida Municipal Loan Council.

"Loan Agreement" means the Loan Agreement dated as of February 1, 2005, between the Issuer and the Borrower.

"Listed Events" means any of the events which are set forth in Section 6 hereof.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means, as of the date of determination, any Nationally Recognized Municipal Securities Information Repository for purposes of paragraph (b)(5) of the Rule.

"Offering" means the primary offering of the Bonds for sale by the Participating Underwriter.

"Operating Data" means operating data of the types identified in the Continuing Disclosure Certificate most recently delivered by the Borrower to the Dissemination Agent in accordance with Section 5 hereof. The Operating Data shall be prepared for the Fiscal Year immediately preceding the date of the Annual Report containing such Operating Data.

"Participating Underwriter" means Banc of America Securities LLC.

"Rating Agencies" means Fitch, Inc. and Standard & Poor's Ratings Services.

"Repository" or "Repositories" means the NRMSIRs and the SIDs, either individually or collectively, as the context requires.

"Rule" means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended, as the Rule may be amended from time to time, or any successor provision thereto.

"SEC" means the Securities and Exchange Commission.

"SID" means, as of the date of determination, any public or private repositories or entities which are designated by the State of Florida as state information depositories for purposes of paragraph (b)(5) of the Rule and recognized as such by the SEC.

"Trustee" means Wachovia Bank, National Association, as trustee under the Indenture.

"Unaudited Financial Statements" means unaudited financial statements of the Borrower for any Fiscal Year which have been prepared on a basis substantially consistent with the Audited Financial Statements to be subsequently prepared for such Fiscal Year. The Unaudited Financial Statements for any Fiscal Year shall be prepared on a comparative basis with the Audited Financial Statements prepared for the preceding Fiscal Year.

SECTION 3. Appointment of Dissemination Agent: Obligations of Borrower Respecting Undertaking. (a) The Borrower hereby appoints Florida League of Cities, Inc. to act as the initial Dissemination Agent hereunder. Florida League of Cities, Inc. hereby accepts such appointment. The Borrower may, from time to time, appoint a successor Dissemination Agent or discharge any then acting Dissemination Agent, with or without cause. If at any time there shall be no Dissemination Agent appointed and acting hereunder or the then appointed and acting Dissemination Agent shall fail to perform its obligations hereunder, the Borrower shall discharge such obligations until such time as the Borrower shall appoint a successor Dissemination Agent or the then appointed and acting Dissemination Agent shall resume the performance of such obligations.

(b) The Borrower hereby acknowledges that the Borrower is obligated to comply with this Continuing Disclosure Agreement and that the appointment of the Dissemination Agent as agent of the Borrower for the purposes herein provided does not relieve the Borrower of its obligations with respect to this Continuing Disclosure Agreement.

SECTION 4. Annual Financial Information. (a) The Financial Information shall be contained in the Annual Reports and, if provided separately in accordance with Section 5(b) hereof, the Audited Financial Statements which the Borrower is required to deliver to the Dissemination Agent for dissemination in accordance with this Section 4.

(b) The Dissemination Agent shall notify the Borrower of each Annual Report Date and of the Borrower's obligation hereunder not more than 60 and not less than 30 days prior to each Annual Report Date. The Borrower shall provide an Annual Report to the Dissemination Agent, together with an Annual Report Certificate, not later than each Annual Report Date, provided that, if the Annual Report does not include the Audited Financial Statements, the Borrower shall provide the Audited Financial Statements to the Dissemination Agent as soon as practicable after they shall have been approved by the Governing Body.

(c) The Dissemination Agent shall provide the Annual Report and, if received separately in accordance with Section 4(b) hereof, the Annual Financial Statements, to each Repository, the Trustee, the Issuer, the Rating Agencies and the Insurer within five (5) Business Days after receipt thereof from the Borrower.

(d) The Dissemination Agent shall provide the Issuer, the Borrower and the Trustee written confirmation that the Annual Report and, if received separately in accordance with Section 4(b) hereof, the Annual Financial Statements, were provided to each Repository in accordance with Section 4(c) hereof.

(e) If the Dissemination Agent shall not have filed the Annual Report by the Annual Report Date, the Dissemination Agent shall so notify the Borrower, the Repositories, the Trustee and the Insurer within five (5) Business Days of the Annual Report Date.

SECTION 5. Continuing Disclosure Certificates. (a) The Borrower shall prepare a Continuing Disclosure Certificate in the form attached hereto as Exhibit B in connection with the Offering of the Bonds and shall deliver the same to the Dissemination Agent for dissemination to the Participating Underwriter, Issuer and Trustee.

(b) Prior to the deletion or substitution of any Financial Information and Operating Data from the information listed in Exhibit B hereto the Borrower will obtain an opinion of nationally recognized disclosure counsel (which may also act as outside counsel to of the Borrower) addressed to the Issuer, the Participating Underwriter, the Trustee and the Dissemination Agent to the effect that the Financial and Operating Data to be provided will comply with the Rule, as in effect on the date of the Offering of the Bonds and taking into account any amendment or interpretation of the Rule by the SEC or any adjudication of the Rule by a final decision of a court of competent jurisdiction which may have occurred subsequent to the execution and delivery of this Continuing Disclosure Agreement. The Dissemination Agent is entitled to rely on such opinion without further investigation.

(c) Notwithstanding Section 5(b) hereof, the Borrower shall not be required to comply with Section 5(b) hereof if such Section shall no longer be deemed to be required in order for this Continuing Disclosure Agreement to comply with the Rule as a result of the adoption, rendering or delivery of (i) an amendment or interpretation of the Rule by the SEC, (ii) an adjudication of the Rule by a final decision of a court of competent jurisdiction or (iii) an opinion of nationally recognized disclosure counsel (which may also act as outside counsel to the Borrower), in each case, to that effect.

(d) Any delivery of a Continuing Disclosure Certificate pursuant to Section 5(b) hereof shall not be deemed to be an amendment to this Continuing Disclosure Agreement and shall not be subject to the provisions of Section 8 hereof.

SECTION 6. Reporting of Listed Events. (a) This Section 6 governs the provision of Event Notices relating to Listed Events with respect to the Bonds. The following events are "Listed Events":

- (i) principal and interest payment deficiencies;
- (ii) non-payment related defaults;

- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to the rights of the holders of the Bonds;
- (viii) optional, contingent or unscheduled redemption calls;
- (ix) defeasances;
- (x) release, satisfaction or sale of property securing repayment of the Bonds; and
- (xi) rating changes;

provided that each of the Listed Events shall be interpreted in accordance with any interpretation of the Rule by the SEC or adjudication of the Rule by a final decision of a court of competent jurisdiction which may occur subsequent to the date of the original execution and delivery hereof.

(b) Whenever the Borrower obtains actual knowledge of the occurrence of any of the Listed Events with respect to or caused by the Borrower, the Borrower shall, on a timely basis and in any event within ten (10) Business Days, determine whether the occurrence of such event is material to any of the Bondholders.

(c) If the Borrower determines that the occurrence of any of the Listed Events is material to any of the Bondholders, the Borrower shall promptly notify the Dissemination Agent of such determination in writing and instruct the Dissemination Agent to provide Event Notice in accordance with Section 6(e) hereof.

(d) If the Borrower determines that the occurrence of the Listed Event described in such notice is not material, the Borrower shall notify the Dissemination Agent of such determination, and no Event Notice shall be provided pursuant to Section 6(e) hereof. The determination of the Borrower under this paragraph (d) shall be conclusive and binding on all parties hereto.

(e) If the Borrower instructs the Dissemination Agent to provide an Event Notice pursuant to Section 6(c) hereof, the Dissemination Agent shall, within three (3) Business Days thereafter, file an Event Notice with each Repository, the Trustee, the Rating Agencies, the Issuer and the Insurer. The Dissemination Agent shall provide the Borrower, the Issuer and the Trustee

written confirmation that such Event Notice was provided to each Repository in accordance with this Section 6(e).

(f) Notwithstanding the foregoing, an Event Notice with respect to a Listed Event described in Section 6(a)(viii) or (ix) shall not be given under this Section 6 any earlier than the notice (if any) of such event is given to the affected Bondholders pursuant to the Indenture, as confirmed to the Dissemination Agent by the Trustee. The Dissemination Agent shall have no liability for failure of notice given to Bondholders if it does not receive the necessary confirmation from the Trustee after written request.

(g) Notwithstanding the foregoing, whenever the Borrower authorizes a change in either its Fiscal Year or the accounting principles by which its Audited Financial Statements are prepared, the Borrower shall provide the Dissemination Agent with written notice of such change and instruct the Dissemination Agent to file a copy of such notice with each Repository, the Issuer, the Insurer, the Rating Agencies and the Trustee, and the Dissemination Agent shall, within three (3) Business Days thereafter, file a copy of such notice with each Repository, the Issuer, the Insurer, the Rating Agencies and the Trustee. The Dissemination Agent shall provide the Borrower written confirmation that such notice was provided to each Repository in accordance with this Section 6(g).

SECTION 7. Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent (i) the Borrower from disseminating any information or notice of the occurrence of any event using the means of dissemination specified in this Continuing Disclosure Agreement or other means or (ii) the Borrower from including in an Annual Report any information which shall be in addition to the Financial Information, Operating Data and Audited or Unaudited Financial Statements required by Section 4 hereof to be included in such Annual Report, provided that this Continuing Disclosure Agreement shall not be deemed to require the Borrower to include or update any such additional information in any subsequently prepared Annual Report.

SECTION 8. Amendments: Waivers. This Continuing Disclosure Agreement may be amended, and any provision hereof may be waived, by the parties hereto if, prior to the effective date of any such amendment or waiver, the Borrower delivers to the Dissemination Agent, the Issuer and the Trustee an opinion of nationally recognized disclosure counsel (which may also act as outside counsel to one or more members of the Borrower), to the effect that this Continuing Disclosure Agreement (taking into account such amendment or waiver) complies with the Rule, as in effect on the date of the Offering of Bonds or after the execution and delivery of this Continuing Disclosure Agreement, taking into account any amendment or interpretation of the Rule by the SEC or any adjudication of the Rule by a final decision of a court of competent jurisdiction which may have occurred subsequent to the execution and delivery of this Continuing Disclosure Agreement. The Dissemination Agent shall notify the Repositories of any such amendment and shall provide the Repositories with a copy of any such amendment.

SECTION 9. Assignment. The Borrower may not assign its obligations under this Continuing Disclosure Agreement. The Dissemination Agent may assign its rights and responsibilities hereunder to a third party with the consent of the Borrower which shall not be unreasonably withheld.

SECTION 10. Compensation of the Dissemination Agent. As compensation to the Dissemination Agent for its services pursuant to this Continuing Disclosure Agreement, the Borrower agrees to pay all fees and all expenses of the Dissemination Agent including, without limitation, all reasonable expenses, charges, costs and other disbursements in the administration and performance of its duties hereunder, and shall to the extent permitted by law indemnify and save the Dissemination Agent and its officers, directors, attorneys, agents and employees harmless from and against any costs, expenses, damages or other liabilities (including attorneys fees) which it (or they) may incur in the exercise of its (or their) powers and duties hereunder, except with respect to its (or their) willful misconduct or gross negligence. Nothing contained herein is intended to be nor shall it be construed as a waiver of any immunity from or limitation of liability that the Borrower may be entitled to pursuant to the Doctrine of Sovereign Immunity or Section 768.28, Florida Statutes. Notwithstanding anything to the contrary contained herein, the obligations of the Borrower hereunder shall be limited obligations payable solely from the sources provided under Section 2.02(a) of the Loan Agreement.

SECTION 11. Concerning the Dissemination Agent and the Borrower. (a) The Dissemination Agent is not answerable for the exercise of any discretion or power under this Continuing Disclosure Agreement or for anything whatever in connection herewith, except only its own willful misconduct or gross negligence. The Dissemination Agent shall have no liability to the Bondholders or any other person with respect to the undertakings described in Section 1 hereof, except as expressly set forth in this Continuing Disclosure Agreement regarding its own willful misconduct or gross negligence.

(b) The Dissemination Agent has no responsibility or liability hereunder for determining compliance for any information submitted hereunder with any law, rule or regulation or the terms of this agreement. The Dissemination Agent shall have no responsibility for disseminating information not delivered to it or giving notice of non-delivery except as specifically required hereunder; and

(c) The parties to this Continuing Disclosure Agreement acknowledge and agree that the Borrower assumes no obligations hereunder other than those specifically assumed by the Borrower herein.

SECTION 12. Termination of this Continuing Disclosure Agreement. This Continuing Disclosure Agreement shall terminate at such time as the Loan Agreement terminates.

SECTION 13. Beneficiaries. This Continuing Disclosure Agreement shall inure solely to the benefit of the Borrower, the Dissemination Agent, the Trustee, the Issuer, the Insurer, the Participating Underwriter and the Bondholders. This Continuing Disclosure Agreement shall not be deemed to inure to the benefit of or grant any rights to any party other than the parties specified in the preceding sentence.

SECTION 14. Counterparts. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

SECTION 15. Governing Law. This Continuing Disclosure Agreement shall be governed by the laws of the State of Florida.

IN WITNESS WHEREOF, the Borrower and the Dissemination Agent have caused this Continuing Disclosure Agreement to be executed and delivered as of the date first written above.

_____, as Borrower

By: _____

Its: _____

FLORIDA LEAGUE OF CITIES, INC.,
as Dissemination Agent

By: _____

Its: _____

EXHIBIT A

Form of Annual Report Certificate

The undersigned duly appointed and acting _____ of _____, a Florida municipality, as Borrower under the Continuing Disclosure Agreement (hereinafter described) (the "Borrower"), hereby certifies on behalf of the Borrower pursuant to the Continuing Disclosure Agreement dated as of February 1, 2005 (the "Continuing Disclosure Agreement") executed and delivered by the Borrower and accepted by Florida League of Cities, Inc., as Dissemination Agent (the "Dissemination Agent"), as follows:

1. Definitions. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Continuing Disclosure Agreement.
2. Annual Report. Accompanying this Annual Report Certificate is the Annual Report for the Fiscal Year ended _____.
3. Compliance with Continuing Disclosure Agreement. The Annual Report is being delivered to the Dissemination Agent herewith not later than 270 days after the end of the Fiscal Year to which the Annual Report relates. The Annual Report contains, or includes by reference, Financial Information and Operating Data of the types identified in the Continuing Disclosure Certificate most recently delivered to the Dissemination Agent pursuant to Section 5 of the Continuing Disclosure Agreement. To the extent any such Financial Information or Operating Data is included in the Annual Report by reference, any document so referred to has been previously provided to the Repositories or filed with the SEC or, in the case of a reference to a Final Official Statement, has been filed with the MSRB.

Such Financial Information and Operating Data have been prepared on the basis of the [Audited/Unaudited] Financial Statements. [Such Audited Financial Statements are included as part of the Annual Report.] [Because the Audited Financial Statements have not been approved by the Governing Body as of the date hereof, the Unaudited Financial Statements have been included as part of the Annual Report. The Unaudited Financial Statements have been prepared on a basis substantially consistent with such Audited Financial Statements. The Borrower shall deliver such Audited Financial Statements to the Dissemination Agent as soon as practicable after they have been approved by the Governing Body.]

IN WITNESS WHEREOF, the undersigned has executed and delivered this Annual Report Certificate to the Dissemination Agent, which has received such certificate and the Annual Report, all as of the day of the ___ day of _____, ____.

_____, as Borrower

By: _____

Its: _____

Acknowledgment of Receipt:

as Dissemination Agent

By: _____

Its: _____

EXHIBIT B

Form of Section 5(a) Continuing Disclosure Certificate

Florida League of Cities, Inc.
301 Bronough Street
Tallahassee, Florida 33401

The undersigned duly authorized signatory of _____ (the "Borrower") hereby certifies on behalf of the Borrower pursuant to the Continuing Disclosure Agreement dated as of February 1, 2005 (the "Continuing Disclosure Agreement") executed and delivered by the Borrower and accepted by Florida League of Cities, Inc., as Dissemination Agent (the "Dissemination Agent"), as follows:

1. Definitions. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Continuing Disclosure Agreement.

2. Purpose. The Borrower is delivering this Continuing Disclosure Certificate to the Dissemination Agent pursuant to Section 5(a) of the Continuing Disclosure Agreement.

3. Financial Information and Operating Data Included in Final Official Statement. The following types of Financial Information and Operating Data were included in the Final Official Statement for the Bonds and are to be included in the Annual Report:

(a) Financial Information _____

(b) Operating Data _____

4. Annual Report. Until such time as the Borrower delivers a revised Continuing Disclosure Certificate and an opinion of disclosure counsel to the Dissemination Agent pursuant to Section 5 of the Continuing Disclosure Agreement, the Financial Information and Operating Data of the types identified in paragraph 3 of this certificate shall be included in the Annual Reports delivered by the Dissemination Agent pursuant to Section 4 of the Continuing Disclosure Agreement.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Continuing Disclosure Certificate to the Dissemination Agent, which has received the same, all as of the 1st day of February, 2005.

_____, as Borrower

By: _____

Its: _____

Acknowledgment of Receipt:

Florida League of Cities, Inc., as
Dissemination Agent

By: _____

Its: _____

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APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE ISSUER

This **CONTINUING DISCLOSURE AGREEMENT** dated as of February 1, 2005 (the "Continuing Disclosure Agreement") is executed and delivered by Florida Municipal Loan Council, ("Issuer"), and by Florida League of Cities, Inc., a Florida corporation not-for-profit, as Dissemination Agent (the "Dissemination Agent") hereunder. Additional capitalized terms used herein shall have the meanings ascribed thereto in Section 2 hereof.

SECTION 1. Nature of Undertaking. This Continuing Disclosure Agreement constitutes an undertaking by the Issuer under paragraph (b)(5) of the Rule to provide Annual Financial Information and notice of the occurrence of certain events with respect to the Bonds, as provided in paragraph (b)(5)(i)(C) of the Rule, and otherwise to assist the Participating Underwriter in complying with paragraph (b)(5) of the Rule with respect to the Offering of the Bonds. Among other things, the Issuer is hereby undertaking (i) to disseminate an Annual Report not later than 270 days after the end of each Fiscal Year of the Issuer in accordance with paragraph (b)(5)(i)(A) of the Rule and Section 4 hereof, which contains Annual Financial Information with respect to the Issuer, (ii) if an Annual Report does not contain the Audited Financial Statements, to disseminate the Audited Financial Statements in accordance with paragraph (b)(5)(i)(B) of the Rule and Section 4 hereof as soon as practicable after they shall have been approved by the Governing Body, (iii) to provide notice in a timely manner, in accordance with paragraph (b)(5)(i)(C) of the Rule and Section 6 hereof, of the occurrence of any of the Listed Events related to the Issuer and (iv) to provide notice in a timely manner, in accordance with paragraph (b)(5)(i)(D) of the Rule and Section 4(e) hereof, of any failure to disseminate an Annual Report in accordance with the preceding clause (i) of this sentence.

SECTION 2. Definitions. In addition to the definitions set forth above and in the herein-defined Indenture, which shall apply to any capitalized terms used herein, the following capitalized terms shall have the following meanings, unless otherwise defined therein:

"Annual Financial Information" shall have the meaning ascribed thereto in paragraph (f)(9) of the Rule.

"Annual Report" means a document or set of documents which (a) identifies the Issuer; (b) contains (or includes by reference to documents which were provided to each Repository or filed with the SEC or, if by reference to the Final Official Statement, filed with the MSRB prior to the date that the Annual Report containing such reference is provided to the Dissemination Agent in accordance with Section 4 hereof): (i) Financial Information and Operating Data for the Issuer; (ii) Audited Financial Statements if such Audited Financial Statements shall have been approved by the Governing Body at the time the Annual Report is required to be provided to the Dissemination Agent in accordance with Section 4 hereof; and (iii) Unaudited Financial Statements if the Audited Financial Statements shall not have been approved by the Governing Body at the time the Annual Report is required to be provided to the Dissemination Agent in accordance with Section 4 hereof; (c) in the event that the Issuer delivers a Continuing Disclosure Certificate to the Dissemination Agent pursuant to Section 5(b) hereof, contains (in the case of the Annual Report disseminated on or immediately after the date such Continuing Disclosure Certificate is so delivered) a narrative

explanation of the reasons for the changes in Financial Information and/or Operating Data set forth in such Continuing Disclosure Certificate and the effect of the changes on the types of Financial Information and/or Operating Data being provided in such Annual Report; and (d) in the event that the Issuer authorizes a change in the accounting principles by which its Audited Financial Statements are prepared, contains (in the case of the Annual Report disseminated on or immediately after the date of such change) (1) a comparison between the Financial Information prepared on the basis of the new accounting principles which is contained in such Annual Report and the Financial Information prepared on the basis of the former accounting principles which was contained in the previous Annual Report disseminated immediately prior to such Annual Report and (2) a discussion of the differences between such accounting principles and the effect of such change on the presentation of the Financial Information being provided in such Annual Report.

"Annual Report Certificate" means an Annual Report Certificate in the form attached hereto as Exhibit A.

"Annual Report Date" means the date which is 270 days after the end of a Fiscal Year.

"Audited Financial Statements" means the financial statements of the Issuer which have been examined by independent certified public accountants in accordance with generally accepted auditing standards.

"Bondholder" means (i) the registered owner of a Bond and (ii) the beneficial owner of a Bond, as the term "beneficial owner" is used in any agreement with a securities depository for the Bonds and as the term may be modified by an interpretation by the SEC of paragraph (b)(5) of the Rule.

"Bonds" means the \$ _____ Florida Municipal Loan Council Revenue Bonds, Series 2005A.

"Continuing Disclosure Agreement" means this Continuing Disclosure Agreement, as the same may be supplemented and amended pursuant to Section 8 hereof.

"Continuing Disclosure Certificate" means a Continuing Disclosure Certificate in the form attached hereto as Exhibit B delivered by the Issuer to the Dissemination Agent pursuant to Section 5 hereof.

"Dissemination Agent" means Florida League of Cities, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent which is appointed pursuant to Section 3 hereof or to which the responsibilities of Dissemination Agent under this Continuing Disclosure Agreement shall have been assigned in accordance with Section 9 hereof.

"Event Notice" means notice of the occurrence of a Listed Event.

"Final Official Statement" means the Final Official Statement (as defined in paragraph (f)(3) of the Rule) prepared in connection with the Offering of the Bonds.

"Financial Information" means financial information related to the Issuer of the types identified in the Continuing Disclosure Certificate most recently delivered by the Issuer to the Dissemination Agent in accordance with Section 5 hereof. The Financial Information (i) shall be prepared for the Fiscal Year immediately preceding the date of the Annual Report containing such Financial Information, and (ii) shall be prepared on the basis of the Audited Financial Statements to be provided to the Dissemination Agent concurrently with the Annual Report, provided that, if the Audited Financial Statements are to be provided to the Dissemination Agent subsequent to the date that the Annual Report is provided to the Dissemination Agent, such Financial Information may be prepared on the basis of the Unaudited Financial Statements.

"Governing Body" shall mean the governing body of the Issuer which shall approve the Audited Financial Statements.

"Indenture" means the Trust Indenture dated as of February 1, 2005, by and between the Issuer and Wachovia Bank, National Association, as Trustee.

"Insurer" means MBIA Insurance Corporation.

"Issuer" means Florida Municipal Loan Council.

"Listed Events" means any of the events which are listed in paragraph (b)(5)(i)(C) of the Rule as in effect on the date hereof and which are set forth in Section 6 hereof.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means, as of the date of determination, any Nationally Recognized Municipal Securities Information Repository for purposes of paragraph (b)(5) of the Rule.

"Offering" shall have the meaning ascribed thereto in paragraph (a) of the Rule.

"Operating Data" means operating data of the types identified in the Continuing Disclosure Certificate most recently delivered by the Issuer to the Dissemination Agent in accordance with Section 5 hereof. The Operating Data shall be prepared for the Fiscal Year immediately preceding the date of the Annual Report containing such Operating Data.

"Participating Underwriter" means Banc of America Securities LLC.

"Rating Agencies" means Fitch, Inc. and Standard & Poor's Ratings Services.

"Repository" or "Repositories" means the NRMSIRs and the SIDs, either individually or collectively, as the context requires.

"Rule" means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended, as the Rule may be amended from time to time, or any successor provision thereto.

"SEC" means the Securities and Exchange Commission.

"**SID**" means, as of the date of determination, any public or private repositories or entities which are designated by the State of Florida as state information depositories for purposes of paragraph (b)(5) of the Rule and recognized as such by the SEC.

"**Trustee**" means Wachovia Bank, National Association, as trustee under the Indenture.

"**Unaudited Financial Statements**" means unaudited financial statements of the Issuer for any Fiscal Year which have been prepared on a basis substantially consistent with the Audited Financial Statements to be subsequently prepared for such Fiscal Year. The Unaudited Financial Statements for any Fiscal Year shall be prepared on a comparative basis with the Audited Financial Statements prepared for the preceding Fiscal Year.

SECTION 3. Appointment of Dissemination Agent: Obligations of Issuer Respecting Undertaking. (a) The Issuer hereby appoints Florida League of Cities, Inc. to act as the initial Dissemination Agent hereunder. Florida League of Cities, Inc. hereby accepts such appointment. The Issuer may, from time to time, appoint a successor Dissemination Agent or discharge any then acting Dissemination Agent, with or without cause. If at any time there shall be no Dissemination Agent appointed and acting hereunder or the then appointed and acting Dissemination Agent shall fail to perform its obligations hereunder, the Issuer shall discharge such obligations until such time as the Issuer shall appoint a successor Dissemination Agent or the then appointed and acting Dissemination Agent shall resume the performance of such obligations.

(b) The Issuer hereby acknowledges that the Issuer is obligated to comply with paragraph (5)(i) of the Rule in connection with the issuance of the Bonds and that the appointment of the Dissemination Agent as agent of the Issuer for the purposes herein provided does not relieve the Issuer of its obligations with respect to paragraph (5)(i) of the Rule.

SECTION 4. Annual Financial Information. (a) The Annual Financial Information shall be contained in the Annual Reports and, if provided separately in accordance with Section 5(b) hereof, the Audited Financial Statements which the Issuer is required to deliver to the Dissemination Agent for dissemination in accordance with this Section 4.

(b) The Dissemination Agent shall notify the Issuer of each Annual Report Date and of the Issuer's obligation hereunder not more than 60 and not less than 30 days prior to each Annual Report Date. The Issuer shall provide an Annual Report to the Dissemination Agent, together with an Annual Report Certificate, not later than each Annual Report Date, provided that, if the Annual Report does not include the Audited Financial Statements, the Issuer shall provide the Audited Financial Statements to the Dissemination Agent as soon as practicable after they shall have been approved by the Governing Body.

(c) The Dissemination Agent shall provide the Annual Report and, if received separately in accordance with Section 4(b) hereof, the Annual Financial Statements, to each Repository, the Trustee, the Rating Agencies and the Insurer within five (5) Business Days after receipt thereof from the Issuer.

(d) The Dissemination Agent shall provide the Issuer and the Trustee written confirmation that the Annual Report and, if received separately in accordance with Section 4(b) hereof, the Annual Financial Statements, were provided to each Repository in accordance with Section 4(c) hereof.

(e) If the Dissemination Agent shall not have filed the Annual Report by the Annual Report Date, the Dissemination Agent shall so notify the Repositories, the Trustee and the Insurer within five (5) Business Days of the Annual Report Date.

SECTION 5. Continuing Disclosure Certificates. (a) The Issuer shall prepare a Continuing Disclosure Certificate in the form attached hereto as Exhibit B in connection with the Offering of the Bonds and shall deliver the same to the Dissemination Agent for dissemination to the Participating Underwriter and Trustee.

(b) Prior to the deletion or substitution of any Financial Information and Operating Data from the information listed in Exhibit B hereto the Issuer will obtain an opinion of nationally recognized disclosure counsel (which may also act as outside counsel to of the Issuer) addressed to the Issuer, the Participating Underwriter, the Trustee and the Dissemination Agent to the effect that the Financial and Operating Data to be provided will comply with the Rule, as in effect on the date of the Offering of the Bonds and taking into account any amendment or interpretation of the Rule by the SEC or any adjudication of the Rule by a final decision of a court of competent jurisdiction which may have occurred subsequent to the execution and delivery of this Continuing Disclosure Agreement. The Dissemination Agent is entitled to rely on such opinion without further investigation.

(c) Notwithstanding Section 5(b) hereof, the Issuer shall not be required to comply with Section 5(b) hereof if such Section shall no longer be deemed to be required in order for this Continuing Disclosure Agreement to comply with the Rule as a result of the adoption, rendering or delivery of (i) an amendment or interpretation of the Rule by the SEC, (ii) an adjudication of the Rule by a final decision of a court of competent jurisdiction or (iii) an opinion of nationally recognized disclosure counsel (which may also act as outside counsel to the Issuer), in each case, to that effect.

(d) Any delivery of a Continuing Disclosure Certificate pursuant to Section 5(b) hereof shall not be deemed to be an amendment to this Continuing Disclosure Agreement and shall not be subject to the provisions of Section 8 hereof.

SECTION 6. Reporting of Listed Events. (a) This Section 6 governs the provision of Event Notices relating to Listed Events with respect to the Bonds. The following events are "Listed Events":

- (i) principal and interest payment deficiencies;
- (ii) non-payment related defaults;

- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to the rights of the holders of the Bonds;
- (viii) optional, contingent or unscheduled redemption calls;
- (ix) defeasances;
- (x) release, satisfaction or sale of property securing repayment of the Bonds; and
- (xi) rating changes;

provided that each of the Listed Events shall be interpreted in accordance with any interpretation of the Rule by the SEC or adjudication of the Rule by a final decision of a court of competent jurisdiction which may occur subsequent to the date of the original execution and delivery hereof.

(b) Whenever the Issuer obtains actual knowledge of the occurrence of any of the Listed Events, the Issuer shall, on a timely basis and in any event within ten (10) Business Days, determine whether the occurrence of such event is material to any of the Bondholders.

(c) If the Issuer determines that the occurrence of any of the Listed Events is material to any of the Bondholders, the Issuer shall promptly notify the Dissemination Agent of such determination in writing and instruct the Dissemination Agent to provide Event Notice in accordance with Section 6(e) hereof.

(d) If the Issuer determines that the occurrence of the Listed Event described in such notice is not material, the Issuer shall notify the Dissemination Agent of such determination, and no Event Notice shall be provided pursuant to Section 6(e) hereof. The determination of the Issuer under this paragraph (d) shall be conclusive and binding on all parties hereto.

(e) If the Issuer instructs the Dissemination Agent to provide an Event Notice pursuant to Section 6(c) hereof, the Dissemination Agent shall, within three (3) Business Days thereafter, file an Event Notice with each Repository, the Trustee, the Rating Agencies and the Insurer. The Dissemination Agent shall provide the Issuer and the Trustee written confirmation that such Event Notice was provided to each Repository in accordance with this Section 6(e).

(f) Notwithstanding the foregoing, an Event Notice with respect to a Listed Event described in Section 6(a)(viii) or (ix) shall not be given under this Section 6 any earlier than the notice (if any) of such event is given to the affected Bondholders pursuant to the Indenture, as confirmed to the Dissemination Agent by the Trustee. The Dissemination Agent shall have no liability for failure of notice given to Bondholders if it does not receive the necessary confirmation from the Trustee after written request.

(g) Notwithstanding the foregoing, whenever the Issuer authorizes a change in either its Fiscal Year or the accounting principles by which its Audited Financial Statements are prepared, the Issuer shall provide the Dissemination Agent with written notice of such change and instruct the Dissemination Agent to file a copy of such notice with each Repository, the Insurer, the Rating Agencies and the Trustee, and the Dissemination Agent shall, within three (3) Business Days thereafter, file a copy of such notice with each Repository, the Insurer, the Rating Agencies and the Trustee. The Dissemination Agent shall provide the Issuer written confirmation that such notice was provided to each Repository in accordance with this Section 6(g).

SECTION 7. Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent (i) the Issuer from disseminating any information or notice of the occurrence of any event using the means of dissemination specified in this Continuing Disclosure Agreement or other means or (ii) the Issuer from including in an Annual Report any information which shall be in addition to the Financial Information, Operating Data and Audited or Unaudited Financial Statements required by Section 4 hereof to be included in such Annual Report, provided that this Continuing Disclosure Agreement shall not be deemed to require the Issuer to include or update any such additional information in any subsequently prepared Annual Report.

SECTION 8. Amendments: Waivers. This Continuing Disclosure Agreement may be amended, and any provision hereof may be waived, by the parties hereto if, prior to the effective date of any such amendment or waiver, the Issuer delivers to the Dissemination Agent and the Trustee an opinion of nationally recognized disclosure counsel (which may also act as outside counsel to one or more members of the Issuer), to the effect that this Continuing Disclosure Agreement (taking into account such amendment or waiver) complies with the Rule, as in effect on the date of the Offering of Bonds or after the execution and delivery of this Continuing Disclosure Agreement, taking into account any amendment or interpretation of the Rule by the SEC or any adjudication of the Rule by a final decision of a court of competent jurisdiction which may have occurred subsequent to the execution and delivery of this Continuing Disclosure Agreement. The Dissemination Agent shall notify the Repositories of any such amendment and shall provide the Repositories with a copy of any such amendment.

SECTION 9. Assignment. The Issuer may not assign its obligations under this Continuing Disclosure Agreement. The Dissemination Agent may assign its rights and responsibilities hereunder to a third party with the consent of the Issuer which shall not be unreasonably withheld.

SECTION 10. Compensation of the Dissemination Agent. As compensation to the Dissemination Agent for its services pursuant to this Continuing Disclosure Agreement, the Issuer agrees to pay all fees and all expenses of the Dissemination Agent including, without limitation, all

reasonable expenses, charges, costs and other disbursements in the administration and performance of its duties hereunder, and shall to the extent permitted by law indemnify and save the Dissemination Agent and its officers, directors, attorneys, agents and employees harmless from and against any costs, expenses, damages or other liabilities (including attorneys fees) which it (or they) may incur in the exercise of its (or their) powers and duties hereunder, except with respect to its (or their) willful misconduct or gross negligence.

SECTION 11. Concerning the Dissemination Agent and the Issuer. (a) The Dissemination Agent is not answerable for the exercise of any discretion or power under this Continuing Disclosure Agreement or for anything whatever in connection herewith, except only its own willful misconduct or gross negligence. The Dissemination Agent shall have no liability to the Bondholders or any other person with respect to the undertakings described in Section 1 hereof, except as expressly set forth in this Continuing Disclosure Agreement regarding its own willful misconduct or gross negligence.

(b) The Dissemination Agent has no responsibility or liability hereunder for determining compliance for any information submitted hereunder with any law, rule or regulation or the terms of this agreement. The Dissemination Agent shall have no responsibility for disseminating information not delivered to it or giving notice of non-delivery except as specifically required hereunder; and

(c) The parties to this Continuing Disclosure Agreement acknowledge and agree that the Issuer assumes no obligations hereunder other than those specifically assumed by the Issuer herein.

SECTION 12. Termination of this Continuing Disclosure Agreement. This Continuing Disclosure Agreement shall terminate at such time as the Bonds are no longer outstanding.

SECTION 13. Beneficiaries. This Continuing Disclosure Agreement shall inure solely to the benefit of the Dissemination Agent, the Trustee, the Issuer, the Insurer, the Participating Underwriter and the Bondholders. This Continuing Disclosure Agreement shall not be deemed to inure to the benefit of or grant any rights to any party other than the parties specified in the preceding sentence.

SECTION 14. Counterparts. This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

SECTION 15. Governing Law. This Continuing Disclosure Agreement shall be governed by the laws of the State of Florida.

IN WITNESS WHEREOF, the Issuer and the Dissemination Agent have caused this Continuing Disclosure Agreement to be executed and delivered as of the date first written above.

FLORIDA MUNICIPAL LOAN COUNCIL,
as Issuer

By: _____
Its: Chairman

FLORIDA LEAGUE OF CITIES, INC.,
as Dissemination Agent

By: _____
Its: Executive Director

EXHIBIT A

Form of Annual Report Certificate

The undersigned duly appointed and acting _____ of Florida Municipal Loan Council, as Issuer under the Continuing Disclosure Agreement (hereinafter described) (the "Issuer"), hereby certifies on behalf of the Issuer pursuant to the Continuing Disclosure Agreement dated as of February 1, 2005 (the "Continuing Disclosure Agreement") executed and delivered by the Issuer and accepted by Florida League of Cities, Inc., as Dissemination Agent (the "Dissemination Agent"), as follows:

1. Definitions. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Continuing Disclosure Agreement.
2. Annual Report. Accompanying this Annual Report Certificate is the Annual Report for the Fiscal Year ended _____.
3. Compliance with Continuing Disclosure Agreement. The Annual Report is being delivered to the Dissemination Agent herewith not later than 270 days after the end of the Fiscal Year to which the Annual Report relates. The Annual Report contains, or includes by reference, Financial Information and Operating Data of the types identified in the Continuing Disclosure Certificate most recently delivered to the Dissemination Agent pursuant to Section 5 of the Master Continuing Disclosure Agreement. To the extent any such Financial Information or Operating Data is included in the Annual Report by reference, any document so referred to has been previously provided to the Repositories or filed with the SEC or, in the case of a reference to a Final Official Statement, has been filed with the MSRB.

Such Financial Information and Operating Data have been prepared on the basis of the [Audited/Unaudited] Financial Statements. [Such Audited Financial Statements are included as part of the Annual Report.] [Because the Audited Financial Statements have not been approved by the Governing Body as of the date hereof, the Unaudited Financial Statements have been included as part of the Annual Report. The Unaudited Financial Statements have been prepared on a basis substantially consistent with such Audited Financial Statements. The Issuer shall deliver such Audited Financial Statements to the Dissemination Agent as soon as practicable after they have been approved by the Governing Body.]

IN WITNESS WHEREOF, the undersigned has executed and delivered this Annual Report Certificate to the Dissemination Agent, which has received such certificate and the Annual Report, all as of the day of the ___ day of _____, ____.

FLORIDA MUNICIPAL LOAN COUNCIL,
as Issuer

By: _____
Its: _____

Acknowledgment of Receipt:

as Dissemination Agent

By: _____
Its: _____

EXHIBIT B

Form of Section 5(a) Continuing Disclosure Certificate

Florida League of Cities, Inc.
Tallahassee, Florida
Wachovia Bank, National Association
Jacksonville, Florida
Florida Municipal Loan Council
Tallahassee, Florida
Banc of America Securities LLC
Clearwater, Florida

The undersigned duly appointed and acting Chairman of Florida Municipal Loan Council (the "Issuer") hereby certifies on behalf of the Issuer pursuant to the Continuing Disclosure Agreement dated as of February 1, 2005 (the "Continuing Disclosure Agreement") executed and delivered by the Issuer and accepted by Florida League of Cities, Inc., as Dissemination Agent (the "Dissemination Agent"), as follows:

1. Definitions. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Continuing Disclosure Agreement.
2. Purpose. The Issuer is delivering this Continuing Disclosure Certificate to the Dissemination Agent pursuant to Section 5(a) of the Continuing Disclosure Agreement.
3. Written Undertaking. On behalf of the Issuer, the Issuer hereby designates the Continuing Disclosure Agreement to be the written undertaking under paragraph (b)(5) of the Rule with respect to the \$ _____ Florida Municipal Loan Council Revenue Bonds, Series 2005A.
4. Financial Information and Operating Data Included in Final Official Statement. The following types of Financial Information and Operating Data were included in the Final Official Statement for the Bonds and are to be included in the Annual Report:
 - (a) Financial Information None
 - (b) Operating Data None
5. Annual Report. Until such time as the Issuer delivers a revised Continuing Disclosure Certificate and an opinion of disclosure counsel to the Dissemination Agent pursuant to Section 5 of the Continuing Disclosure Agreement, the Financial Information and Operating Data of the types identified in paragraph 4 of this certificate shall be included in the Annual Reports delivered by the Dissemination Agent pursuant to Section 4 of the Continuing Disclosure Agreement.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Continuing Disclosure Certificate to the Dissemination Agent, which has received the same, all as of the 1st day of February, 2005.

FLORIDA MUNICIPAL LOAN COUNCIL,
as Issuer

By: _____
Its: Chairman

Acknowledgment of Receipt:

FLORIDA LEAGUE OF CITIES, INC.,
as Dissemination Agent

By: _____
Its: Executive Director

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APPENDIX C
FORM OF THE INDENTURE

FLORIDA MUNICIPAL LOAN COUNCIL,

Issuer

and

WACHOVIA BANK, NATIONAL ASSOCIATION,

Trustee

TRUST INDENTURE

\$ _____
Florida Municipal Loan Council
Revenue Bonds, Series 2005 A

Dated as of February 1, 2005

This instrument also constitutes a security agreement under the laws of the State of Florida.

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EXHIBIT A: Form of Bonds

EXHIBIT B: Borrowers

TRUST INDENTURE

THIS TRUST INDENTURE is made and entered into as of February 1, 2005, by and between FLORIDA MUNICIPAL LOAN COUNCIL, a legal entity and public body corporate and politic duly created and existing under the Constitution and laws of the State of Florida (the "Council"), and WACHOVIA BANK, NATIONAL ASSOCIATION, a national banking association, duly organized, existing and authorized to accept and execute trusts of the character herein set out, as Trustee (the "Trustee").

WITNESSETH:

WHEREAS, all capitalized undefined terms used herein shall have the meanings set forth in Article I hereof; and

WHEREAS, the Council is duly created and existing pursuant to the Constitution and laws of the State of Florida, including particularly Part I of Chapter 163, Florida Statutes, as amended (the "Interlocal Act"), and initially certain resolutions of the City of Stuart, Florida, the City of Deland, Florida and the City of Rockledge, Florida; and

WHEREAS, the Council, pursuant to the authority of the Interlocal Act and other applicable provisions of law, is authorized, among other things, to issue revenue bonds on behalf of and for the benefit of the Borrowers in the State in order to finance, refinance or reimburse the cost of qualified Projects of Borrowers, such bonds to be secured by instruments evidencing and securing loans to said Borrowers and to be payable solely out of the payments made by such Borrowers pursuant to Loan Agreements entered into between the Borrowers and the Council or from other moneys designated as available therefor and not otherwise pledged or used as security, and to enter into a trust indenture providing for the issuance of such bonds and for their payment and security; and

WHEREAS, the Council has determined that the public interest will be best served and that the purposes of the Interlocal Act can be more advantageously obtained by the Council's issuance of revenue bonds in order to provide funds to loan to the participating Borrowers to finance, refinance or reimburse the cost of qualifying Projects pursuant to Loan Agreements between the respective Borrowers and the Council; and

WHEREAS, the Council has previously by a resolution adopted on October 23, 2002 (the "Resolution"), authorized the issuance of its Florida Municipal Loan Council Revenue Bonds, in various series in an additional aggregate principal amount of not exceeding \$750,000,000, pursuant to certain trust indentures, to provide funds to finance, refinance or reimburse the cost of qualified Projects of the participating Borrowers; and

WHEREAS, the Council has now determined to issue its \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2005A at this time pursuant to this Trust Indenture for the purposes more fully described herein; and

WHEREAS, in order to secure the payment when due of the principal of, premium, if any, and interest on the Bonds, the Borrowers have covenanted or pledged in the Loan Agreements to (i) budget and appropriate legally available non-ad valorem funds of the Borrowers sufficient for that purpose, (ii) pay from ad valorem funds of the Borrowers or (iii) pay from specific revenues of the Borrowers; and

WHEREAS, the Council has obtained a commitment from the Bond Insurer to issue a Bond Insurance Policy in connection with the issuance of the Bonds.

NOW, THEREFORE, THIS TRUST INDENTURE

WITNESSETH:

GRANTING CLAUSES

The Council, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the owners thereof, and for other good and valuable consideration, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds according to their tenor and effect and to secure the performance and observance by the Council of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell, convey, mortgage, assign, pledge and grant, without recourse, a security interest in the Trust Estate to the Trustee, and its successors in trust and assigns forever, for the securing of the performance of the obligations of the Council hereinafter set forth:

GRANTING CLAUSE FIRST

All right, title and interest of the Council under the Loan Agreements (excluding fees and expenses payable to the Council and rights of the Council to indemnity and notices thereunder and excluding any payments made by the Borrowers to comply with the rebate provisions of Section 148(f) of the Code) if, as and when entered into by the Borrowers and any documents securing payment thereunder, including all extensions and renewals of any of the terms of the Loan Agreements and any documents securing payment thereunder, if any, and without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and receipt for any income, issues and profits and other sums of money payable to or receivable by the Council to bring actions or proceedings under the Loan Agreements, any documents securing payment thereunder or for the enforcement thereof, and to do any and all things which the Council is or may become entitled to do under or due to its ownership of the interests hereby granted in the Loan Agreements; and

GRANTING CLAUSE SECOND

All moneys and securities from time to time held by the Trustee under the terms of this Indenture (except for moneys and securities held in the Rebate Fund); and

GRANTING CLAUSE THIRD

All Revenues, any proceeds of the Bond Insurance Policy, any proceeds of the Surety Bond, any and all other property, rights and interests of every kind and nature from time to time hereafter by delivery or by writing of any kind granted, bargained, sold, alienated, demised, released, conveyed, assigned, transferred, pledged, hypothecated or otherwise subjected hereto, as and for additional security herewith, by the Council or any other person on its behalf or with its written consent, and the Trustee is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof;

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, to the Trustee and its respective successors in trust and assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future owners of the Bonds issued under and secured by this Indenture and the Bond Insurer without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the other Bonds;

PROVIDED, HOWEVER, that the holders of the Bonds shall be entitled to payment only from the Loan Agreements more fully described in Granting Clause First hereof pledged for the payment of such Bonds, the Funds and Accounts set forth in Granting Clause Second hereof established for such Bonds and the Revenues, proceeds of the Bond Insurance Policy and other property, rights and interests described in Granting Clause Third pledged for the payment of such Bonds;

AND FURTHER PROVIDED, that if the Council, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, premium, if any, and interest on the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds and as provided in Article II hereof according to the true intent and meaning thereof, and shall cause the payments to be made as required under Article II hereof, or shall provide, as permitted hereby, for the payment thereof in accordance with Article VIII hereof, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee and any Paying Agent all sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments or deposits as provided in Article VIII hereof, this Indenture and the rights hereby granted shall cease, terminate and be void and the Trustee shall thereupon cancel and discharge this Indenture and execute and deliver to the Council such instruments in writing as shall be requisite to evidence the discharge hereof.

THIS TRUST INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered and all of the Trust Estate is to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the Council has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective owners, from time to time, of the Bonds, or any part thereof, as follows:

ARTICLE I

DEFINITIONS AND RULES OF INTERPRETATION

SECTION 1.01. Definitions.

Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Indenture and of any Supplemental Indenture, have the meanings herein specified.

“Accountant” or “Accountants” means an independent certified public accountant or a firm of independent certified public accountants.

“Accounts” means the accounts created pursuant to Section 4.02 hereof.

“Act” means collectively, Chapter 163, Part I, Florida Statutes, Chapter 166, Part II, Florida Statutes, and Chapter 125, Part I, as amended, and all other applicable provisions of law.

“Additional Payments” means payments required by Section 5.03 of the Loan Agreement.

“Alternate Surety Bond” means any letter of credit or surety bond obtained to replace the Surety Bond then in effect pursuant to this Indenture.

“Alternate Surety Bond Provider” means any provider of an Alternate Surety Bond.

“Amortization Installment” with respect to any Term Bonds, shall mean an amount so designated for mandatory principal installments (for mandatory call or otherwise) payable on any Terms Bonds issued under the provisions of this Indenture.

“Arbitrage Regulations” means the income tax regulations promulgated, proposed or applicable pursuant to Section 148 of the Code, as the same may be amended or supplemented or proposed to be amended or supplemented from time to time.

“Authorized Denominations” means \$5,000 and integral multiples thereof.

“Authorized Representative” means, when used pertaining to the Council, the Chairman of the Council and such other designated members, agents or representatives as may hereafter be selected by Council resolution and, when used with reference to a Borrower which is a municipality, means the person performing the functions of the Mayor or Deputy or Vice Mayor thereof and, when used with reference to a Borrower which is a County means the person performing the functions of the Chairman or Vice Chairman of the Board of County Commissioners of such Borrowers, and, when used with reference to an act or document, also means any other person authorized by resolution to perform such act or sign such document.

“Basic Payments” means the payments denominated as such in Section 5.01 of the Loan Agreement.

“Board” means the governing body of the Borrower.

“Bond Counsel” means Bryant Miller & Olive P.A., Tampa, Florida, or any other nationally recognized bond counsel which is selected by the Council and acceptable to the Trustee.

“Bondholder” or “Holder” or “holder of Bonds” or “Owner” or “owner of Bonds”, whenever used herein with respect to a Bond, means the person in whose name such Bond is registered.

“Bond Insurance Policy” means the financial guaranty insurance policy of the Bond Insurer which insures payment when due of the principal of and interest on the Bonds as provided therein.

“Bond Insurance Premium” with respect to the Bonds, means the premiums payable to the Bond Insurer for the Bond Insurance Policy.

“Bond Insurer” means MBIA Insurance Corporation, and any successor thereto.

“Bonds” means the \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2005A issued hereunder.

“Bond Service Requirement” for any Bond Year shall mean the sum of: (1) the amount required to pay the interest becoming due on the Bonds during such Bond Year, (2) the amount required to pay the principal of the Bonds maturing in such Bond Year, and (3) the amount required to pay the Amortization Installment becoming due during such Bond Year.

“Bond Year” means a 12-month period beginning on _____ 2, ending on and including the following _____ 1, except for the first period which begins on _____, 2005.

“Borrower” means a governmental unit which has entered into a Loan Agreement and which is borrowing and using the Loan proceeds to finance, refinance and/or be reimbursed for, all or a portion of the costs of one or more Projects. Such Borrowers shall be those as named on Exhibit B.

“Business Day” means a day of the year which is not a Saturday or Sunday or a day on which the Trustee is lawfully closed or on which the New York Stock Exchange is closed.

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the Council mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Council by its Chairman, Executive Director or such other person as may be designated and authorized to sign for the Council. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other

instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“Closing” means the closing of a Loan pursuant to this Indenture and a Loan Agreement.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated, proposed, or applicable thereunder.

“Commencement Date” means the date when the term of a Loan Agreement begins and the obligation of the Borrower thereunder to make Loan Repayments accrues.

“Council” means the Florida Municipal Loan Council.

“Cost” means “Cost” as defined in the Act.

“Cost of Issuance Fund” means the fund by that name created by Section 4.02 hereof.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include legal counsel for either the Council or the Borrower.

“Default” means an event or condition the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“Depository” means the securities depository acting as Depository under this Indenture, which may be the Council.

“Designated Member” means any designated person selected by the Council.

“Designated Office” means, with respect to the Trustee, the office set forth in or pursuant to Section 14.05 hereof.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” means any occurrence or event specified in Section 9.01 hereof.

“Executive Director” means the Executive Director of the Program Administrator and his successor.

“Financial Guaranty Agreement” means the agreement of that name dated _____, 2005 between the Council and the Surety Bond Provider, as amended and supplemented from time to time.

“Financial Newspaper” or “Journal” means The Wall Street Journal or The Bond Buyer or any other newspaper or journal containing financial news, printed in the English language,

customarily published on each Business Day and circulated in New York, New York, and selected by the Trustee, whose decision shall be final and conclusive.

“Fiscal Year” means the fiscal year of the Borrower.

“Fitch” means Fitch, Inc. d/b/a Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Council, with approval of the Bond Insurer, by notice to the Trustee.

“Florida Municipal Investment Trust” means the investment trust administered by the Florida League of Cities, Inc., which consists of U.S. Treasuries, federal agency securities, instrumentalities and high grade corporate securities.

“Funds” means the funds created pursuant to Section 4.02 hereof.

“Governmental Obligations” means (a) direct and general obligations of the United States of America, or those which are unconditionally guaranteed as to principal and interest by the same, and (b) pre-refunded municipal obligations meeting the following criteria:

(i) the municipal obligations must be rated AAA by S&P and AAA by Fitch and may not be callable prior to maturity or, alternatively, the trustee has received irrevocable instructions concerning their calling and redemption;

(ii) the municipal obligations are secured by cash or securities described in clause (a) above (the “Defeasance Obligations”), which cash or Defeasance Obligations may be applied only to interest, principal, and premium payments of such municipal obligations;

(iii) the principal and interest of the Defeasance Obligations (plus any cash in the fund) are sufficient to meet the liabilities of the municipal obligations;

(iv) the Defeasance Obligations serving as security for the municipal obligations must be held by an escrow agent or a trustee; and

(v) the Defeasance Obligations are not available to satisfy any other claims, including those against the Trustee or escrow agent.

Additionally, evidences of ownership of proportionate interests in future interest and principal payments of Defeasance Obligations are permissible. Investments in these proportionate interests are limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying obligations; and (c) the underlying obligations are held in a special account separate and apart from the custodian’s general assets, and are not available to satisfy any claim of the

custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

“Indenture” means this Trust Indenture dated as of February 1, 2005 between the Council and the Trustee, including any indentures supplemental thereto, pursuant to which (i) the Bonds are authorized to be issued and (ii) the Council’s interest in the Trust Estate is pledged as security for the payment of principal of, premium, if any, and interest on the Bonds.

“Insurance Proceeds” means amounts which are deposited by the Bond Insurer with the Trustee pursuant to Article IX hereof as a condition of the direction of acceleration of all or a portion of the Bonds by the Bond Insurer.

“Interest Payment Date” means February 1 and August 1 of each year, beginning August 1, 2005.

“Interest Period” means the period commencing on an Interest Payment Date and ending on the day preceding the next Interest Payment Date, provided that the initial Interest Period shall commence on the dated date of the Bonds.

“Interlocal Act” means Chapter 163, Part I, Florida Statutes.

“Interlocal Agreement” means that certain Interlocal Agreement originally dated as of December 1, 1998, among the various governmental entities executing it from time to time, (until the withdrawal of such members) the original parties to which are the City of Stuart, the City of Deland and the City of Rockledge.

“Investment Securities” means any of the following investments:

- A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations, the principal of and interest on which are unconditionally guaranteed by the United States of America.
- B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are permitted only if they have been stripped by the agency itself):
 - I. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 - 2. Farmers Home Administration (FMHA)
Certificates of beneficial ownership
 - 3. Federal Financing Bank
 - 4. Federal Housing Administration Debentures (FHA)

5. General Services Administration
Participation certificates
 6. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA-guaranteed mortgage-backed bonds
GNMA-guaranteed pass-through obligations
(not acceptable for certain cash-flow-sensitive issues.)
 7. U.S. Maritime Administration
Guaranteed Title XI financing
 8. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures-U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds-U.S. government guaranteed public housing notes and bonds
- C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are permitted only if they have been stripped by the agency itself):
1. Federal Home Loan Bank System
Senior debt obligations
 2. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation Certificates
Senior debt obligations
 3. Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations
 4. Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations
 5. Resolution Funding Corp. (REFCORP) obligations
 6. Farm Credit System
Consolidated systemwide bonds and notes
- D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m,” or “AAA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2.”

- E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above, Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- F. Certificates of deposit, savings accounts, deposit accounts or money market deposits that are fully insured by FDIC, including BIF and SAIF.
- G. Investment Agreements, including GIC's, acceptable to the Bond Insurer.
- H. Commercial paper rated, at the time of purchase, "Prime - 1 by Moody's and "A-1" or better by S&P.
- I. Bonds or notes issued by any state or municipality that are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.
- J. Federal funds or bankers acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unwarranted obligation rating of "Prime - 1," or "M" or better by Moody's and "A- 1" or "A" or better by S&P.
- K. Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria or be approved by the Bond Insurer:

- 1. Repos must be between the municipal entity and a dealer bank or securities firm
 - a. Primary dealers on the Federal Reserve reporting dealer list that are rated "A" or better by S&P and Moody's, or
 - b. Banks rated "A" or above by S&P and Moody's .
- 2. The written repo contract must include the following:
 - a. Securities that are acceptable for transfer are:
 - (i) Direct U.S. governments, or
 - (ii) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA and FHLMC)

- b. The term of the repo may be up to 30 days
 - c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneously with payment (perfection by possession of certificated securities)
 - d. Valuation of Collateral
 - (i) The securities must be valued weekly. marked-to-market at current market price plus accrued interest
 - (a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.
3. Legal opinion that must be delivered to the municipal entity:
- a. Repo meets guidelines under state law for legal investment of public funds.
 - L. The Florida Municipal Investment Trust-a local government investment pool created under Section 163.01, Florida Statutes administered by the Florida League of Cities, Inc., which consists of U.S. Treasuries, federal agency securities, instrumentalities and high grade corporate securities.
 - M. The Local Government Surplus Funds Trust Fund created pursuant to Chapter 218, Part IV, Florida Statutes for which Florida State Board of Administration acts as custodian.
 - N. Any other investment in which proceeds of the Bonds may be invested under Florida law, provided that such investments are approved in writing by the Bond Insurer.

“Liquidation Proceeds” means amounts received by the Trustee or the Council in connection with the enforcement of any of the remedies under a Loan Agreement after the occurrence of an “event of default” under a Loan Agreement which has not been waived or cured.

“Loan” means a loan to a Borrower from proceeds of the Bonds to finance, refinance or reimburse a Project or Projects pursuant to a Loan Agreement in the amount specified in Section 3.01 of the Loan Agreement.

“Loans” means all loans made by the Council under this Indenture to Borrowers.

“Loan Agreement” or “Loan Agreements” means the Loan Agreement or Loan Agreements between the Council and the Borrower(s) participating in the Program with respect to the Bonds, and any amendments and supplements thereto which are executed for the purpose of securing repayment of the Loan made by the Council to such participating Borrower(s) from proceeds of a Series of Bonds and establishing the terms and conditions upon which such Loans are to be made.

“Loan Repayment Date” means January 20, 2005 and thereafter each July 20th and January 20th or if such day is not a Business Day, the next preceding Business Day.

“Loan Repayments” means the payments of principal and interest and other payments payable by the Borrower pursuant to the provisions of the Loan Agreement.

“Loan Term” means the term provided for in Article IV of the Loan Agreement.

“Moody’s” means Moody’s Investors Service and its successors and assigns.

“Non-Ad Valorem Revenues” means, with respect to certain Borrowers, all revenues and taxes of such Borrower derived from any source whatsoever other than ad valorem taxation on real and personal property, which are legally available for Loan Repayments.

“Opinion of Bond Counsel” means an opinion by a nationally recognized bond counsel firm experienced in matters relating to the exclusion from gross income of interest payable on obligations of states and their instrumentalities and political subdivisions, and which is selected by the Council and acceptable to the Trustee and the Bond Insurer.

“Opinion of Counsel” means an opinion in writing of a legal counsel, who may, but need not be, counsel to the Council, a Borrower or the Trustee.

“Outstanding” or “Bonds Outstanding” means all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except:

- (a) Bonds canceled after purchase in the open market or because of payment at maturity or redemption prior to maturity;
- (b) Bonds deemed paid under Article VIII hereof; and
- (c) Bonds in lieu of which other Bonds have been authenticated under Section 2.06, 2.07 or 2.09 hereof.

“Paying Agent” means the Trustee.

“Person” means any individual, corporation, partnership, association, trust or any other entity or organization including a government or political subdivision or an agency or instrumentality thereof.

“Principal Fund” means the fund by that name created by Section 4.02 hereof.

“Principal Payment Date” means the maturity date or mandatory redemption date of any Bond.

“Program” means the Council’s program of making Loans under the Act and pursuant to this Indenture.

“Program Administrator” means the Florida League of Cities, Inc., a non profit Florida corporation.

“Project” or “Projects” means a governmental undertaking approved by the governing body of a Borrower for a public purpose, including the refinancing of any indebtedness.

“Project Loan Fund” means the fund by that name created by Section 4.02 hereof.

“Proportionate Share” means, at the time such calculation is made, with respect to any Borrower, a fraction the numerator of which is the outstanding principal amount of the Loan of such Borrower made from proceeds of the Bonds and the denominator of which is the outstanding principal amount of all Loans made from proceeds of the Bonds.

“Purchase Price” means the purchase price of one or more items of a Project negotiated by a Borrower with the seller of such items.

“Rating Category” means one of the generic rating categories of either Fitch, Moody’s or S&P, without regard of any refinement or graduation of such rating category by a numerical modifier or otherwise.

“Rebate Fund” means the fund by that name created by Section 4.02 hereof.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth day of the calendar month preceding such Interest Payment Date.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption pursuant to the provisions of such Bond and this Indenture.

“Registrar” means the Trustee.

“Representation Letter” shall mean the Representation Letter from the Council to DTC.

“Reserve Fund” means the fund by that name created by Section 4.02 hereof and all accounts therein.

“Reserve Requirement” shall mean five percent of the original par amount of the Bonds provided that such par amount shall exclude the par amount allocable to the loans which are general obligations of the Borrowers.

“Revenue Fund” means the fund by that name created by Section 4.02 hereof and all accounts therein.

“Revenues” means all Loan Repayments paid to the Trustee for the respective Accounts of the Borrowers for deposit in the Revenue Fund and the Principal Fund to pay principal of, premium, if any, and interest on the Bonds when due, and all receipts of the Trustee credited to the Borrower under the provisions of the related Loan Agreement.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Council, with the approval of the Bond Insurer, by notice to the Trustee.

“Special Record Date” means the date established pursuant to Section 9.05 as a record date for the payment of defaulted interest on the Bonds.

“State” means the State of Florida.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Council and the Trustee, supplementing, modifying or amending this Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

“Surety Bond” means the surety bond issued by the Surety Bond Provider guaranteeing certain payments into the Reserve Fund with respect to the Bonds and any other series of the Council’s bonds, as provided therein.

“Surety Bond Provider” means MBIA Insurance Corporation and any successors thereto.

“Term Bonds” shall mean the Bonds which are subject to Amortization Installments, and are designated as Term Bonds.

“Trustee” means Wachovia Bank, National Association, as Trustee, or any successor thereto under this Indenture.

“Trust Estate” means the property, rights, Revenues and other assets pledged and assigned to the Trustee pursuant to the Granting Clauses hereof.

SECTION 1.02. Rules of Interpretation. For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (a) “This Indenture” means this instrument as originally executed and as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

(b) All reference in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof”, “hereunder” and “herewith”, and other words of similar import, refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

(c) The terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular.

(d) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.

(e) The terms defined elsewhere in this Indenture shall have the meanings therein prescribed for them.

(f) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders.

(g) The headings or captions used in this Indenture are for convenience of reference only and shall not define or limit or describe any of the provisions hereof or the scope or intent hereof.

ARTICLE II

THE BONDS

SECTION 2.01. Authorization; Book-Entry System.

(a) Authorization, Issuance and Execution of Bonds. A single series of Bonds may be issued hereunder in order to obtain moneys to carry out the purposes of the Program for the benefit of the Council and the Borrowers. The Bonds shall be designated as “Florida Municipal Loan Council Revenue Bonds, Series 2005A”. At any time after the execution of this Indenture, the Council may execute and the Trustee shall authenticate and, upon request of the Council, deliver the Bonds in the aggregate principal amount of _____ Thousand Dollars (\$_____). This Indenture constitutes a continuing agreement with the Owners from time to time of the Bonds appertaining thereto to secure the full payment of the principal of, premium, if any, and interest on all such Bonds subject to the covenants, provisions and conditions herein contained.

The Bonds shall be issuable as fully registered bonds without coupons and shall be executed in the name and on behalf of the Council with the manual or facsimile signature of its Chairman, under its seal attested by the manual or facsimile signature of its Executive Director or Designated Member. Such seal may be in the form of a facsimile of the Council’s seal and may be reproduced, imprinted or impressed on the Bonds. The Bonds shall then be delivered to the Registrar, as hereinafter defined, for authentication by it. In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers of the Council before the Bonds so signed and attested shall have been authenticated or delivered by the Registrar or issued by the Council, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Council as though those who signed and attested the same had continued to be such officers of the Council, and also any Bond may be signed and attested on behalf of the Council by such persons as at the actual date of execution of such Bond shall be the proper officers of the Council although at the nominal date of such Bond any such person shall not have been such officer of the Council.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form hereinafter recited, manually executed by the Registrar as hereinafter defined, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Registrar shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

(b) The Bonds shall be initially issued in the form of a separate single certificated fully registered Bond for each of the maturities of the Series. Upon initial issuance, the ownership of each such Bond shall be registered in the registration books kept by the Registrar in the name of Cede & Co., as nominee of DTC. Except as provided in this Section, all of the outstanding Bonds shall be registered in the registration books kept by the Registrar in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the registration books kept by the Registrar in the name of Cede & Co., as nominee of DTC, the Council, the Registrar and the Paying Agent shall have no responsibility or obligation to any such Participant or to any indirect participant. Without limiting the immediately preceding sentence, the Council, the Registrar and the Paying Agent shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person other than a Bondholder, as shown in the registration books kept by the Registrar, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any Participant or any other person, other than a Bondholder, as shown in the registration books kept by the Registrar, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The Council, the Registrar and the Paying Agent may treat and consider the person in whose name each Bond is registered in the registration books kept by the Registrar as the holder and absolute owner of such Bond for the purpose of payment of principal, premium and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Holders, as shown in the registration books kept by the Registrar, or their respective attorneys duly authorized in writing, as provided herein and all such payments shall be valid and effective to fully satisfy and discharge the Council's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than a Holder, as shown in the registration books kept by the Registrar, shall receive a certificated Bond evidencing the obligation of the Council to make payments of principal, premium, if any, and interest pursuant to the provisions hereof. Upon delivery by DTC to the Council of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to Record Dates, the words "Cede & Co." in this Indenture shall refer to such new nominee of DTC; and upon receipt of such a notice the Council shall promptly deliver a copy of the same to the Registrar and the Paying Agent.

Upon receipt by the Council of written notice from DTC (i) to the effect that DTC has received written notice from the Council to the effect that a continuation of the requirement that all of the outstanding Bonds be registered in the registration books kept by the Registrar in the name of Cede & Co., as nominee of DTC, is not in the best interest of the beneficial owners of the Bonds or (ii) to the effect that DTC is unable or unwilling to discharge its responsibilities and no substitute depository willing to undertake the functions of DTC hereunder can be found which is willing and able to undertake such functions upon reasonable and customary terms, the Bonds shall no longer be restricted to being registered in the registration books kept by the Registrar in the name of Cede & Co., as nominee of DTC, but may be registered in whatever name or names Holders transferring or exchanging Bonds shall designate, in accordance with the provision hereof.

SECTION 2.02. Maturity and Interest Rate Provisions. The Bonds shall be dated February __, 2005. They shall be numbered consecutively from R-1 upward. They shall be in the denomination of \$5,000 each, or integral multiples thereof. Each Bond shall bear interest from the Interest Payment Date next preceding the date on which it is authenticated, unless authenticated on an Interest Payment Date, in which case it shall bear interest from such Interest

Payment Date, or unless authenticated prior to the first payment date, in which case it shall bear interest from its date. The Bonds shall bear interest and shall mature at the rates, in the amounts and on the dates set forth below:

\$ _____ Serial Bonds

<u>Maturity</u> <u>(February 1)</u>	<u>Amount</u>	<u>Interest Rate</u>
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SECTION 2.03. Payment Provisions. The principal of, premium, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts. Principal of and premium, if any, on the Bonds shall be payable at the designated corporate trust office of the Trustee, or any successor paying agent and registrar appointed pursuant to the provisions of Sections 10.12 and 10.13 hereof (the “Paying Agent” or “Registrar”), and payment of the interest on each Bond shall be made by the Paying Agent on each Interest Payment Date to the person appearing as the registered owner thereof on the bond registration books maintained by the Registrar as of the close of business on the Record Date preceding the Interest Payment Date (or, if interest on the Bonds is in default and the Bond Insurer is in default under the Bond Insurance, a Special Record Date established pursuant to Section 9.05), by check mailed on the Interest Payment Date to such registered owner at his address as it appears on such registration books or at the prior written request and expense of an owner of \$1,000,000 in aggregate principal amount of Bonds, by bank wire transfer to a domestic bank account, notwithstanding the cancellation of any such Bonds upon any exchange or transfer thereof subsequent to the Record Date or Special Record Date and prior to such Interest Payment Date. Payment of the principal (or redemption price), of the Bonds shall be made upon the presentation and surrender of such Bonds as the same shall become due and payable.

SECTION 2.04. Matters Concerning Bond Insurance Policy. So long as the Bond Insurance Policy shall be in full force and effect, the Council and the Trustee hereby agree to comply with the following provisions:

A. In the event that, on the second Business Day, and again on the Business Day prior to the payment date on the Bonds, the Trustee has not received sufficient moneys to pay all principal of, and interest on the Bonds due on the second following, or next following as the case may be, Business Day, the Trustee shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph confirmed in writing by registered or certified mail, of the amount of the deficiency.

B. If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Bond Insurer or its designee.

C. In addition, if the Trustee has notice that any Bondholder has been required to disgorge payments of principal, or interest on the Bonds to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

D. The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Bonds as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Trustee shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Bond Insurer, (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Bond Insurance Policy (the "Bond Insurance Policy") payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holder; and

2. If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Trustee shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the Bond Insurer of any of the Bond surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Holders.

E. Payments with respect to claims for interest on and principal of Bonds disbursed by the Trustee from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the Issuer with respect to such Bonds, and the Bond Insurer shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

F. Irrespective of whether any such assignment is executed and delivered, the Council and the Trustee hereby agree for the benefit of the Bond Insurer that:

1. They recognize that to the extent the Bond Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the Bonds, the Bond Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the Council, with interest thereon as provided and solely from the sources stated in this Indenture and the Bonds; and

2. They will accordingly pay to the Bond Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this Indenture and the Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Bonds to Holders, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

G. Copies of any amendments made to the documents executed in connection with the issuance of the Bonds which are consented to by the Bond Insurer shall be sent to S&P.

H. The Bond Insurer shall receive notice of the resignation or removal of the Trustee and the appointment of a successor thereto.

I. The Bond Insurer shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the Borrower's audited financial statements and annual budget.

J. The Council agrees to reimburse the Bond Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by the Bond Insurer in connection with (i) the enforcement by the Bond Insurer of the Council's obligations, or the preservation or defense of any rights of the Bond Insurer, under this Indenture and any other document executed in connection with the issuance of the Bonds, and (ii) any consent, amendment, waiver or other action with respect to the Indenture or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Bond Insurer reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

K. The Council agrees not to use the Bond Insurer's name in any public document including, without limitation, a press release or presentation, announcement or forum without the

Bond Insurer's prior consent. In the event that the Council is advised by counsel that it has a legal obligation to disclose the Bond Insurer's name in any press release, public announcement or other public document, the Council shall provide the Bond Insurer with at least three (3) business days' prior written notice of its intent to use the Bond Insurer's name together with a copy of the proposed use of the Bond Insurer's name and of any description of a transaction with the Bond Insurer and shall obtain the Bond Insurer's prior consent as to the form and substance of the proposed use of the Bond Insurer's name and any such description.

L. The Council shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Bonds without the prior written consent of the Bond Insurer.

Any notice that is required to be given to a holder of the Bonds or to the Trustee pursuant to this Indenture shall also be provided to the Bond Insurer. All notices required to be given to the Bond Insurer under this Indenture shall be in writing and shall be sent by registered or certified mail addressed to 113 King Street, Armonk, New York 10504, Attention: Surveillance.

SECTION 2.05. Payments in Advance of Scheduled Maturity Dates by the Bond Insurer. In the event that the Bond Insurer shall make any payments of principal of and/or interest on any of the Bonds pursuant to the terms of the Bond Insurance Policy and the Bonds are accelerated or are redeemed pursuant to Section 3.02 hereof, the Bond Insurer may at any time and at its sole option pay all or a portion of amounts due under the Bonds to the Bondholders prior to the stated maturity dates thereof.

SECTION 2.06. Mutilated, Lost, Stolen or Destroyed Bonds; Bonds Not Delivered for Redemption. If any Bond is mutilated, lost, stolen or destroyed, the Council shall execute and the Registrar shall authenticate a new Bond of the same date, maturity and denomination as that mutilated, lost, stolen or destroyed; provided that in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Registrar, and in the case of any lost, stolen or destroyed Bond, there shall be first furnished to the Council and the Registrar evidence of such loss, theft or destruction satisfactory to the Council and the Registrar, together with an indemnity satisfactory to them. In the event any such Bond shall have matured or been called for redemption, instead of issuing a duplicate Bond, the Paying Agent may pay the same. The Council and the Registrar may charge the Owner of such Bond with their reasonable fees and expenses in connection with replacing any Bond mutilated, lost, stolen or destroyed.

SECTION 2.07. Transfer and Exchange of Bonds; Persons Treated as Owners. The Council shall cause books for the registration and transfer of the Bonds, as provided in this Indenture, to be kept by the Registrar. Upon surrender for transfer of any Bond at the Designated office of the Registrar, accompanied by an assignment duly executed by the registered Owner or his attorney-in-fact duly authorized in writing, the Council shall execute and the Registrar shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds for a like aggregate principal amount.

Bonds of the same type may be exchanged at the Designated Office of the Registrar for a like aggregate principal amount of Bonds of other Authorized Denominations. The Council shall

execute and the Registrar shall authenticate and deliver Bonds which the Bondholder making the exchange is entitled to receive, bearing numbers not contemporaneously outstanding.

The Registrar shall not be required to (i) transfer or exchange any Bonds during the ten (10) days next preceding any day upon which notice of redemption of Bonds is to be mailed or (ii) transfer or exchange any Bonds selected, called or being called for redemption in whole or in part.

The person in whose name any Bond shall be registered shall be deemed and regarded by the Trustee, the Registrar, the Paying Agent and the Council as the absolute Owner thereof for all purposes, and payment of or on account of the principal of, premium, if any, or interest on any Bond shall be made only to or upon the written order of the registered Owner thereof or his legal representative, subject to Section 2.03 hereof, and neither the Council nor the Trustee, the Paying Agent nor the Registrar shall be affected by any notice to the contrary, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums paid.

A reasonable transfer charge may be made for any exchange or transfer of any Bond and the Registrar shall require the payment by any Bondholder requesting exchange or transfer of a sum sufficient to cover any tax or other governmental charge required to be paid with respect to such exchange or transfer and a sum sufficient to pay the cost of preparing each new Bond issued upon such exchange or transfer.

SECTION 2.08. Cancellation of Bonds. Whenever any Outstanding Bond shall be delivered to the Registrar for cancellation pursuant to this Indenture, upon payment of the principal amount, or for replacement pursuant to Section 2.06 hereof or for transfer or exchange pursuant to Sections 2.07 or 2.09 hereof, such Bond shall be canceled by the Registrar.

SECTION 2.09. Temporary Bonds. Pending the preparation of definitive Bonds, the Council may execute and the Registrar shall authenticate and deliver temporary Bonds. Temporary Bonds shall be issuable as fully registered Bonds, of any Authorized Denomination, and substantially in the form of the definitive Bonds but with such omissions, insertions and variations as may be appropriate for temporary Bonds, all as may be determined by the Council. Temporary Bonds may be issued without specific terms and may contain such reference to any provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Council and authenticated by the Registrar upon the same conditions and in substantially the same manner, and with like effect, as the definitive Bonds. As promptly as practicable, the Council shall execute and shall furnish definitive Bonds and thereupon temporary Bonds may be surrendered in exchange therefor without charge at the principal corporate trust office of the Registrar, and the Registrar shall authenticate and deliver in exchange for such temporary Bonds a like aggregate principal amount of definitive Bonds. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds.

SECTION 2.10. Nonpresentment of Bonds. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, or if any interest check shall not be cashed, if funds sufficient to pay such Bond or interest shall have been made available by the Council to the

Trustee or Paying Agent for the benefit of the Owner thereof, all liability of the Council to the Owner thereof for the payment of such Bond or interest, as the case may be, shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee or Paying Agent to hold such funds, uninvested and without liability for interest thereon, for the benefit of the Owner of such Bond or interest, as the case may be, who shall thereafter be restricted exclusively to such funds for any claim of whatever nature on his part under this Indenture or on, or with respect to, said Bond or interest, as the case may be, provided that any money deposited with the Trustee or Paying Agent for the payment of the principal of (and premium, if any) or interest on any Bond and remaining unclaimed for six years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Council, and the Owner of such Bond or interest, as the case may be, shall thereafter, as an unsecured general creditor, look only to the Council for payment thereof, and all liability of the Trustee or Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Trustee, before making any such payment to the Council, shall, at the expense of the Council, cause to be published once, in a Financial Newspaper or Journal, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be paid to the Council.

SECTION 2.11. Form of Bonds. The Bonds to be issued hereunder, and the certificate of authentication by the Registrar to be endorsed on all such Bonds, shall be substantially in the form set forth as Exhibit A hereto, with such variations, omissions and insertions as are permitted by this Indenture or are required to conform the form of Bond to the other provisions of this Indenture (any portion of such form of Bond may be printed on the back of the Bonds).

ARTICLE III

REDEMPTION OF BONDS

SECTION 3.01. Optional Redemption of the Bonds.

The Bonds maturing on or before February 1, 20__ are not subject to optional redemption prior to their maturities. The Bonds maturing after February 1, 20__ are subject to redemption at the option of the Council on or after February 1, 20__, as a whole or in part at any time, in any manner determined by the Trustee in its discretion taking into consideration the maturity of the Loan being prepaid by a particular Borrower, at the redemption price, equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

SECTION 3.02. Mandatory Redemption of Bonds.

The Bonds that mature on February 1, 20__ are subject to mandatory redemption, in part, by lot, at redemption prices equal to 100% of the principal amount thereof, plus interest accrued to the redemption date, on February 1, 20__ and on each February 1st thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

*Maturity

The Bonds are subject to extraordinary mandatory redemption as a result of acceleration of any Loan pursuant to a Loan Agreement at any time, in whole or in part, at a redemption price of the principal amount thereof, plus accrued interest to the redemption date, without premium, but only with the approval of the Bond Insurer, from all Liquidation Proceeds or Insurance Proceeds received by the Trustee as a result of an acceleration of any Loan or Loans. To the extent that all Loans are not being accelerated, Bonds to be redeemed shall be selected by the Registrar by lot or in such other manner as the Council in its discretion may deem appropriate; provided, however, that only such Bonds which correspond in terms of amount and scheduled maturity date to the principal loan payment obligations of the Loan or Loans being accelerated are subject to such extraordinary mandatory redemption, and provided further that, in the event Liquidation Proceeds are not sufficient to redeem all such corresponding Bonds, the portion of the corresponding Bonds to be so redeemed shall be selected on a pro-rata basis based upon the ratio of Liquidation Proceeds to the total amount of Bonds which correspond to the Loan or Loans being accelerated.

SECTION 3.03. Notice of Redemption. In the case of every redemption, the Registrar, at the direction of the Trustee, shall cause notice of such redemption to be given to the registered Owner of any Bonds designated for redemption in whole or in part, at his address as the same shall last appear upon the Bond registration books by mailing a copy of the redemption notice by first-class mail at least thirty (30) days prior to the redemption date. The failure of the Registrar to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any other Bonds. A copy of any such notice shall also be sent by the Registrar to the Bond Insurer and any person necessary to ensure compliance by the Council with applicable rules and regulations regarding such notices.

Each notice of redemption shall specify the date fixed for redemption, the redemption price to be paid, the place or places of payment, that payment will be made upon presentation and surrender of the Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue. If less than all the Outstanding Bonds are to be redeemed, the notice of redemption shall specify the numbers of the Bonds or portions thereof, including CUSIP identification numbers to be redeemed.

The Registrar also shall mail a copy of such notice by registered or certified mail or overnight delivery service (or by telecopy where permitted) for receipt not less than thirty (30) days before such redemption date to the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530; provided, however, that such mailing shall not be a condition precedent to such redemption and failure so to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds.

SECTION 3.04. Bonds Due and Payable on Redemption Date; Interest Ceases To Accrue. On the redemption date, the principal amount of each Bond to be redeemed, together with the accrued interest thereon to such date, shall become due and payable; and from and after such date, notice (if required) having been given and moneys available solely for such redemption being on deposit with the Trustee in accordance with the provisions of this Article III, then, notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any of such Bonds or portions thereof to be redeemed. From and after such date of redemption (such notice having been given and moneys available solely for such redemption being on deposit with the Trustee), the Bonds or portions thereof to be redeemed shall not be deemed to be Outstanding hereunder, and the Council shall be under no further liability in respect thereof.

SECTION 3.05. Cancellation. All Bonds which have been redeemed shall be canceled by the Registrar as provided in Section 2.08 hereof.

SECTION 3.06. Partial Redemption of Bonds. Upon surrender of any Bond in a denomination greater than \$5,000 called for redemption in part only, the Council shall execute and the Registrar shall authenticate and deliver to the registered Owner thereof a new Bond or Bonds of Authorized Denominations in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

SECTION 3.07. Selection of Bonds To Be Redeemed. The Bonds shall be redeemed pursuant to Sections 3.01 and 3.02 only in the principal amount of an Authorized Denomination. The Bonds or portions of the Bonds to be redeemed shall, except as otherwise provided in Section 3.02 hereof, be selected by the Registrar by lot or in such other manner as the Council in its discretion may deem appropriate.

ARTICLE IV

REVENUES AND FUNDS

SECTION 4.01. Source of Payment of Bonds. The Bonds and all payments by the Council hereunder are limited and special obligations of the Council and are payable solely out of Revenues and certain proceeds of the Bonds as authorized by the Constitution and laws of the State, including particularly the Act, as and to the extent provided herein. The Bonds and the Council's other obligations hereunder are solely and exclusively obligations of the Council to the extent set forth herein and do not constitute or create an obligation, general or special, or debt, liability or moral obligation of the State or any political subdivision or any municipal corporation of the State. The Bonds shall not be or constitute a general obligation of the Council, the State of Florida or any political subdivision or any municipal corporation thereof or a lien upon any property owned or situated within the territorial limits of the Council, the State of Florida or any political subdivision or any municipal corporation thereof except the Trust Estate, in the manner provided herein and in the Loan Agreements. The Loan Agreements do not represent joint liabilities of the Borrowers executing Loan Agreements with the Council, and shall be payable solely as provided in such Loan Agreements.

SECTION 4.02. Creation of Funds and Accounts. There are hereby established by the Council the following Funds and Accounts to be held by the Trustee: (1) the Project Loan Fund, (2) the Principal Fund, (3) the Revenue Fund, (4) the Cost of Issuance Fund, (5) the Reserve Fund and (6) the Rebate Fund.

SECTION 4.03. Project Loan Fund. Moneys in the Project Loan Fund shall be segregated at Closing into separate Accounts for each Loan to a Borrower as provided in Section 4.07(iii) upon the submission of the documents by Borrowers as required by, and upon the terms and conditions specified in, Article V hereof. Interest earnings on investments in each Account of the Project Loan Fund shall be held in and credited to such Account. Upon the occurrence of an event of default under a Loan Agreement and the exercise by the Trustee of the remedy of acceleration as specified in such Loan Agreement, any moneys in the Account of the Project Loan Fund relating to such Borrower and not yet disbursed to the defaulting Borrower, if any, shall be transferred by the Trustee to the Principal Fund and applied in accordance with the second paragraph of Section 4.04 hereof.

SECTION 4.04. Principal Fund. Upon the receipt of Loan Repayments, Liquidation Proceeds or Insurance Proceeds, the Trustee shall deposit in the appropriate Account of the respective Borrower in the Principal Fund all payments or recoveries of principal of Loans or payments to be applied to the payment of any premium due upon optional redemption of the Bonds.

Amounts in the Principal Fund shall be used as follows: (1) to pay scheduled principal payments of the Bonds and (2) to pay the principal of and premium, if any, on the Bonds redeemed pursuant to Section 3.01 or Section 3.02 when required by such Sections. Upon acceleration of maturity of the Bonds pursuant to Section 9.02, all amounts in the Principal Fund shall be used to pay maturing principal of and interest on the Bonds.

SECTION 4.05. Revenue Fund. Upon the receipt of Loan Repayments, Liquidation Proceeds, Insurance Proceeds or proceeds earmarked for capitalized interest, the Trustee shall deposit in the Revenue Fund all moneys remaining after the deposits required by Section 4.04 hereof. Such moneys shall be segregated at Closing into separate accounts for each Borrower. All investment earnings on amounts in the Funds and Accounts (except the Rebate Fund and the Project Loan Fund) shall be deposited in the appropriate account of the respective Borrower in the Revenue Fund as received. Any amounts received by the Trustee hereunder which are not required to be deposited elsewhere shall also be deposited in the appropriate account of the respective Borrower in the Revenue Fund.

Amounts in all separate accounts of the Revenue Fund shall be used to make the following payments or transfers in the following order of priority:

- (1) On each Interest Payment Date, to pay interest due on the Bonds;
- (2) At such times as are necessary, to pay accrued interest due on the Bonds redeemed pursuant to Sections 3.01 or 3.02 hereof;
- (3) At such times as are necessary, to pay the fees and expenses of the Trustee, DTC, the Program Administrator, the Registrar and the Paying Agent (including the cost of printing additional Bonds) and the fees and expenses of the Council (including costs of issuing the Bonds if insufficient amounts are on hand in the Cost of Issuance Fund), any counsel consulted by the Council with respect to any Loan, or of Accountants employed pursuant to Section 4.12 hereof; provided, further, that the Bond Insurer may authorize the payment of any such fees or expenses prior to the payment of interest on the Bonds;
- (4) On each Interest Payment Date of each year, all amounts remaining within the Revenue Fund, other than fees being collected in installments pursuant to the relevant Loan Agreement and amounts which will be credited against the relevant Borrower's next Loan Repayments, shall be deposited in the Principal Fund, as provided in Section 5.04 of the Loan Agreements.
- (5) To the extent that the amounts on deposit in the Reserve Fund are less than the Reserve Requirement, the Council shall make deposits into the Reserve Fund in the manner described below from moneys remaining in the Revenue Fund. Any withdrawals from the Reserve Fund shall be subsequently restored from the first moneys available in the Revenue Fund, after all current applications and allocations to the Principal Fund, including deficiencies for prior payments that have not been made in full. The Council may provide that the difference between the amounts on deposit in the Reserve Fund and the Reserve Requirement shall be an amount covered by a letter of credit rated in one of the two highest categories by nationally recognized rating agencies, by a surety bond, by an Alternate Surety Bond, by the Surety Bond, or any combination thereof. Moneys in the Reserve Fund shall be used only for the purpose of the payment of principal of, or interest on the Bonds when the other moneys allocated therefor are insufficient and for no other purpose.

In the event of the refunding of all or any portion of the Bonds, the Council may withdraw from the Reserve Fund, all or any portion of the amount accumulated therein with respect to the

Bonds being refunded and deposit such amounts as required by the documents authorizing the refunding of such Bonds; provided that such withdrawal shall not be made unless (a) immediately thereafter, the Bonds being refunded shall be deemed to have been paid, (b) the amount remaining in the Reserve Fund after giving effect to the issuance of such refunding obligations and the disposition of the proceeds thereof shall not be less than the Reserve Requirement for any Bonds then outstanding. Any excess moneys on deposit in the Reserve Fund shall be transferred by the Trustee, upon the written request of the Council, to the Principal Fund.

SECTION 4.06. Cost of Issuance Fund. Moneys in the Cost of Issuance Fund shall be segregated at Closing into separate accounts for each Borrower. Such moneys shall be used to pay costs of issuing the Bonds to the extent not paid from other sources, which costs may include, all printing expenses in connection with this Indenture, the Loan Agreements, the preliminary and final Official Statements for the Bonds and the Bonds; the underwriter's discount for the initial purchase of the Bonds; the initial Bond Insurance Policy and Surety Bond premiums; administrative expenses of the Council; and legal fees and expenses of counsel to the Council, bond counsel and counsel to the Bond Insurer and fees of the financial advisor to the Council; fees of the Program Administrator, any accounting expenses incurred in connection with determining that the Bonds are not arbitrage bonds, the Trustee's and the Paying Agent and Registrar's initial fees and expenses (including attorney's fees), upon the submission of requisitions by the Council signed by an officer of the Council stating the amount to be paid, to whom it is to be paid and the reason for such payment, and that the amount of such requisition is justly due and owing and has not been the subject of another requisition which was paid and is a proper expense of issuing such Bonds. Any monies remaining in the Cost of Issuance Fund on _____ 1, 2005 shall be transferred to the Revenue Fund and be credited on a pro rata basis toward each Borrower's obligation to pay Loan interest, taking into consideration the discount at which such Loans were made as specified in Section 3.01 of each Loan Agreement.

SECTION 4.07. Application of Bond Proceeds. The proceeds of the Series 2005A Bonds in the sum of \$ _____ shall be deposited with the Trustee as follows:

- (i) In each Account for the respective Borrowers in the Cost of Issuance Fund, the total sum of \$ _____, allocated as follows:

- (ii) In each Account for the respective Borrowers in the Project Loan Fund, the total sum of \$ _____, allocated as follows:

The Council understands that \$ _____ is being transmitted by the Banc of America Securities LLC, as Underwriter, directly to Bond Insurer.

SECTION 4.08. Reserve Fund.

(a) The Trustee shall establish a Reserve Fund which shall be funded at closing in an amount equal to the Reserve Requirement. Such Reserve Fund shall be on a parity with any reserve fund established by the Council in any other approved series of the Council's bonds listed on Annex A to the Surety Bond. If any withdrawal is made under subsection (b)(i) below, the Council shall pay to the Trustee an amount received from the Borrower pursuant to Section 5.03(c) of the Loan Agreement which is sufficient to repay the principal and interest on the Surety Bond from such withdrawal within twelve (12) months, commencing on the first day of the month following such withdrawal, together with any interest or other expenses due from the Council to the Surety Bond Provider under the Financial Guaranty Agreement. The Surety Bond shall be payable to the Trustee on any interest payment or redemption date on which a deficiency exists which cannot be cured by funds in any other Fund or Account held pursuant to this Indenture and available for such purpose. If at any time the Reserve Fund contains both a Surety Bond and cash, the cash shall be drawn down completely before any demand is made on the Surety Bond. If at any time the Surety Bond is replaced by cash, in whole or in part, prior written consent of the Bond Insurer will be required.

The Surety Bond shall secure and satisfy the Reserve Requirement and any other reserve requirement of bonds as listed on Annex A to the Surety Bond. The Trustee may deliver a Demand for Payment in an amount less than or equal to the limit of the Surety Bond. If a Demand for Payment is made on behalf of a Borrower which has an outstanding Loan Agreement relating to the Bonds and other loan agreements relating to the other series of the Council's bonds, then the Council's reimbursement, from the payments received by such Borrower, to the Surety Bond Provider shall be applied pro-rata to the Reserve Fund and to each reserve fund which secures such other loans. Further, if the Demand for Payment relates to one or more reserve funds from more than one series of bonds, and such Demand for Payment exceeds the limit of the Surety Bond, then the Surety Bond shall be allocated on a pro-rata basis for each reserve fund from each series and for each Borrower.

The Trustee shall deliver a Demand for Payment in the form attached to the Surety Bond at least three (3) days prior to the date on which funds are required from the Surety Bond, or as soon thereafter as the Trustee is aware that funds are required from the Surety Bond. The Trustee shall be responsible for maintaining records of withdrawals from the Reserve Fund and the reinstatement thereof. In addition, the Trustee shall be responsible for maintaining records of all withdrawals from this Reserve Fund and other reserve funds which are covered by the Surety Bond.

If a disbursement is made from the Surety Bond, the Council shall reimburse the Surety Bond Provider as soon as possible, but in any case within one year of any disbursement the amount of such disbursement. The Trustee is required to reimburse the Surety Bond Provider with interest until the face amount of the Surety Bond is reinstated before any deposit is made to the Principal Fund.

(b) Moneys on deposit in the Reserve Fund shall be applied as follows (unless otherwise provided herein):

(i) On the date of each required payment of principal of or interest in respect to the Bonds, moneys in the Reserve Fund or received from a draw on the Surety Bond shall be

applied to cure any deficiency in the Principal Fund and the Revenue Fund. The Council agrees that any transfer from the Reserve Fund to the Principal Fund and the Revenue Fund or any proceeds from the Surety Bond deposited into such Funds pursuant to this paragraph shall not be construed as preventing, waiving or curing any nonpayment of any Loan Repayments required under each Loan Agreement until the amount of such deficiency has been restored; and

(ii) In each month during the twelve-month period preceding the final maturity date of the Bonds, so long as no Event of Default has occurred and is continuing, if moneys are then held in the Reserve Fund such moneys shall be credited against the payment of principal of and interest on the Bonds and shall be transferred to the Principal Fund and the Revenue Fund for the payment of such principal and interest.

(c) The Council may issue additional bonds and the Reserve Fund may serve as the reserve fund for such additional bonds or may be combined with the reserve funds for such additional bonds with the prior written consent of the Bond Insurer; provided however, that such combined reserve funds shall only be permitted if the Surety Bond is then in effect. The Trustee is hereby authorized to accept an Alternate Surety Bond with the prior written consent of the Bond Insurer.

SECTION 4.09. Rebate Fund. In order to insure compliance with the rebate provisions of Section 148(f) of the Code, the Council shall create the Rebate Fund. Such Fund shall be held by the Trustee. The Rebate Fund need not be maintained if the Council shall have received an Opinion of Bond Counsel acceptable to the Council to the effect that failure to maintain the Rebate Fund or such Account therein shall not adversely affect the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation. Moneys in the Rebate Fund shall not be considered moneys held under the Indenture and shall not constitute a part of the Trust Estate held for the benefit of the Bondholders or the Council. Moneys in the Rebate Fund (including earnings and deposits therein) shall be held for future payment to the United States Government as required by the regulations and as set forth in instructions delivered to the Council upon issuance of the Bonds.

SECTION 4.10. Moneys To Be Held in Trust. With the exception of moneys deposited in the Rebate Fund, all moneys required to be deposited with or paid to the Trustee for the account of any Fund or Account established under any provision of this Indenture shall be held by the Trustee, in trust, and except for moneys deposited with or paid to the Trustee for the redemption of Bonds, notice of the redemption of which has been duly given, and except as otherwise provided in Section 2.10 hereof, shall, while held by the Trustee, constitute part of the Trust Estate and be subject to the security interest created hereby.

SECTION 4.11. Reports From Trustee. Unless otherwise advised in writing, the Trustee shall furnish monthly to the Council, the Bond Insurer and to any Borrower, upon request, on the twentieth (20th) day of the month following the month in which the Bonds are delivered, and on the twentieth (20th) day of each month thereafter, a report on the status of each of the Funds and Accounts established under this Article IV which are held by the Trustee, showing at least the balance in each such Fund or Account as of the first day of the preceding month, the total of deposits to and the total of disbursements from each such Fund or Account,

the dates of such deposits and disbursements, and the balance in each such Fund or Account on the last day of the preceding month.

SECTION 4.12. Certain Verifications. The Council, the Trustee and/or the Bond Insurer from time to time may, but shall have no obligation to, cause a firm of Accountants to supply the Council, the Trustee and the Bond Insurer with such information as the Council, the Trustee or the Bond Insurer may request in order to determine in a manner reasonably satisfactory to the Council, the Trustee and the Bond Insurer all matters relating to (a) the sufficiency of projected cash flow receipts and disbursements on the Loans and Funds described herein to pay the principal of and interest on the Bonds; (b) the actuarial yields on the Loans and on the Bonds as the same may relate to any data or conclusions necessary to verify that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Code; and (c) calculations related to rebate liability. Payment for costs and expenses incurred in connection with supplying the foregoing information shall be paid from moneys in the Revenue Fund pursuant to Section 4.05(3) hereof.

ARTICLE V

PROJECT LOANS

SECTION 5.01. Terms and Conditions of Loans. The Council will make Loans to Borrowers in order to (i) finance the acquisition, installation and construction of Projects by Borrowers and (ii) refund or refinance debt incurred by Borrowers, or reimburse funds previously expended by Borrowers, to acquire, install and construct Projects, all in accordance with provisions more fully set forth in the Loan Agreements.

SECTION 5.02. Loan Closing Submission. No Loan shall be made by the Council unless and until the documents required by Section 4.03 of the Loan Agreements are submitted to the Council.

SECTION 5.03. Disbursement to Borrowers From Project Loan Fund. The moneys in the Project Loan Fund shall be applied in accordance with written requisitions provided to the Trustee by the Borrowers in the form attached to the Loan Agreement. After initial disbursements for payment of eligible Costs (whether from the Project Loan Fund or other Bond proceeds), disbursement to or at the direction of the Borrower will be made only if such Borrower is not then in default under this Indenture or their Loan Agreement or the other Bond documents and only in accordance with such requisitions.

Except for an initial draw on the date the Bonds are issued and the final draw under the terms of this Indenture, the Borrower shall not make more than two (2) requests for a construction or project draw per calendar month. Each draw request must be received by the Trustee at least four (4) days prior to the date the requested draw is to be made. The draw dates upon which funds may be released pursuant to the written request shall be on the first Business Day of the month and the second Business Day of the month following the 15th day of the month.

Each draw request by the Borrower shall constitute an affirmation that the material warranties and representations contained in this Indenture and the Loan Agreement remain true and correct and that no breach of the covenants contained in this Indenture or the Loan Agreement has occurred as of the date of the draw, and the Trustee shall be entitled to exclusively rely on such representation and shall be fully indemnified by the Borrower from any liability resulting from such reliance, and shall have no liability to any other party, unless the Trustee is notified in writing to the contrary prior to the disbursement of the requested Project Loan Fund draw.

All requisitions received by the Trustee shall be substantially in the form attached to the Loan Agreement as Exhibit E, as required in this Article as conditions of payment from the Project Loan Fund, shall be conclusively relied upon by the Trustee as to the matters set forth therein and shall be retained in the possession of the Trustee, subject at all times to the inspection by the Council, the Borrowers and their agents and representatives thereof.

ARTICLE VI

SERVICING OF LOANS

The Trustee shall be responsible for calculating payments due in respect of the Loans, holding collateral pledged in respect of the Loans, if any, and enforcing the Loans; provided, however, that the Trustee shall have no duty to take notice of any default in respect of any Loan (other than a payment default) unless the Trustee shall be notified of such default in a written instrument.

ARTICLE VII

INVESTMENT OF MONEYS

Moneys in any of the Funds and Accounts shall be invested by the Trustee, at the direction of the Council through its Program Administrator, which direction may be in writing or telephonically, promptly confirmed in writing. The Trustee shall assume that any investment directed by the Council or any Borrower is lawful.

Moneys in the Funds and Accounts shall be invested at the direction of the Council through its Program Administrator in Investment Securities with respect to which payments of principal thereof and interest thereon are scheduled or otherwise payable not later than the dates on which it is estimated that such moneys will be required by the Trustee for the purposes specified in this Indenture. Investment Securities acquired pursuant to this Section under a repurchase agreement with the seller thereof may be deemed to mature on the dates on and in the amounts (i.e., for the repurchase price) which the Trustee may deliver such Investment Securities to such seller for repurchase under such agreement. Notwithstanding the foregoing, Loan Repayments may not be invested in investments described under Section 1.01 hereof, "Investment Securities" sections L and M.

Investment Securities acquired as an investment of moneys in any Fund or Account shall be credited to such Fund or Account. For the purpose of determining the amount in any Fund or Account, all Investment Securities credited to any such Fund or Account shall be valued at market value on the date of determination; provided, however, that repurchase agreements shall be valued at the aggregate repurchase price of the securities remaining to be repurchased pursuant to such agreements and investment agreements shall be valued at the aggregate amount remaining invested therein (in each case exclusive of accrued interest after the first payment of interest following purchase). With respect to all Funds and Accounts, valuation by the Program Administrator shall occur annually and immediately upon a withdrawal from the Reserve Fund.

All interest, profits and other income earned from investment (other than in Loans) of all moneys in any Fund or Account (except the Rebate Fund and the Project Loan Fund) shall be deposited when received in the Revenue Fund, except that an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the Fund or Account from which such accrued interest was paid. Interest earned on the Accounts in the Project Loan Fund shall be credited to such Account.

Subject to Section 13.08 hereof and except as provided herein, investments in any and all Funds and Accounts may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in particular Funds and Accounts of amounts received or held by the Trustee hereunder, provided that, notwithstanding any such commingling, the Trustee shall at all times account for such investments strictly in accordance with the Funds and Accounts to which they are credited and otherwise as provided in this Indenture. The Trustee may act as principal or agent in the acquisition or disposition of Investment Securities. The Trustee may sell, or present for redemption, any Investment Securities so purchased whenever it shall be necessary in order to provide moneys to meet any

required payment, transfer, withdrawal or disbursement from the Fund or Account to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made pursuant to this Article VII.

All amounts representing accrued and capitalized interest, if any, shall be invested at the written direction of the Council through its Program Administrator only in Government Obligations maturing at such times, and in such amounts as are necessary to match the interest payments on the Bonds.

ARTICLE VIII

DISCHARGE OF INDENTURE

If the Council shall pay or cause to be paid (other than by the Bond Insurer) to the Owner of any Bond secured hereby the principal of and interest due and payable, and thereafter to become due and payable, upon such Bond, or any portion of such Bond in the principal amount of \$5,000 or any integral multiple thereof, such Bond or portion thereof shall cease to be entitled to any lien, benefit or security under this Indenture. If the Council shall pay or cause to be paid (other than by the Bond Insurer) to the Owners of all the Bonds secured hereby the principal of and interest due and payable, and thereafter to become due and payable thereon, and shall pay or cause to be paid (other than by the Bond Insurer) all other sums payable hereunder or the Financial Guaranty Agreement by the Council, then, and in that case, the right, title and interest of the Trustee in the related Trust Estate shall thereupon cease, terminate and become void. In such event, the Trustee shall assign, transfer and turn over to the Council the Trust Estate and, at the direction of the Council, cancel any outstanding Loans related to the Bonds; provided that if the Bonds are paid from the proceeds of refunding bonds, the Loans shall at the direction of the Council not be canceled but shall be transferred and pledged as security and a source of payment for the refunding bonds.

Notwithstanding the release and discharge of the lien of this Indenture as provided above, those provisions of this Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, the holding of moneys in trust, and the duties of the Trustee in connection with all of the foregoing, remain in effect and shall be binding upon the Trustee and the Bondholder.

Any Bond shall be deemed to be paid within the meaning of this Article and for all purposes of this Indenture when (a) payment of the principal of and premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided herein), either (i) shall have been made or caused to be made (other than by the Bond Insurer) in accordance with the terms thereof, or (ii) shall have been provided for (other than by the Bond Insurer) by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment (1) moneys sufficient to make such payment and/or (2) Governmental Obligations maturing as to principal and interest in such amounts and at such time as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee, the Council and the Bond Insurer pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Bond shall be deemed to be paid hereunder, as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of this Indenture, except for the purposes of any such payment from such moneys or Governmental Obligations.

Notwithstanding the foregoing paragraph, no deposit under clause (a)(ii) of the immediately preceding paragraph shall be deemed a payment of the Bonds as aforesaid (1) until the Council shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions:

(i) stating the date when the principal of each such Bond is to be paid, whether at maturity or on a redemption date (which shall be any redemption date permitted by this Indenture);

(ii) to call for redemption pursuant to this Indenture any Bonds to be redeemed prior to maturity pursuant to (i) hereof; and

(iii) if all the Bonds are not to be redeemed within 30 days, to mail, as soon as practicable, in the manner prescribed by Article III hereof, a notice to the Owners of the Bonds that the deposit required by (a)(ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Article and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price, if applicable, of the Bonds as specified in (i) hereof; and

(2) if any Bonds are to be redeemed within the next 30 days, until proper notice of redemption of those Bonds has been given.

Any moneys so deposited with the Trustee as provided in the two foregoing paragraphs may at the direction of the Council also be invested and reinvested in Governmental Obligations described in clause (i) of the definition thereof, maturing in the amounts and at the times as hereinbefore set forth, and all income from all such Governmental Obligations in the hands of the Trustee pursuant to this Article which is not required for the payment of the Bonds and interest thereon with respect to which such moneys shall have been so deposited, shall be paid to the Council as and when realized if not needed to pay any fees or expenses provided for hereunder.

No deposit under this Article shall be made or accepted hereunder and no use made of any such deposit unless the Trustee shall have received an Opinion of Bond Counsel to the effect that such deposit and use would not cause the Bonds to be treated as arbitrage bonds within the meaning of Section 148 of the Code.

Notwithstanding any provision of any other Article of this Indenture which may be contrary to the provisions of this Article, all moneys or Governmental Obligations set aside and held in trust pursuant to the provisions of this Article for the payment of Bonds (including interest thereon) shall be applied to and used solely for the payment of the particular Bonds (including interest thereon) with respect to which such moneys or obligations have been so set aside in trust.

Anything in Article XI hereof to the contrary notwithstanding, if moneys or obligations have been deposited or set aside with the Trustee pursuant to this Article for the payment of Bonds and interest thereon when due and such Bonds and interest shall not have in fact been actually paid in full when due, no amendment to the provisions of this Article shall be made without the consent of the Owner of each Bond affected thereby.

Anything to the contrary provided elsewhere in this Indenture notwithstanding, this Indenture shall not be discharged as long as any amounts are owing to the Bond Insurer and no

Bond shall be deemed paid under this Indenture if the Bond Insurer shall have made any payment under the Bond Insurance Policy or Surety Bond in respect of the principal of or interest on such Bond until the amount of such principal or interest, together with interest thereon provided for herein and in the Bonds on past-due principal and interest, shall have been paid to the Bond Insurer. Furthermore, if the discharge of the Indenture is based upon, or utilizes a forward supply contract, the Insurer's prior written consent must be received before the Indenture shall be discharged by the Trustee.

Prior to any defeasance becoming effective under this Indenture, (i) the Bond Insurer shall have received an opinion of Counsel, satisfactory to the Bond Insurer, to the effect that the proceeds of any deposit to effectuate such defeasance shall not constitute a voidable preference in a case commenced under the Federal Bankruptcy Code by or against the Council or any applicable Borrower, (ii) the amounts required to be deposited in an escrow fund pursuant to this Indenture and the escrow deposit agreement entered into in order to effectuate such defeasance shall be invested only in Government Obligations and (iii) the Bond Insurer shall have received (a) the final official statement delivered in connection with the refunding bonds, (b) a copy of the accountant's verification report, (c) a copy of the escrow deposit agreement in form and substance acceptable to the Bond Insurer, (d) a copy of an opinion of Bond Counsel, dated the date of closing addressed to the Bond Insurer, to the effect that the refunded bonds have been paid within the meaning and with the effect expressed in the Indenture, and the covenants, agreements and other obligations of the Council to the holders of the refunded bonds have been discharged and satisfied. The opinion required by (i) above may be waived in the discretion of the Bond Insurer at the time of such defeasance.

ARTICLE IX

DEFAULT PROVISIONS AND REMEDIES OF TRUSTEE AND BONDHOLDERS

SECTION 9.01. Defaults; Events of Default. If any of the following events occurs with respect to the Bonds, it is hereby defined as and declared to be and to constitute an “Event of Default” with respect to the Bonds:

(a) Default in the payment of the principal of or interest on any Bond after the same has become due, whether at maturity or upon call for redemption.

(b) Default in the performance or observance of any covenant, agreement or condition on the part of the Council contained in this Indenture or in the Bonds (other than defaults mentioned in Section 9.01(a) and (c)) and failure to remedy the same after notice of the default pursuant to Section 9.10 hereof.

(c) If the Council shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State, or the Council declares any act of bankruptcy, or there is adjudication of the Council as a bankrupt, or an assignment by the Council for the benefit of its creditors or the approval by a court of competent jurisdiction of a petition applicable to the Council in any proceeding for its reorganization instituted under federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State.

SECTION 9.02. Remedies; Rights of Bondholders. Upon the occurrence of an Event of Default with respect to the Bonds, the Trustee shall have the following rights and remedies:

(a) Subject to Bond Insurer approval, the Trustee may, and in the case of Event of Default under Section 9.01(c) above shall, pursue any available remedy at law or in equity or by statute, including the federal bankruptcy laws or other applicable law or statute of the United States of America or of the State, to enforce the payment of principal of and interest on the Bonds then Outstanding, including enforcement of any rights of the Council or the Trustee under the related Loan Agreements.

(b) Subject to Bond Insurer approval, the Trustee may by action or suit in equity require the Council to account as if it were the trustee of an express trust for the Owners of the Bonds and may then take such action with respect to the related Loan Agreements as the Trustee shall deem necessary or appropriate and in the best interest of the Bondholders, subject to the terms of the related Loan Agreements, including the sale of part or all of the related Loan Agreements.

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the related Trust

Estate and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

(d) The Trustee shall give written notice of any Event of Default to the Council and the Bond Insurer as promptly as practicable after the occurrence of an Event of Default becomes known to the Trustee. If an Event of Default has occurred and is continuing, the Bond Insurer shall, subject to the provisions in the following sentence, have the right to direct the Trustee to declare immediately due and payable the principal amount of the Outstanding Bonds, provided that as a condition to such direction of acceleration the Bond Insurer shall have deposited Insurance Proceeds with the Trustee in an amount equal to principal of and interest accrued and to accrue (to a date not less than 30 days following the Bond Insurer's notice of direction to the Trustee of acceleration) on the Bonds Outstanding which are due as a result of such acceleration. **NOTWITHSTANDING THE FOREGOING OR ANY PROVISION HEREIN TO THE CONTRARY, IN THE EVENT AN EVENT OF DEFAULT HAS OCCURRED BECAUSE OF A DEFAULT UNDER LESS THAN ALL OF THE RELATED LOAN AGREEMENTS, THE BOND INSURER SHALL ONLY HAVE THE RIGHT TO DIRECT THE TRUSTEE TO DECLARE IMMEDIATELY DUE AND PAYABLE A PRINCIPAL AMOUNT OF THE OUTSTANDING BONDS IN AN AMOUNT EQUAL TO THE PRINCIPAL AMOUNT OF THE LOAN OR LOANS THEN IN DEFAULT.** In such event, the Bond Insurer shall direct the Trustee as to which of the Outstanding Bonds shall be declared immediately due and payable. In making such declaration, the Council and the Bond Insurer may only declare Bonds immediately due and payable which correspond in terms of amount and scheduled maturity date to the related Loan Repayments. When the Trustee is directed that payment with respect to such Bonds is to be accelerated by the Bond Insurer pursuant to this Section and when the Bond Insurer, in connection with acceleration of such Bonds by the Trustee, shall have elected in its discretion to deposit Insurance Proceeds in an amount sufficient to pay all amounts of principal and interest due on such Bonds including principal due by reason of acceleration and has so notified the Trustee, the Trustee shall mail notice to the registered Owners of such Bonds not less than fifteen days prior to the date (the "Insurance Payment Date") to which interest accrued and to accrue on such Bonds has been provided by the Bond Insurer, which notice shall state the manner in which such Bonds may be assigned to the Bond Insurer or to an agent or designee thereof in exchange for payment thereon and shall state that from and after the Insurance Payment Date, interest shall cease to accrue on such Bonds for the benefit of such registered Owners (provided that an amount equal to such interest shall continue to accrue on such Bonds assigned to the Bond Insurer as aforesaid).

If an Event of Default shall have occurred, and if requested so to do by the Bond Insurer or by the owners of 25% or more in aggregate principal amount of Outstanding Bonds and Bond Insurer and indemnified as provided in Section 10.01(k) hereof, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Section as the Trustee, being advised by Counsel, shall deem most expedient in the interests of the Bondholders.

No right or remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Bondholders or the Bond Insurer) is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given to the Trustee, the Bond Insurer or to the Bondholders hereunder or now or hereafter existing at law or in equity or by statute. The assertion or

employment of any right or remedy shall not prevent the concurrent or subsequent assertion or employment of any other right or remedy.

No delay or omission in exercising any right or remedy accruing upon any default or Event of Default shall impair any such right or remedy or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right or remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

No waiver of any default or Event of Default hereunder by the Trustee shall be effective without the approval of the Bond Insurer.

SECTION 9.03. Right of Bondholders to Direct Proceedings. Anything in this Indenture to the contrary notwithstanding, the Bond Insurer (unless the Bond Insurer is in default under the Bond Insurance Policy) or, with consent of the Bond Insurer (provided such consent shall not be required if the Bond Insurer is in default under the Bond Insurance Policy), the Owners of a majority in aggregate principal amount of the Outstanding Bonds shall have the right, at any time during the continuance of an Event of Default, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided that such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture.

SECTION 9.04. Appointment of Receivers. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

SECTION 9.05. Application of Moneys. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article, including by virtue of action taken under provisions of any Loan Agreement, shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees (including reasonable Trustee's fees), expenses, liabilities and advances payable to, incurred or made by the Trustee (including reasonable fees and disbursements of its counsel), be applied, along with any other moneys available for such purposes, as follows:

(a) Unless the principal of all the Bonds shall have become due and payable, all such moneys shall be applied:

FIRST -- To the payment to the persons entitled thereto of all amounts payable pursuant to Section 4.05(1) or Section 4.05(2) and, as to installments of interest, in the

order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND -- To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due at stated maturity or pursuant to a call for redemption (other than such Bonds called for redemption for the payment of which moneys are held pursuant to the other provisions of this Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege;

THIRD -- To payment to the persons entitled thereto of all amounts payable pursuant to Sections 4.05(3); and

FOURTH -- To be held as provided in Article IV hereof for the payment to the persons entitled thereto as the same shall become due of the amounts payable pursuant to this Indenture (including principal of such Bonds due upon call for redemption) and, if the amount available shall not be sufficient to pay in full amounts due on any particular date, payment shall be made ratably according to the priorities set forth in subparagraphs FIRST, SECOND and THIRD above.

(b) If the principal of all the Bonds shall have become due, all such moneys shall be applied to the payment of the principal of and interest then due and unpaid upon the Bonds and amounts payable pursuant to Section 4.05(3), with Bond principal and interest to be paid first, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, and with the items enumerated in Section 4.05(3) to be paid second to the Persons entitled thereto without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and past-due interest to be paid on such date shall cease to accrue. Defaulted interest on a Bond shall be payable to the person in whose name such Bond is registered at the close of business on a Special Record Date for the payment of defaulted interest established by notice mailed by the Trustee to the registered Owners of Bonds not more than fifteen (15) days preceding such Special Record Date. Such notice shall be mailed to the person in whose name the Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing. The Trustee shall not be required to make payment of principal of any Bond to the Owner of such Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all principal of and interest on all Bonds have been paid under the provisions of this Section and all expenses and charges of the Trustee and the Bond Insurer have been paid, any balance remaining in the Funds and Accounts shall be transferred to the Council as provided in Article VIII hereof.

SECTION 9.06. Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under this Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding related thereto and any trial or other proceeding related thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Owners of the Bonds, and any recovery of judgment shall be for the equal and ratable benefit of the Owners of all the Outstanding Bonds.

SECTION 9.07. Rights and Remedies of Bondholders. No Owner of any Bond or the Bond Insurer shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of this Indenture or for the execution of any trust hereof or for the appointment of a receiver or any other remedy hereunder, unless (a) a default has occurred, (b) such default shall have become an Event of Default and the Owners of not less than 25% in aggregate principal amount of Outstanding Bonds affected thereby, with the consent of the Bond Insurer, or the Bond Insurer shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (c) such Owners of Bonds or the Bond Insurer shall have offered to the Trustee indemnity as provided in Section 10.01(k) hereof, and (d) the Trustee shall for 60 days after receipt of such request and indemnification fail or refuse to exercise the rights and remedies hereinbefore granted, or to institute such action, suit or proceeding in its own name; and such request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of this Indenture, and to any action or cause of action for the enforcement of this Indenture, or for the appointment of a receiver or for any other remedy hereunder; it being understood and intended that no one or more Owners of the Bonds or the Bond Insurer shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal and ratable benefit of the Owners of all Outstanding Bonds. However, nothing contained in this Indenture shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on any Bond at and after the maturity or redemption date of such principal or interest, or the obligation of the Council to pay the principal of and interest on each of the Bonds issued hereunder to the respective registered Owners thereof at the time, place, from the source and in the manner in this Indenture and in the Bonds expressed.

SECTION 9.08. Termination of Proceedings. In case the Trustee or any Owner of any Bonds or the Bond Insurer shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Council, the Trustee, the Bond Insurer and the Bondholders shall be restored to their former

positions and rights hereunder, respectively, and with regard to the property herein subject to this Indenture, and all rights, remedies and powers of the Trustee, the Bond Insurer and Owners of Bonds shall continue as if no such proceedings had been taken.

SECTION 9.09. Waivers of Events of Default. The Trustee may, with the consent of the Bond Insurer, at its discretion waive any Event of Default hereunder (other than an Event of Default specified in 9.01(c) above) and its consequences and may rescind any declaration of maturity of all the Bonds affected thereby (except an acceleration of maturity of all or a portion of such Bonds directed by the Bond Insurer) and shall do so upon the written request of the Bond Insurer or the Owners of (a) more than two-thirds in aggregate principal amount of all Outstanding Bonds (with the consent of the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy) in the case of default in the payment of principal or interest, or (b) more than one-half in aggregate principal amount of all Outstanding Bonds affected thereby (with the consent of the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy) in the case of any other default; provided, however, that there shall not be waived (i) any default in the payment of the principal of any such Outstanding Bond at the date of maturity specified therein or (ii) any default in the payment when due of the interest on any such Outstanding Bond, unless prior to such waiver all arrears of interest or all arrears of payments of principal when due, as the case may be, with interest on overdue principal and interest, and all expenses of the Trustee in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then, and in every such case, the Council, the Trustee, the Bond Insurer and the Bondholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon. No such waiver shall affect the rights of third parties to payment of amounts provided for hereunder.

SECTION 9.10. Notice of Defaults Under Section 9.01(b); Opportunity of Council To Cure Such Defaults. Anything herein to the contrary notwithstanding, no default under Section 9.01(b) hereof shall constitute an Event of Default until actual notice of such default by registered or certified mail shall be given to the Council by the Trustee or by the Bond Insurer or the Owners of not less than 25% in aggregate principal amount of all Outstanding Bonds and the Council shall have had 30 days after receipt of such notice to correct the default or cause the default to be corrected, and shall not have corrected the default or caused the default to be corrected within the applicable period; provided, however, if the default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Council within the applicable period and diligently pursued until the default is corrected.

With regard to any alleged default concerning which notice is given to the Council under the provisions of this Section, the Council hereby grants the Trustee full authority for the account of the Council to perform any covenant or obligation alleged in said notice to constitute a default, in the name and stead of the Council with full power to do any and all things and acts to the same extent that the Council could do and perform any such things and acts and with power of substitution.

The Council and the Trustee shall notify the Bond Insurer within five (5) days after each has received notice or has knowledge of (i) an Event of Default specified in Section 9.01 hereof; (ii) the withdrawal of amounts on deposit in the Reserve Fund; or (iii) the failure to make any required deposit to the Principal Fund or the Revenue Fund to pay principal or interest when due.

Any notice that is required to be given to the Bondholders or the Trustee pursuant to this Indenture or any Supplemental Indenture shall also be provided to the Bond Insurer. All notices required to be given to the Bond Insurer under this Indenture shall be in writing and shall be sent by registered or certified mail addressed to the Bond Insurer at the address specified in Section 2.04 hereof.

SECTION 9.11. Bond Insurer to be Deemed Bondholder; Rights of Bond Insurer. (a) Notwithstanding any provisions of this Indenture to the contrary, unless the Bond Insurer is in default under the Bond Insurance Policy, the Bond Insurer shall at all times be deemed the exclusive Owner of all Bonds for all purposes except for the purpose of payment of the principal of and premium, if any, and interest on the Bonds prior to the payment by the Bond Insurer of the principal of and interest on the Bonds. The Bond Insurer shall have the exclusive right to direct any action or remedy to be undertaken by the Trustee, by the Owners or by any other party pursuant to this Indenture and the Loan Agreements, and no acceleration of the Bonds shall be permitted, and no event of default shall be waived, without the Bond Insurer's consent. All rights to collect, receive and dispose of such collateral shall be independent of any rights to effect acceleration of the Bonds.

(b) The Bond Insurer shall be subrogated to any and all of the rights of the Owners of any and all of the Bonds insured by the Bond Insurer (unless the Bond Insurer is in default under the Bond Insurance Policy) at all times for the purpose of the execution and delivery of a Supplemental Indenture or of any amendment, change or modification of the Loan Agreements or the initiation by Bondholders of any action to be undertaken by the Trustee at the Bondholder's request. In addition, the Bond Insurer's consent to any Supplemental Indenture and any amendment, change or modification of any Loan Agreement shall be required.

(c) Anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein, the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy, shall at all times be deemed the exclusive owner of all Bonds for all purposes and shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders for the benefit of the Bondholders under this Indenture.

ARTICLE X

THE TRUSTEE

SECTION 10.01. Acceptance of the Trusts. The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and shall use the same degree of care as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to advice of counsel concerning all matters of trusts hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorneys (who may but need not be the attorney or attorneys for the Council, the Bond Insurer or a Borrower) approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds, or for the validity of the execution by the Council of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby.

(d) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The Trustee may become the Owner of Bonds secured hereby with the same rights which it would have if not the Trustee.

(e) Unless an officer of the corporate trust department of the Trustee shall have actual knowledge thereof, the Trustee shall not be required to take notice or be deemed to have notice of any default hereunder except defaults under Section 9.01(a) hereof unless the Trustee shall be specifically notified in writing of such default by the Council or the Bond Insurer or a court of law or by any Owner of Bonds. All notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Designated office of the Trustee and, in the absence of such notice so delivered, the Trustee may conclusively assume there is no default except as aforesaid. The Trustee shall provide copies of any such notices as soon as practicable to the Council, Bond Insurer and the Borrowers.

(f) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed to be genuine

and correct and to have been signed or sent by the proper person or persons. The Trustee shall not withhold unreasonably its consent, approval or action to any reasonable request of the Council. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the registered Owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

(g) As to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled in good faith to rely upon a certificate signed by an authorized officer of the Council or by an authorized officer of the Program Administrator as sufficient evidence of the facts therein contained and prior to the occurrence of a default of which the Trustee has knowledge, or is deemed to have notice pursuant to Section 10.01(e), shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of an authorized officer of the Council under its seal to the effect that a resolution in the form therein set forth has been adopted by the Council as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(h) All moneys received by the Trustee hereunder, until used or applied as herein provided, shall be held in trust for the purposes for which they were received.

(i) At any and all reasonable times, the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives and the Bond Insurer, shall have the right to inspect any and all of the books, papers and records of the Council pertaining to the Revenues and receipts under the Loan Agreements and the Bonds, and to take such memoranda from and in regard thereto as may be desired.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Before taking the action referred to in Section 9.02 or 9.07 hereof, the Trustee may require that satisfactory indemnity be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability relating to such action, except liability which is adjudicated to have resulted from its negligence or willful default.

SECTION 10.02. Fees, Charges and Expenses of Trustee. The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered hereunder and all advances, counsel fees (including in connection with any appeal or bankruptcy proceedings and other expenses reasonably and necessarily made or incurred by the Trustee) but solely from moneys available therefor pursuant to Section 4.05 hereof or Section 9.05 hereof and pursuant to the Loan Agreements.

SECTION 10.03. Notice to Bondholders if Default Occurs Under Indenture. If the Trustee becomes aware of an Event of Default, then the Trustee shall promptly give written

notice thereof by registered or certified mail to the Bond Insurer and by first-class mail to the Owners of all Outstanding Bonds affected thereby, as shown by the bond registration books.

SECTION 10.04. Intervention by Trustee. In any judicial proceeding to which the Council is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of Owners of the Bonds, the Trustee may intervene on behalf of the Bondholders, and shall do so if requested in writing by (i) the Bond Insurer, or (ii) the Owners of at least 25% of the aggregate principal amount of Bonds then Outstanding, with the consent of the Bond Insurer.

SECTION 10.05. Successor Trustee. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer all or substantially all of the bond administration portion of its corporate trust business, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto shall be and become, to the extent permitted by law, successor Trustee hereunder and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding, provided, however, that written notice shall be provided to the Bond Insurer the Council and the Bondholders.

Any successor Trustee appointed pursuant to this Section or through consolidation, sale, or merger shall be a trust company or bank in good standing located in or incorporated under the laws of the State or the United States, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$75,000,000 and acceptable to the Bond Insurer.

SECTION 10.06. Resignation by Trustee. The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving sixty (60) days' written notice by registered or certified mail to the Council and the Bond Insurer and by first-class mail to the registered Owner of each Bond, and such resignation shall take effect upon the appointment of a successor Trustee as hereinafter provided and the acceptance of such appointment by such successor. No such acceptance shall be effective unless the Bond Insurer has consented in writing to such appointment.

SECTION 10.07. Removal of Trustee. The Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Trustee and to the Council and signed by the Bond Insurer or the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, with consent of the Bond Insurer, for any breach of trust set forth herein, provided, that all amounts owing to the Trustee shall be paid simultaneous with or prior to such removal.

SECTION 10.08. Appointment of Successor Trustee. In case the Trustee hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor

may be appointed by a resolution of the Council, with the consent of the Bond Insurer, or if the Council shall not have appointed a successor Trustee, by filing with the Council an instrument or concurrent instruments in writing signed by Owners of not less than a majority in principal amount of Bonds outstanding, or by their attorneys in fact, duly authorized. Nevertheless, in case of such vacancy, the Bond Insurer may appoint a temporary Trustee to fill such vacancy until a successor to the Trustee shall be appointed in the manner above prescribed; and any such temporary Trustee so appointed by the Bond Insurer shall immediately and without further act be superseded by any Trustee so appointed. Notice of the appointment of a successor Trustee shall be given by the successor Trustee in the same manner as provided by Section 10.06 hereof with respect to the resignation of a Trustee. Every such Trustee appointed pursuant to the provisions of this Section shall be a trust company or bank in good standing having a corporate trust office in the State, having a reported capital and surplus of not less than \$75,000,000 and subject to examination by federal or State authority, if there be such an institution willing, qualified and able to accept the trust upon reasonable or customary terms. The Bond Insurer shall be notified immediately upon the resignation or termination of the Trustee and the appointment of a successor Trustee.

SECTION 10.09. Concerning Any Successor Trustee. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its or his predecessor and also to the Council and the Bond Insurer an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor shall, nevertheless, on the written request of the Council, or of the successor Trustee, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities, moneys, documents and other property held by it as the Trustee hereunder to its or his successor hereunder. Should any instrument in writing from the Council be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Council. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article, shall be filed or recorded by the successor Trustee in each recording office where this Indenture shall have been filed or recorded. Such successor Trustee shall give notice of such successors to Fitch and S&P.

SECTION 10.10. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Council and the Bond Insurer, at reasonable hours and under reasonable conditions.

SECTION 10.11. [Reserved]

SECTION 10.12. Paying Agent. The Council hereby appoints the Trustee as Paying Agent. The Council may, with the approval of the Trustee and the Bond Insurer appoint additional Paying Agents for the Bonds. Each Paying Agent shall designate to the Council and the Trustee its principal office and signify its acceptance of the duties and obligations imposed

upon it hereunder by a written instrument of acceptance delivered to the Council under which such Paying Agent will agree, particularly:

- (a) to hold all sums received by it for the payment of the principal of or interest on Bonds in trust for the benefit of the Owners of the Bonds until such sums shall be paid to such Owners of the Bonds or otherwise disposed of as herein provided;
- (b) to keep such books and records as shall be consistent with prudent industry practice, to make such books and records available for inspection by the Council and the Trustee at all reasonable times; and
- (c) upon the request of the Trustee, to forthwith deliver to the Trustee all sums so held in trust by the Paying Agent.

SECTION 10.13. Registrar. The Council hereby appoints the Trustee as Registrar for the Bonds. The Registrar shall designate to the Trustee its principal office and signify its acceptance of the duties imposed upon it hereunder by a written instrument of acceptance delivered to the Council and the Trustee under which such Registrar will agree, particularly, to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Council and the Trustee at all reasonable times.

The Council shall cooperate with the Trustee to cause the necessary arrangements to be made and to be thereafter continued whereby Bonds, executed by the Council and authenticated by the Registrar or any authenticating agent, shall be made available for exchange, registration and registration of transfer at the principal office of the Registrar. The Council shall cooperate with the Trustee to cause the necessary agreements to be made and thereafter continued whereby the Registrar shall be furnished such records and other information at such times as shall be required to enable the Registrar to perform the duties and obligations imposed upon it hereunder.

SECTION 10.14. Effect on Bondholders of Certain Actions. Notwithstanding any other provision of this Indenture, in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Trustee or Paying Agent shall consider the effect on the Bondholders as if there were no Bond Insurance Policy.

ARTICLE XI

SUPPLEMENTAL INDENTURES

SECTION 11.01. Supplemental Indentures Not Requiring Consent of Bondholders. The Council and the Trustee may, without the consent of or notice to any of the Bondholders but only with the consent of the Bond Insurer, enter into any indenture or indentures supplemental to this Indenture for any one or more of the following purposes:

- (a) To cure or correct any ambiguity or omission or formal defect in this Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, is not to the material prejudice of the Bondholders;
- (c) To subject to this Indenture additional revenues, properties or collateral;
- (d) To modify, amend or supplement this Indenture or any indenture supplemental hereto in such manner as to permit the qualification hereof and thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to this Indenture or any indenture supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute; or
- (e) To change or evidence or give effect to the delivery of an Alternate Surety Bond.

SECTION 11.02. Supplemental Indentures Requiring Consent of Bondholders. Exclusive of supplemental indentures covered by Section 11.01 hereof and subject to the terms and provisions contained in this Section, and not otherwise, the Bond Insurer and the Owners of not less than two-thirds in aggregate principal amount of the Outstanding Bonds affected thereby shall have the right, from time to time, to consent to and approve the execution by the Council and the Trustee of such other indenture or indentures supplemental hereto as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however, that nothing in this Section contained shall permit, or be construed as permitting (1) without the consent of the Owners of all then Outstanding Bonds affected thereby, of (a) an extension of the maturity date of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the rate of interest thereon, or (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture, or (e) except to the extent necessary to implement Section 4.08(c) hereof, the creation of any lien hereunder other than a lien ratably securing all of the Bonds at any time Outstanding hereunder, or (2) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

If at any time the Council shall request the Trustee to enter into any such supplemental indenture for any of the purposes of this Section, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by registered or certified mail to each Owner of a Bond affected thereby at the address shown on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Bondholders. If, within sixty (60) days, or such longer period as shall be prescribed by the Council, following the mailing of such notice, the Owners of not less than two-thirds in aggregate principal amount of the Outstanding Bonds affected thereby at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Council from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as in this Section permitted and provided, this Indenture shall be and be deemed to be modified and amended in accordance therewith.

Notwithstanding the foregoing or any other provisions to the contrary, for as long as the Bond Insurance Policy remains in full force and effect, consent and approval by the Bond Insurer shall constitute the required consent and approval of the Owners of the Bonds, provided, however, that in no event shall the Bond Insurer's consent to the actions listed in subsection (1)(a) through (e) of this Section 11.02 constitute consent of the Owners.

SECTION 11.03. Notice to S&P and Fitch. The Trustee shall give notice to the Bond Insurer, S&P and Fitch of any supplemental indentures or any amendments to any Loan Agreement.

ARTICLE XII

AMENDMENT OF LOAN AGREEMENTS

SECTION 12.01. Amendments, Etc., Not Requiring Consent of Bondholders.

The Council and the Trustee may, without the consent of or notice to the Bondholders, but only with the consent of the Bond Insurer, consent to any amendment, change or modification of any Loan Agreement that may be required (a) by the provisions of such Loan Agreement or to conform to the provisions of this Indenture, (b) for the purpose of curing any ambiguity or inconsistency or formal defect or omission, (c) so as to add additional rights acquired in accordance with the provisions of such Loan Agreement, (d) in connection with any other change therein which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Owners of the Bonds, or (e) in connection with the delivery of an Alternate Surety Bond.

SECTION 12.02. Amendments, Etc., Requiring Consent of Bondholders.

Except for amendments, changes or modifications provided for in Section 12.01 hereof, neither the Council nor the Trustee shall consent to any amendment, change or modification of any Loan Agreement without the mailing of notice and the written approval or consent of the Bond Insurer and Owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding given and procured as in this Section provided. If at any time the Council and a Borrower shall request the consent of the Trustee to any such proposed amendment, change or modification of a Loan Agreement, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be mailed in the same manner as provided by Section 11.02 hereof with respect to supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file with the Trustee for inspection by all Bondholders. Nothing contained in this Section shall permit, or be construed as permitting, a reduction of the aggregate principal amount of Bonds the Owners of which are required to consent to any amendment, change or modification of a Loan Agreement, a reduction in, or a postponement of, the payments under any Loan Agreement or any changes that affect the exclusion of interest on the Bonds from the gross income of the Holders thereof for purposes of Federal income taxation, without the consent of the Owners of all of the Bonds then Outstanding.

Notwithstanding the foregoing or any other provisions to the contrary, for as long as the Bond Insurance remains in full force and effect, consent and approval by the Bond Insurer shall constitute the required consent and approval of the Owners of the Bonds, provided, however, that the Bond Insurer shall not be entitled to consent to a reduction in, or postponement of, the payment due the Bondholders or any change that affects the exclusion of interest on the Bonds from gross income of the Holders thereof for purposes of Federal income taxation.

Nothing contained in this Section shall be construed to prevent the Trustee, with the consent of the Council and the Bond Insurer, from settling a default under any Loan Agreement on such terms as the Trustee may determine to be in the best interests of the Owners of the Bonds.

ARTICLE XIII

GENERAL COVENANTS

SECTION 13.01. Payment of Principal and Interest. The Council covenants that it will promptly pay the principal of and interest on every Bond issued under this Indenture at the place, on the dates and in the manner provided herein and in said Bonds according to the true intent and meaning thereof, provided that the principal and interest are payable by the Council solely from the Trust Estate as provided in this Indenture, and nothing in the Bonds or this Indenture shall be considered as assigning or pledging any other funds or assets of the Council other than such Trust Estate.

SECTION 13.02. Performance of Covenants; the Council. The Council covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Council covenants that it is duly authorized under the Constitution and laws of the State, including particularly the Act, to issue the Bonds authorized hereby and to execute this Indenture, to execute and deliver Loan Agreements, to assign the Loan Agreements and collateral documents and amounts payable thereunder, and to pledge the Revenues and any other property hereby pledged in the manner and to the extent herein set forth; that all action on its part for the issuance of the Bonds and the execution and delivery of this Indenture has been duly and effectively taken, and that the Bonds in the hands of the Owners thereof are and will be valid and enforceable obligations of the Council according to the terms thereof and hereof.

SECTION 13.03. Instruments of Further Assurance. The Council agrees that the Trustee may defend its rights to the payments of the Revenues for the benefit of the Owners of the Bonds, against the claims and demands of all persons whomsoever. The Council covenants that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming unto the Trustee all and singular the rights assigned hereby and the amounts and other property pledged hereby to the payment of the principal of and interest on the Bonds. The Council covenants and agrees that, except as provided herein or in the Loan Agreements, it will not sell, convey, assign, pledge, encumber or otherwise dispose of any part of the Revenues or the proceeds of the Bonds or its rights under the Loan Agreements.

SECTION 13.04. Rights Under the Loan Agreements. The Loan Agreements, the form of which has been filed with the Trustee and duly executed counterparts of each of which will be retained by the Trustee, as required by Section 13.06 hereof, set forth the covenants and obligations of the Council and the Borrowers, including provisions that the Loan Agreements may not be effectively amended without the concurring written consent of the Trustee, as provided in Article XII hereof, and reference is hereby made to the Loan Agreements for a detailed statement of said covenants and obligations of the Borrowers under the Loan Agreements, and the Council agrees that the Trustee in its name or to the extent permitted by law, in the name of the Council, may enforce all rights of the Council and all obligations of the

Borrowers under the Loan Agreements (and waive the same except for rights expressly granted to the Council) on behalf of the Bondholders whether or not the Council is in default hereunder.

SECTION 13.05. Possession and Inspection of Loan Agreements. The Trustee shall retain possession of an executed copy of each Loan Agreement to which it is a party or in which it has an interest and release them only in accordance with the provisions of this Indenture. The Council and the Trustee covenant and agree that all books and documents in their possession relating to the Loan Agreements and to the distribution of proceeds thereof shall at all times be open to inspection by such accountants or other agencies or persons as the other party or the Bond Insurer may from time to time designate.

SECTION 13.06. Provision of Documents to Bondholders. If any Bondholder shall request of the Council or Trustee a copy of the Indenture, the Bond Insurance Policy or any Loan Agreement, the Trustee shall, at the expense of the Bondholder, provide such Bondholder with a photocopy or other copy of any such document requested.

SECTION 13.07. Tax Covenants.

(a) The Council shall not use or permit the use of any proceeds of the Bonds or any other funds of the Council, and the Trustee shall not knowingly use or permit the use of any proceeds of the Bonds or any other funds of the Council held by the Trustee, directly or indirectly, to acquire any securities or obligations, and shall not knowingly use or permit the use of any amounts received by the Council or Trustee with respect to the Loan Agreements in any manner, and shall not take or permit to be taken any other action or actions, which would cause any Bond to be an “arbitrage bond” within the meaning of Section 148, or “federally guaranteed” within the meaning of the Code. If at any time the Council is of the opinion that for purposes of this subsection (a) it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee under this Indenture, the Council shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(b) The Council shall not use or permit the use of any proceeds of Bonds or any other funds of the Council, and the Trustee shall not knowingly use or permit the use of any proceeds of the Bonds or any other funds of the Council held by the Trustee, directly or indirectly, in any manner, and shall not take or permit to be taken any other action or actions, which would result in any of the Bonds being treated as a “private activity bond,” as defined in Section 141 of the Code.

(c) The Council and the Trustee (if directed by the Council) shall at all times do and perform all acts and things permitted by law and this Indenture which are necessary or desirable in order to assure that interest paid on the Bonds will be excluded from gross income for purposes of Federal income taxation and shall take no action that would result in such interest not being excluded from Federal gross income.

(d) The Council covenants that it will maintain adequate accounting records, and rebate investment income from the investment of proceeds of the Bonds to the United States

Treasury within the time allowed and in the manner specified by the Code and regulations and will otherwise comply with such laws and regulations.

SECTION 13.08. Security Interest.

(a) This Indenture creates a valid and binding assignment of, lien on and security interest in the Trust Estate in favor of the Trustee as security of payment of the Bonds, enforceable by the Trustee in accordance with the terms hereof.

(b) The Council has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of such collateral that ranks on a parity with (except the Reserve Fund) or prior to the lien, security interest or assignment granted hereby. The Council has not described such collateral in a Uniform Commercial Code financing statement. The Council shall not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in such collateral that ranks prior to or on a parity with (except the Reserve Fund) the assignment, lien, or security interest granted hereby, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted hereby.

ARTICLE XIV

MISCELLANEOUS

SECTION 14.01. Consents, etc., of Bondholders. Any consent, request, direction, approval, objection or other instrument required by this Indenture to be signed and executed by the Bondholders may be in any number of concurrent writings of similar tenor and may be signed or executed by such Bondholders in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes of this Indenture, and shall be conclusive in favor of the Council, the Trustee and any subsequent Owners of the Bonds with regard to any action taken by it under such request or other instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by an affidavit of any witness to such execution.

(b) The fact of ownership of Bonds and the amount or amounts, numbers and other identification of Bonds, and the date of owning the same shall be proved by the registration books of the Council maintained by the Registrar pursuant to Section 2.07 hereof.

SECTION 14.02. Limitation of Rights. With the exception of rights herein expressly conferred or as otherwise provided herein, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any person or company other than the parties hereto and the owners of the Bonds, any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained; this Indenture and all of the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and the Owners of the Bonds as herein provided. The Bond Insurer is recognized as a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

SECTION 14.03. The Bond Insurer. All provisions in this Indenture regarding consents, approvals, directions, appointments or requests by the Bond Insurer shall be deemed to not require or permit such consents, directions, appointments or requests by the Bond Insurer and shall be read as if the Bond Insurer were not mentioned therein during any time in which (a) the Bond Insurer is in default in its obligation to make payments under the Bond Insurance Policy, (b) the Bond Insurance Policy shall at any time for any reason cease to be valid and binding on the Bond Insurer, or shall be declared to be null and void by final and conclusive judicial determination, or the validity or enforceability of any provision thereof is being contested by the Bond Insurer or any governmental agency or authority, or if the Bond Insurer is denying further liability or obligation under the Bond Insurance Policy, or (c) a final determination against the Bond Insurer, under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of the State of New York, whether now or hereafter in effect.

SECTION 14.04. Severability. If any provision of this Indenture shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatever.

SECTION 14.05. Notices. Any notice, request, complaint, demand, communication or other paper shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, postage prepaid, or sent by telegram or telex, addressed to the parties as follows:

Council: Florida Municipal Loan Council
c/o Florida League of Cities
301 South Bronough Street
Tallahassee, Florida 32301

Bond Insurer: MBIA Insurance Corporation
113 King Street
Armonk, New York 10504

Trustee: Wachovia Bank, National Association
Corporate Trust Department, FL0122
225 Water Street, 3rd Floor
Jacksonville, Florida 32202
Attention: Stephanie Moore

For purposes of presentation of Bonds for transfer, exchange or payment:

Wachovia Bank, National Association
Corporate Trust Operations
1525 West W.T. Harris Blvd., 3C3
Charlotte, North Carolina 28262-1153

The above parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 14.06. Payments Due on Saturdays, Sundays and Holidays. In any case where the date of payment of principal of or interest on the Bonds or the date fixed for redemption of any Bonds shall be a day which is not a Business Day, then payment of interest or principal shall be made on the succeeding Business Day with the same force and effect as if made on the interest payment date or the date of maturity or the date fixed for redemption.

SECTION 14.07. Counterparts. This Indenture may be simultaneously executed in several counterparts, each of which, when so executed and delivered, shall be an original and all of which shall constitute but one and the same instrument.

SECTION 14.08. Applicable Provisions of Law. This Indenture shall be governed by and construed in accordance with the laws of the State.

SECTION 14.09. Reporting Requirements. The Council will file or cause to be filed with the Bond Insurer any official statement issued by, or on behalf of, the Council in connection with the incurrence of any additional indebtedness by such Council.

(Remainder of this page intentionally left blank)

IN WITNESS WHEREOF, the Council has caused this Indenture to be executed on its behalf by its Chairman and the seal of the Council to be hereunto affixed and duly attested by its Executive Director and the Trustee, to evidence its acceptance of the trusts created hereunder, has caused this Indenture to be executed in its name by its duly authorized officer, all as of the day and year first above written.

FLORIDA MUNICIPAL LOAN COUNCIL

(SEAL)

By: _____
Name: Raul Martinez
Title: Chairman

ATTEST:

FLORIDA LEAGUE OF CITIES, INC.,
Program Administrator

By: _____
Name: Michael Sittig
Title: Executive Director

WACHOVIA BANK, NATIONAL
ASSOCIATION, as Trustee

By: _____
Name: Stephanie Moore
Title: Assistant Vice President

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APPENDIX D
FORM OF THE COVENANT LOAN AGREEMENT

LOAN AGREEMENT

By and Between

FLORIDA MUNICIPAL LOAN COUNCIL

and

[BORROWER]

Dated as of February 1, 2005

FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BONDS, SERIES 2005 A

This Instrument Prepared By:

JoLinda Herring, Esq.
Bryant Miller & Olive P.A.
201 South Monroe Street, Suite 500
Tallahassee, Florida 32301

and

Grace E. Dunlap, Esq.
Bryant Miller & Olive P.A.
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Tampa, Florida 33602

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EXHIBIT C	OPINION OF BORROWER’S COUNSEL
EXHIBIT D	DEBT SERVICE SCHEDULE
EXHIBIT E	FORM OF REQUISITION CERTIFICATE

LOAN AGREEMENT

This Loan Agreement (the “Loan Agreement” or the “Agreement”) dated as of February 1, 2005 and entered into between the FLORIDA MUNICIPAL LOAN COUNCIL (the “Council”), a separate legal entity and public body corporate and politic duly created and existing under the Constitution and laws of the State of Florida, and [BORROWER] (the “Borrower”), a duly constituted municipality under the laws of the State of Florida.

WITNESSETH:

WHEREAS, pursuant to the authority of the hereinafter defined Act, the Council desires to loan to the Borrower the amount necessary to enable the Borrower to finance, refinance or reimburse the cost of the Projects, as hereinafter defined, and the Borrower desires to borrow such amount from the Council subject to the terms and conditions of and for the purposes set forth in this Agreement; and

WHEREAS, the Council is a separate legal entity and public body corporate and politic duly created and existing under the laws of the State of Florida organized and existing under and by virtue of the Interlocal Agreement among initially, the City of DeLand, Florida, the City of Rockledge, Florida and the City of Stuart, Florida, as amended and supplemented, together with the additional governmental entities who become members of the Council, in accordance with Chapter 163, Part I, Florida Statutes, as amended (the “Interlocal Act”); and

WHEREAS, the Council has determined that there is substantial need within the State for a financing program (the “Program”) which will provide funds for qualifying projects (the “Projects”) for the participating Borrowers; and

WHEREAS, the Council is authorized under the Interlocal Act to issue its revenue bonds to provide funds for such purposes; and

WHEREAS, the Council has determined that the public interest will best be served and that the purposes of the Interlocal Act can be more advantageously obtained by the Council’s issuance of revenue bonds in order to loan funds to the Borrowers to finance Projects; and

WHEREAS, the Borrower is authorized under and pursuant to the Act, as amended, to enter into this Loan Agreement for the purposes set forth herein; and

WHEREAS, the Council and the Borrower have determined that the lending of funds by the Council to the Borrower pursuant to the terms of this Agreement and that certain Trust Indenture dated as of February 1, 2005, between the Council and the Trustee (as defined herein) relating to the Bonds (as hereinafter defined), including any amendments and supplements thereto (the “Indenture”), will assist in the development and maintenance of the public welfare of the residents of the State and the areas served by the Borrower, and shall serve a public purpose by improving the health and living conditions, and providing adequate governmental services,

facilities and programs and will promote the most efficient and economical development of such services, facilities and programs in the State; and

WHEREAS, neither the Council, the Borrower nor the State or any political subdivision thereof (other than each Borrower to the extent of their obligations under their respective Loan Agreements only), shall in any way be obligated to pay the principal of, premium, if any, or interest on those certain revenue bonds of the Council designated “Florida Municipal Loan Council Revenue Bonds, Series 2005A” (the “Bonds”) as the same shall become due, and the issuance of the Bonds shall not directly, indirectly or contingently obligate the Borrower, the State or any political subdivision or municipal corporation thereof to levy or pledge any form of ad valorem taxation for their payment but shall be payable solely from the funds and revenues pledged under and pursuant to this Agreement and the Indenture.

NOW, THEREFORE, for and in consideration of the premises hereinafter contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Unless the context or use indicates another meaning or intent, the following words and terms as used in this Loan Agreement shall have the following meanings, and any other hereinafter defined, shall have the meanings as therein defined.

“Accountant” or “Accountants” means an independent certified public accountant or a firm of independent certified public accountants.

“Accounts” means the accounts created pursuant to Section 4.02 of the Indenture.

“Act” means, collectively, to the extent applicable to the Borrower, Chapter 163, Part I, Florida Statutes, Chapter 166, Part II, Florida Statutes, and Chapter 125, Part I, as amended, and all other applicable provisions of law.

“Additional Payments” means payments required by Section 5.03 hereof.

“Alternate Surety Bond” means any letter of credit or surety bond obtained to replace the Surety Bond then in effect pursuant to the Indenture.

“Alternate Surety Bond Provider” means any provider of an Alternate Surety Bond.

“Arbitrage Regulations” means the income tax regulations promulgated, proposed or applicable pursuant to Section 148 of the Code as the same may be amended or supplemented or proposed to be amended or supplemented from time to time.

“Authorized Representative” means, when used pertaining to the Council, the Chairman of the Council and such other designated members, agents or representatives as may hereafter be

selected by Council resolution; and, when used with reference to a Borrower which is a municipality, means the person performing the functions of the Mayor or Deputy, Acting or Vice Mayor thereof or other officer authorized to exercise the powers and performs the duties of the Mayor; and, when used with reference to a Borrower which is a County means the person performing the function of the Chairman or Vice Chairman of the Board of County Commissioners of such Borrower; and, when used with reference to an act or document, also means any other person authorized by resolution to perform such act or sign such document.

“Basic Payments” means the payments denominated as such in Section 5.01 hereof.

“Board” means the governing body of the Borrower.

“Bond Counsel” means Bryant Miller & Olive P.A., Tampa, Florida or any other nationally recognized bond counsel.

“Bondholder” or “Holder” or “holder of Bonds” or “Owner” or “owner of Bonds” whenever used herein with respect to a Bond, means the person in whose name such Bond is registered.

“Bond Insurance” means the insurance policy of the Bond Insurer which insures payment of the principal of and interest on the Bonds when due.

“Bond Insurance Premium” means the premiums payable to the Bond Insurer for the Bond Insurance.

“Bond Insurer” means MBIA Insurance Corporation and any successors thereto.

“Bonds” means the \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2005A issued pursuant to Article II of the Indenture.

“Bond Year” means a 12-month period beginning on February 2 and ending on and including the following February 1, except for the first period which begins on February_____, 2005.

“Borrower” means the governmental unit which is described in the first paragraph and on the cover page of this Loan Agreement and which is borrowing and using the Loan proceeds to finance, refinance and/or be reimbursed for, all or a portion of the costs of one or more Projects.

“Borrowers” means, collectively, the Borrower executing this Loan Agreement and the other governmental units which have received loans from the Council made from proceeds of the Bonds.

“Business Day” means any day of the year which is not a Saturday or Sunday or a day on which banking institutions located in New York City or the State are required or authorized to remain closed or on which the New York Stock Exchange is closed.

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the Council mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Council by its Chairman, Program Administrator or such other person as may be designated and authorized to sign for the Council. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“Closing” means the closing of a Loan pursuant to the Indenture and this Agreement.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated, proposed or applicable thereunder.

“Commencement Date” means the date when the term of this Agreement begins and the obligation of the Borrower to make Loan Repayments accrues.

“Council” means the Florida Municipal Loan Council.

“Cost” means “Cost” as defined in the Act.

“Cost of Issuance Fund” means the fund by that name established pursuant to Section 4.02 of the Indenture.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include legal counsel for either the Council or the Borrowers.

“Default” means an event or condition the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“Event of Default” shall have the meaning ascribed to such term in Section 8.01 of this Agreement.

“Financial Newspaper” or “Journal” means The Wall Street Journal or The Bond Buyer or any other newspaper or journal containing financial news, printed in the English language, customarily published on each Business Day and circulated in New York, New York, and selected by the Trustee, whose decision shall be final and conclusive.

“Fiscal Year” means the fiscal year of the Borrower.

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Council, with approval of the Bond Insurer, by notice to the Trustee.

“Funds” means the funds created pursuant to Section 4.02 of the Indenture.

“Governmental Obligations” means (i) direct and general obligations of the United States of America, or those which are unconditionally guaranteed as to principal and interest by the same, including interest on obligations of the Resolution Funding Corporation and (ii) pre-refunded municipal obligations meeting the following criteria:

- (a) the municipal obligations may not be callable prior to maturity or, alternatively, the trustee has received irrevocable instructions concerning their calling and redemption;
- (b) the municipal obligations are secured by cash or securities described in subparagraph (i) above (the “Defeasance Obligations”), which cash or Defeasance Obligations may be applied only to interest, principal, and premium payments of such municipal obligations;
- (c) the principal and interest of the Defeasance Obligations (plus any cash in the fund) are sufficient to meet the liabilities of the municipal obligations;
- (d) the Defeasance Obligations serving as security for the municipal obligations must be held by an escrow agent or a trustee; and
- (e) the Defeasance Obligations are not available to satisfy any other claims, including those against the Trustee or escrow agent.

Additionally, evidences of ownership of proportionate interests in future interest and principal payments of Defeasance Obligations are permissible. Investments in these proportionate interests are limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying obligations; and (c) the underlying obligations are held in a special account separate and apart from the custodian’s general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

“Indenture” means the Trust Indenture dated as of February 1, 2005 between the Council and the Trustee, including any indentures supplemental thereto, pursuant to which (i) the Bonds are authorized to be issued and (ii) the Council’s interest in the Trust Estate is pledged as security for the payment of principal of, premium, if any, and interest on the Bonds.

“Interest Payment Date” means February 1 and August 1 of each year, commencing August 1, 2005.

“Interest Period” means the semi-annual period between Interest Payment Dates.

“Interlocal Act” means Chapter 163, Part I, Florida Statutes.

“Interlocal Agreement” means that certain Interlocal Agreement originally dated as of December 1, 1998, initially among the City of Stuart, Florida, the City of Rockledge, Florida and the City of DeLand, Florida, together with the additional governmental entities who become members of the Council, all as amended and supplemented from time to time.

“Liquidation Proceeds” means amounts received by the Trustee or the Council in connection with the enforcement of any of the remedies under this Loan Agreement after the occurrence of an “Event of Default” under this Loan Agreement which has not been waived or cured.

“Loan” means the Loan made to the Borrower from Bond proceeds to finance certain Project(s) in the amount specified in Section 3.01 herein.

“Loans” means all loans made by the Council under the Indenture to the Borrowers.

“Loan Agreement” or “Loan Agreements” means this Loan Agreement and any amendments and supplements hereto.

“Loan Repayment Date” means July 20, 2005, and thereafter each January 20th and July 20th, or if such day is not a Business Day, the next preceding Business Day.

“Loan Repayments” means the payments of principal and interest and other payments payable by the Borrower pursuant to the provisions of this Loan Agreement, including, without limitation, Additional Payments.

“Loan Term” means the term provided for in Article IV of this Loan Agreement.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Council, with the approval of the Bond Insurer, by notice to the Trustee.

“Non-Ad Valorem Revenues” means all revenues and taxes of the Borrower derived from any source whatever other than ad valorem taxation on real and personal property, which are legally available for Loan Repayments.

“Opinion of Bond Counsel” means an opinion by Bond Counsel which is selected by the Council and acceptable to the Trustee.

“Opinion of Counsel” means an opinion in writing of a legal counsel, who may, but need not be, counsel to the Council, a Borrower or the Trustee.

“Outstanding Bonds” or “Bonds Outstanding” means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds deemed paid under Article IX of the Indenture; and

(c) Bonds in lieu of which other Bonds have been authenticated under Section 2.06, 2.07 or 2.09 of the Indenture.

“Person” means an individual, a corporation, a partnership, an association, a trust or any other entity or organization including a government or political subdivision or an agency or instrumentality thereof.

“Principal Fund” means the fund by that name created by Section 4.02 of the Indenture.

“Principal Payment Date” means the maturity date or mandatory redemption date of any Bond.

“Program” means the Council’s program of making Loans under the Act and pursuant to the Indenture.

“Program Administrator” means the Florida League of Cities, Inc., a non-profit Florida corporation.

“Project” or “Projects” means a governmental undertaking approved by the governing body of a Borrower for a public purpose, including the refinancing of any indebtedness.

“Project Loan Fund” means the fund by that name established pursuant to Section 4.02 of the Indenture.

“Proportionate Share” means, with respect to any Borrower, a fraction the numerator of which is the outstanding principal amount of the Loan of such Borrower made from proceeds of the Bonds and the denominator of which is the outstanding principal amount of all Loans made from proceeds of the Bonds and then outstanding.

“Purchase Price” means the purchase price of one or more items of a Project payable by a Borrower to the seller of such items.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption pursuant to the provisions of such Bond and the Indenture.

“Reserve Fund” means the fund by that name created by Section 4.02 of the Indenture.

“Revenue Fund” means the fund by that name created by Section 4.02 of the Indenture.

“Revenues” means all Loan Repayments paid to the Trustee for the respective accounts of the Borrowers for deposit in the Principal Fund and Revenue Fund to pay principal of, premium, if any, and interest on the Bonds upon redemption, at maturity or upon acceleration of maturity, or to pay interest on the Bonds when due, and all receipts of the Trustee credited to the Borrower under the provisions of this Loan Agreement.

“S&P” means Standard & Poor’s, a division of the McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Council, with the approval of the Bond Insurer, by notice to the Trustee.

“Special Record Date” means the date established pursuant to Section 9.05 of the Indenture as a record date for the payment of defaulted interest, if any, on the Bonds.

“State” means the State of Florida.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Council and the Trustee, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized in the Indenture.

“Surety Bond” means the surety bond issued by the Surety Bond Provider guaranteeing certain payments into the Reserve Fund with respect to the Bonds and any other series of the Council’s bonds or any Alternate Surety Bond.

“Surety Bond Provider” means MBIA Insurance Corporation and any successors thereto or any Alternate Surety Bond Provider.

“Trust Estate” means the property, rights, Revenues and other assets pledged and assigned to the Trustee pursuant to the Granting Clauses of the Indenture.

“Trustee” means Wachovia Bank, National Association, as Trustee, or any successor thereto under the Indenture.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER AND COUNCIL

SECTION 2.01. Representations, Warranties and Covenants. The Borrower and the Council represent, warrant and covenant on the date hereof for the benefit of the Trustee, the Borrower, the Bond Insurer and Bondholders, as applicable, as follows:

(a) Organization and Authority. The Borrower:

(1) is a duly organized and validly existing municipality of the State and is a duly organized and validly existing Borrower; and

(2) has all requisite power and authority to own and operate its properties and to carry on its activities as now conducted and as presently proposed to be conducted.

(b) Full Disclosure. There is no fact that the Borrower knows of which has not been specifically disclosed in writing to the Council and the Bond Insurer that materially and adversely affects or, except for pending or proposed legislation or regulations that are a matter of general public information affecting State of Florida municipalities generally, that will materially affect adversely the properties, activities, prospects or condition (financial or otherwise) of the Borrower or the ability of the Borrower to perform its obligations under this Agreement.

The financial statements, including balance sheets, and any other written statement furnished by the Borrower to the Council, Banc of America Securities LLC, as underwriter of the Bonds and the Bond Insurer do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein or herein not misleading. There is no fact known to the Borrower which the Borrower has not disclosed to the Council, Banc of America Securities LLC, as underwriter of the Bonds and the Bond Insurer in writing which materially affects adversely or is likely to materially affect adversely the financial condition of the Borrower, or its ability to make the payments under this Agreement when and as the same become due and payable.

(c) Pending Litigation. To the knowledge of the Borrower there are no proceedings pending, or to the knowledge of the Borrower threatened, against or affecting the Borrower, except as specifically described in writing to the Council, Banc of America Securities LLC, as underwriter of the Bonds and the Bond Insurer, in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially and adversely affect the properties, prospects or condition (financial or otherwise) of the Borrower, or the existence or powers or ability of the Borrower to enter into and perform its obligations under this Agreement.

(d) Borrowing Legal and Authorized. The execution and delivery of this Agreement and the consummation of the transactions provided for in this Agreement and compliance by the Borrower with the provisions of this Agreement:

(1) are within the powers of the Borrower and have been duly and effectively authorized by all necessary action on the part of the Borrower; and

(2) do not and will not (i) conflict with or result in any material breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Borrower pursuant to any indenture, loan agreement or other agreement or instrument (other than this Agreement) or restriction to which the Borrower is a party or by which the Borrower, its properties or operations are bound as of the date of this Agreement or (ii) with the giving of notice or the passage of time or both, constitute a breach or default or so result in the creation or imposition of any lien, charge or encumbrance, which breach, default, lien, charge or encumbrance (described in (i) or (ii)) could materially and adversely affect the validity or the enforceability of this Agreement or the Borrower's ability to perform fully its obligations under this Agreement; nor does such action result in any violation of the provisions of the Act, or any laws, ordinances, governmental rules or regulations or court orders to which the Borrower, its properties or operations may be bound.

(e) No Defaults. No event has occurred and no condition exists that constitutes an Event of Default, or which, upon the execution and delivery of this Agreement and/or the passage of time or giving of notice or both, would constitute an Event of Default. The Borrower is not in violation in any material respect, and has not received notice of any claimed violation (except such violations as (i) heretofore have been specifically disclosed in writing to, and have been in writing specifically consented to by the Council and the Bond Insurer and (ii) do not, and shall not, have any material adverse effect on the transactions herein contemplated and the compliance by the Borrower with the terms hereof), of any terms of any agreement or other instrument to which it is a party or by which it, its properties or operations may be bound, which may materially adversely affect the ability of the Borrower to perform hereunder.

(f) Governmental Consent. The Borrower has obtained, or will obtain, all permits, approvals and findings of non-reviewability required as of the date hereof by any governmental body or officer for the acquisition and/or installation of the Project, including construction and renovation work, the financing or refinancing thereof or the reimbursement of the Borrower therefor, or the use of such Project, and, prior to the Loan, the Borrower will obtain all other such permits, approvals and findings as may be necessary for the foregoing and for such Loan and the proper application thereof; the Borrower has complied with or will comply with all applicable provisions of law requiring any notification, declaration, filing or registration with any agency or other governmental body or officer in connection with the acquisition or installation of the Project, including construction and renovation work necessary for such installation, financing or refinancing thereof or reimbursement of the Borrower therefor; and any such action, construction, installation, financing, refinancing or reimbursement contemplated in this Loan Agreement is consistent with, and does not violate or conflict with, the terms of any such agency or other governmental consent, order or other action which is applicable thereto. No further consent, approval or authorization of, or filing, registration or qualification with, any governmental authority is required on the part of the Borrower as a condition to the execution and delivery of this Loan Agreement, or to amounts becoming outstanding hereunder.

(g) Compliance with Law. The Borrower is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject and which are material to its properties, operations, finances or status as a municipal corporation or subdivision of the State.

(h) Use of Proceeds.

(1) The Borrower will apply the proceeds of the Loan from the Council solely for the financing for the cost of the Projects as set forth in Exhibit A hereto. If any component of the Project listed in Exhibit A is not paid for out of the proceeds of the Loan at the Closing of the Loan, Borrower shall, as quickly as reasonably possible, with due diligence, and in any event prior to February ____, 2008, use the remainder of the amounts listed in Exhibit A and any investment earnings thereon to pay the cost of the Project, provided that, such time limit may be extended by the written consent of the Council with notice to the Trustee, and provided further that Borrower may amend Exhibit A without the consent of the Council or the Trustee (but with notice thereto) but with a favorable opinion of Bond Counsel (to the effect that such an amendment and the completion of the revised Project will not adversely affect the validity or tax-exempt status of the Bonds) regarding the amended Exhibit A, to provide for the financing of a different or additional Project if Borrower, after the date hereof, deems it to not be in the interest of Borrower to acquire or construct any item of such Project or the cost of the Project proves to be less than the amounts listed on Exhibit A and the investment earnings thereon. Notwithstanding the foregoing all such proceeds shall be expended prior to February _____, 2008. Borrower will provide the Trustee with a requisition in the form of the requisition attached hereto as Exhibit E for the expenditure of the remaining amounts of the Loan in the Project Loan Fund.

(2) Items of cost of the Project which may be financed include all reasonable or necessary direct or indirect costs of or incidental to the acquisition, construction or installation of the Project, including operational expenses during this construction period which would qualify for capitalization under generally accepted accounting principles, the incidental costs of placing the same in use and financing expenses (including the application or origination fees, if any, of the Bond Insurer and the Council and Borrower's Counsel fees), but not operating expenses.

(3) Borrower understands that the actual Loan proceeds received by it are less than the sum of the face amount of the Loan Agreement plus the reoffering premium in an amount equal to a discount as described in Section 3.01 hereof. Borrower will accordingly be responsible for repaying, through the Basic Payments portion of its Loan Repayments, the portion of the Bonds issued to fund only its Loan including the portion issued to fund the underwriting discount, original issue discount and other fees and costs of issuing the Bonds.

(4) The Borrower covenants that it will make no use of the proceeds of the Bonds which are in its control at any time during the term of the Bonds which would cause such Bonds to be "Arbitrage Bonds" within the meaning of Section 148 of the Code.

(5) The Borrower, by the Trustee's acceptance of the Indenture, covenants that the Borrower shall neither take any action nor fail to take any action or to the extent that it may do so, permit any other party to take any action which, if either taken or not taken, would adversely affect the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

(i) Project. All items constituting the Project are permitted to be financed with the proceeds of the Bonds and the Loan pursuant to the Act.

(j) Compliance with Interlocal Act and Interlocal Agreement. All agreements and transactions provided for herein or contemplated hereby are in full compliance with the terms of the Interlocal Agreement and the Interlocal Act.

SECTION 2.02. Covenants of Borrower. The Borrower makes the following covenants and representations as of the date first above written and such covenants shall continue in full force and effect during the Loan Term:

(a) Security for Loan Repayment. Subject to the provisions of Section 2.02(k) hereof, the Borrower covenants and agrees to appropriate in its annual budget, by amendment, if required, and to pay when due under this Loan Agreement as promptly as money becomes available directly to the Trustee for deposit into the appropriate Fund or Account created in the Indenture, amounts of Non-Ad Valorem Revenues of the Borrower sufficient to satisfy the Loan Repayment as required under this Loan Agreement. Such covenant is subject in all respects to the payment of obligations secured by a pledge of such Non-Ad Valorem Revenues heretofore or hereafter entered into. Such covenant and agreement on the part of the Borrower to budget and appropriate such amounts of Non-Ad Valorem Revenues shall be cumulative, and shall continue until such Non-Ad Valorem Revenues or other legally available funds in amounts sufficient to make all required Loan Repayments, including delinquent Loan Repayments, shall have been budgeted, appropriated and actually paid to the Trustee for deposit into the appropriate Fund or Account. The Borrower further acknowledges and agrees that the Indenture shall be deemed to be entered into for the benefit of the Holders of any of the Bonds and that the obligations of the Borrower to include the amount of any deficiency in Loan Repayments in each of its annual budgets and to pay such deficiencies from Non-Ad Valorem Revenues may be enforced in a court of competent jurisdiction in accordance with the remedies set forth herein and in the Indenture. Notwithstanding the foregoing or any provision of this Loan Agreement to the contrary, the Borrower does not covenant to maintain any services or programs now maintained by the Borrower which generate Non-Ad Valorem Revenues or to maintain the charges it presently collects for any such services or programs.

During such time as the Loan is outstanding hereunder, the Borrower agrees that, as soon as practicable upon the issuance of debt by the Borrower which is secured by its Non-Ad Valorem Revenues, it shall deliver to the Council and the Bond Insurer a certificate setting forth the calculations of the financial ratios provided below and certifying that it is in compliance with the following: (i) Non-Ad Valorem Revenues (average of actual receipts over the prior two years) must cover projected maximum annual debt service on debt secured by and/or payable solely from such Non-Ad Valorem Revenues by at least 1.5x; and (ii) projected maximum

annual debt service requirements for all debt secured by and/or payable solely from such Non-Ad Valorem Revenues will not exceed 20% of Governmental Fund Revenues (defined as general fund, special fund, debt service fund and capital projects funds), exclusive of (i) ad valorem revenues restricted to payment of debt service on any debt and (ii) any debt proceeds, and based on the Borrower's audited financial statements (average of actual receipts of the prior two years). For the purposes of these covenants maximum annual debt service means the lesser of the actual maximum annual debt service on all debt or 15% of the original par amount of the debt, in each case, secured by Borrower Non-Ad Valorem Revenues.

(b) Delivery of Information to the Bond Insurer. Borrower shall deliver to the Bond Insurer and the Council as soon as available and in any event within 270 days after the end of each Fiscal Year an audited statement of its financial position as of the end of such Fiscal Year and the related statements of revenues and expenses, fund balances and changes in fund balances for such Fiscal Year, all reported by an independent certified public accountant, whose report shall state that such financial statements present fairly Borrower's financial position as of the end of such Fiscal Year and the results of operations and changes in financial position for such Fiscal Year.

(c) Information. Borrower's chief financial officer shall, at the reasonable request of the Bond Insurer, discuss Borrower's financial matters with the Bond Insurer or their designee and provide the Bond Insurer with copies of any documents reasonably requested by the Bond Insurer or its designee unless such documents or material are protected or privileged from disclosure under applicable Florida law.

(d) [Reserved].

(e) Further Assurance. The Borrower shall execute and deliver to the Trustee all such documents and instruments and do all such other acts and things as may be reasonably necessary to enable the Trustee to exercise and enforce its rights under this Loan Agreement and to realize thereon, and record and file and re-record and re-file all such documents and instruments, at such time or times, in such manner and at such place or places, all as may be reasonably necessary or required by the Trustee to validate, preserve and protect the position of the Trustee under this Loan Agreement.

(f) Keeping of Records and Books of Account. The Borrower shall keep or cause to be kept proper records and books of account, in which correct and complete entries will be made in accordance with generally accepted accounting principles, consistently applied (except for changes concurred in by the Borrower's independent auditors) reflecting all of its financial transactions.

(g) Payment of Taxes, Etc. The Borrower shall pay all legally contracted obligations when due and shall pay all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto, and all lawful claims, which, if unpaid, might become a lien or charge upon any of its properties, provided that it shall not be required to pay any such tax, assessment,

charge, levy or claim which is being contested in good faith and by appropriate proceedings, which shall operate to stay the enforcement thereof.

(h) Compliance with Laws, Etc. Subject to an annual appropriation of legally available funds, the Borrower shall comply with the requirements of all applicable laws, the terms of all grants, rules, regulations and lawful orders of any governmental authority, non-compliance with which would, singularly or in the aggregate, materially adversely affect its business, properties, earnings, prospects or credit, unless the same shall be contested by it in good faith and by appropriate proceedings which shall operate to stay the enforcement thereof.

(i) Tax-exempt Status of Bonds. The Council and the Borrower understand that it is the intention hereof that the interest on the Bonds not be included within the gross income of the holders thereof for federal income tax purposes. In furtherance thereof, the Borrower and the Council each agree that they will take all action within their control which is necessary in order for the interest on the Bonds or this Loan to remain excluded from gross income for federal income taxation purposes and shall refrain from taking any action which results in such interest becoming included in gross income.

The Borrower and the Council further covenant that, to the extent they have control over the proceeds of the Bonds, they will not take any action or fail to take any action with respect to the investment of the proceeds of any Bonds, with respect to the payments derived from the Bonds or hereunder or with respect to the issuance of other Council obligations, which action or failure to act may cause the Bonds to be "Arbitrage Bonds" within the meaning of such term as used in Section 148 of the Code and the regulations promulgated thereunder. In furtherance of the covenant contained in the preceding sentence, the Borrower and the Council agree to comply with the Tax Certificate as to Arbitrage and the provisions of Section 141 through 150 of the Internal Revenue Code of 1986, as amended, including the letter of instruction attached as an Exhibit to the Tax Certificate, delivered by Bryant Miller & Olive P.A. to the Borrower and the Council simultaneously with the issuance of the Bonds, as such letter may be amended from time to time, as a source of guidelines for achieving compliance with the Code.

(j) Information Reports. The Borrower covenants to provide the Council with all material and information it possesses or has the ability to possess necessary to enable the Council to file all reports required under Section 149(e) of the Code to assure that interest paid by the Council on the Bonds shall, for purposes of the federal income tax, be excluded from gross income.

(k) Limited Obligations. Anything in this Loan Agreement to the contrary notwithstanding, it is understood and agreed that all obligations of the Borrower hereunder shall be payable only from Non-Ad Valorem Revenues budgeted and appropriated as provided for hereunder and nothing herein shall be deemed to pledge ad valorem taxation revenues or to permit or constitute a mortgage or lien upon any assets or property owned by the Borrower and no Bondholder or any other person, including the Council, the Trustee or the Bond Insurer, may compel the levy of ad valorem taxes on real or personal property within the boundaries of the Borrower. The obligations hereunder do not constitute an indebtedness of the Borrower within the meaning of any constitutional, statutory or charter provision or limitation, and neither the

Trustee, the Council, the Bond Insurer, or the Bondholders or any other person shall have the right to compel the exercise of the ad valorem taxing power of the Borrower or taxation of any real or personal property therein for the payment by the Borrower of its obligations hereunder. Except to the extent expressly set forth in this Loan Agreement, this Loan Agreement and the obligations of the Borrower hereunder shall not be construed as a limitation on the ability of the Borrower to pledge or covenant to pledge said Non-Ad Valorem Revenues or any revenues or taxes of the Borrower for other legally permissible purposes. Notwithstanding any provisions of this Agreement, the Indenture or the Bonds to the contrary, the Borrower shall never be obligated to maintain or continue any of the activities of the Borrower which generate user service charges, regulatory fees or any Non-Ad Valorem Revenues or the rates for such services or regulatory fees. Neither this Loan Agreement nor the obligations of the Borrower hereunder shall be construed as a pledge of or a lien on all or any legally available Non-Ad Valorem Revenues of the Borrower, but shall be payable solely as provided in Section 2.02(a) hereof and is subject in all respects to the provisions of Section 166.241, Florida Statutes, and is subject, further, to the payment of services and programs which are for essential public purposes affecting the health, welfare and safety of the inhabitants of the Borrower. It is the intent of the parties hereto and they do hereby covenant and agree, that the liability of the Borrower hereunder is a several liability of the Borrower expressly limited to the Loan Repayments and the Borrower shall have no joint liability with any other Borrower or the Council for any of their respective liabilities, except to the extent expressly provided hereunder.

The Council and the Borrower understand that the amounts available to be budgeted and appropriated to make Loan Payments hereunder is subject to the obligation of the Borrower to provide essential services; however, such obligation is cumulative and would carry over from Fiscal Year to Fiscal Year.

(l) Reporting Requirements. (i) The Borrower will file or cause to be filed with the Bond Insurer and with the Council any official statement issued by, or on behalf of, the Borrower in connection with the incurrence of any additional indebtedness by the Borrower. Such official statements shall be filed within sixty (60) days after the publication thereof.

(ii) The Borrower agrees to provide not later than December 31 of each year, a certificate of its Chief Financial Officer stating that to the best of its knowledge the Borrower is in compliance with the terms and conditions of this Loan Agreement, or, specifying the nature of any noncompliance and the remedial action taken or proposed to be taken to cure such noncompliance.

ARTICLE III

THE LOAN

SECTION 3.01. The Loan. The Council hereby agrees to loan to the Borrower and the Borrower hereby agrees to borrow from the Council the sum of \$_____ (\$_____ par amount of Bonds plus \$_____ reoffering premium). This amount includes an amount equal to ____% which reflects the Borrower's share of the cost of the initial issuance of the Bonds subject to the terms and conditions contained in this Loan Agreement and in the Indenture. The amounts advanced net of the cost of the initial issuance are to be used by the Borrower for the purposes of financing or refinancing the cost of, or receiving reimbursement for the equity in, the Projects in accordance with the provisions of this Loan Agreement.

SECTION 3.02. Evidence of Loan. The Borrower's obligation hereunder to repay amounts advanced pursuant to Section 3.01, together with interest thereon, and other payments required under this Loan Agreement, shall be evidenced by this Loan Agreement.

ARTICLE IV

LOAN TERM AND LOAN CLOSING REQUIREMENTS

SECTION 4.01. Commencement of Loan Term. The Borrower's obligations under this Loan Agreement shall commence on the date hereof unless otherwise provided in this Loan Agreement.

SECTION 4.02. Termination of Loan Term. The Borrower's obligations under this Loan Agreement shall terminate after payment in full of all amounts due under this Loan Agreement and all amounts not theretofore paid shall be due and payable at the times and in the amounts set forth in Exhibit D attached hereto; provided, however, that all covenants and all obligations provided hereunder specified to so survive (including the obligation of the Borrower to pay its share of the rebate obligations of the Council owed on the Bonds and agreed to by the Borrowers pursuant to Section 5.03(b)(7) hereof) shall survive the termination of this Loan Agreement and the payment in full of principal and interest hereunder. Upon termination of the Loan Term as provided above, the Council and the Trustee shall deliver, or cause to be delivered, to the Borrower an acknowledgment thereof.

SECTION 4.03. Loan Closing Submissions. Concurrently with the execution and delivery of this Loan Agreement, the Borrower is providing to the Trustee the following documents each dated the date of such execution and delivery unless otherwise provided below:

(a) Certified resolutions of the Borrower substantially in the form of Exhibit B attached hereto;

(b) An opinion of the Borrower's Counsel in the form of Exhibit C attached hereto to the effect that the Loan Agreement is a valid and binding obligation of the Borrower and opining to such other matters as may be reasonably required by Bond Counsel, underwriter's counsel and the Bond Insurer and acceptable to Borrower's Counsel;

(c) A certificate of the officials of the Borrower who sign this Loan Agreement to the effect that the representations and warranties of the Borrower are true and correct;

(d) A certificate signed by the Authorized Representative of the Borrower, in form and substance satisfactory to Bond Counsel, stating (i) the estimated dates and the amounts of projected expenditures for the Project and (ii) that it is reasonably anticipated by the Borrower that the Loan proceeds will be fully advanced therefor and expended by the Borrower prior to February ____, 2008, and that the projected expenditures are based on the reasonable expectations of the Borrower having due regard for its capital needs and the revenues available for the repayment thereof.

(e) This executed Loan Agreement;

(f) An opinion (addressed to the Council, the Trustee, the Bond Insurer and the Borrower) of Bond Counsel to the effect that such financing, refinancing or reimbursement with

Loan proceeds is permitted under the Act, the Indenture and the resolution authorizing this Loan Agreement and will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation or adversely affect the validity, due authorization for or legality of the Bonds; and

(g) Such other certificates, documents, opinions and information as the Council, the Bond Insurer, the Trustee or Bond Counsel may require, such requirement to be evidenced (in the case of parties other than the Trustee) by written notice of such party to the Trustee of such requirement.

All opinions and certificates shall be dated the date of the Closing.

ARTICLE V

LOAN REPAYMENTS

SECTION 5.01. Payment of Basic Payments. Borrower shall pay to the order of the Council all Loan Repayments in lawful money of the United States of America to the Trustee. No such Loan Repayment shall be in an amount such that interest on the Loan is in excess of the maximum rate allowed by the laws of the State of Florida or of the United States of America. The Loan shall be repaid in Basic Payments, consisting of:

- (a) principal in the amounts and on the dates set forth in Exhibit D; plus
- (b) interest calculated at the rates, in the amounts and on the dates set forth in Exhibit D;

On or before the fifteenth (15th) day of the month immediately preceding each Interest Payment Date, the Trustee shall give Borrower notice in writing of the total amount of the next Basic Payment due. The Basic Payments shall be due on each January 20th and July 20th, or if such day is not a Business Day, the next preceding Business Day (a "Loan Repayment Date"), commencing July 20, 2005, and extending through January 20, 20__, unless the due date of the Basic Payments is accelerated pursuant to the terms of Section 8.03 hereof.

SECTION 5.02. Payment of Surety Bond Costs. The Borrower recognizes that the Surety Bond Provider has provided to the Council the Surety Bond for deposit to the Reserve Fund in lieu of a cash payment or deposit by the Borrower. The Surety Bond shall secure and satisfy the Reserve Requirement (as defined in the Indenture) and any other reserve requirement of bonds as listed on Annex A to the Surety Bond. The Borrower or any other borrower whose loan was funded with proceeds of a bond issue listed on Annex A to the Surety Bond, may draw on the Surety Bond in an amount equal to or less than the limit of the Surety Bond, all in accordance with Section 4.08 of the Indenture. The Borrower hereby agrees to pay to the Trustee an amount equal to the amount drawn by the Borrower (or on behalf of the Borrower) on the Surety Bond as set forth in subsection (c) of Section 5.03 hereof. Such Surety Bond may be replaced by an Alternate Surety Bond issued with respect to funding the reserve fund of subsequent bonds issued by the Council whose reserve fund shall be on a parity with the Bonds, all in accordance with Section 4.08 of the Indenture.

SECTION 5.03. Payment of Additional Payments. In addition to Basic Payments, Borrower agrees to pay on demand of the Council or the Trustee, the following Additional Payments:

- (a) (i) Borrower's Proportionate Share of: the annual fees or expenses of the Council, if any, including the fees of any provider of arbitrage rebate calculations; the Bond Insurance Premium of the Bond Insurer (to the extent not previously paid from the Cost of Issuance Fund); the fees of the Program Administrator and the fees of the rating agencies (to the extent not previously paid from the Cost of Issuance Fund); and (ii) Borrower's equal share of the annual fees of the Trustee; annual fees of the Registrar and Paying Agent; and the Surety

Bond premium of the Surety Bond Provider and any related fees in connection with the Surety Bond (to the extent not previously paid from the Cost of Issuance Fund).

(b) All reasonable fees and expenses of the Council or Trustee relating to this Loan Agreement, including, but not limited to:

- (1) the cost of reproducing this Loan Agreement;
- (2) the reasonable fees and disbursements of Counsel utilized by the Council, the Trustee and the Bond Insurer in connection with the Loan, this Loan Agreement and the enforcement thereof;
- (3) reasonable extraordinary fees of the Trustee following an Event of Default hereunder;
- (4) all other reasonable out-of-pocket expenses of the Trustee and the Council in connection with the Loan, this Loan Agreement and the enforcement thereof;
- (5) all taxes (including any recording and filing fees) in connection with the execution and delivery of this Loan Agreement and the pledge and assignment of the Council's right, title and interest in and to the Loan and the Loan Agreement, pursuant to the Indenture (and with the exceptions noted therein), and all expenses, including reasonable attorneys' fees, relating to any amendments, waivers, consents or collection or enforcement proceedings pursuant to the provisions hereof;
- (6) all reasonable fees and expenses of the Bond Insurer relating directly to the Loan; and
- (7) the Borrower's share of any amounts owed to the United States of America as rebate obligations on the Bonds related to the Borrower's Loan, which obligation shall survive the termination of this Loan Agreement.

(c) For repayment of the Surety Bond held by the Trustee an amount equal to any amount drawn by the Borrower (or on behalf of the Borrower) from the Surety Bond due to the Borrower's failure to pay its Basic Payments in accordance with Section 5.01 hereof, at the times and in the manner and together with interest and expense due thereon all as provided in Section 4.08(a) of the Indenture undertaken in order to reinstate the Surety Bond. The Borrower shall repay such amount drawn on the Surety Bond due to the Borrower's failure to pay its Basic Payments with the first available funds after payment of the current Loan Repayment. The Borrower shall repay only the amount drawn due to its failure to pay its Basic Payment.

SECTION 5.04. Interest Earnings or Investment Losses and Excess Payments.

(a) On each Interest Payment Date the Trustee shall credit against Borrower's obligation to pay its Loan Repayments, Borrower's share of any interest earnings which were received during the prior Interest Period by the Trustee on the Funds and Accounts (except the

Project Loan Fund) held under the Indenture, or shall increase the Borrower’s obligation to pay its Loan Repayment, by Borrower’s share of any investment losses which were incurred during the prior Interest Period on the Funds and Accounts (except the Project Loan Fund) held under the Indenture.

(b) The credits provided for in (a) shall not be given to the extent the Borrower is in default in payment of its Loan Repayments. If past-due Loan Repayments are later collected from such defaulting Borrower, the amount of the missed credit shall, to the extent of the amount collected, be credited in proportion to the amount of credit missed, to the now non-defaulting Borrower from the past-due Loan Repayments.

(c) The credits may be accumulated. If the credit allowable for an Interest Period is more than required on the next ensuing Interest Payment Date to satisfy the current Loan Repayment, it may be used on the following Interest Payment Date.

SECTION 5.05. Obligations of Borrower Unconditional. Subject in all respects to the provisions of this Loan Agreement, including but not limited to Section 2.02(a) and (k) hereof, the obligations of Borrower to make the Loan Repayments required hereunder and to perform and observe the other agreements on its part contained herein, shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Bonds remain outstanding or any Loan Repayments remain unpaid, regardless of any contingency, act of God, event or cause whatsoever. This Loan Agreement shall be deemed and construed to be a “net contract,” and Borrower shall pay absolutely net the Loan Repayments and all other payments required hereunder, regardless of any rights of set-off, recoupment, abatement or counterclaim that Borrower might otherwise have against the Council, the Trustee, the Bond Insurer or any other party or parties.

SECTION 5.06. Refunding Bonds. In the event the Bonds are refunded, all references in this Loan Agreement to Bonds shall be deemed to refer to the refunding bonds or, in the case of a crossover refunding, to the Bonds and the refunding bonds (but Borrower shall never be responsible for any debt service on or fees relating to crossover refunding bonds which are covered by earnings on the escrow fund established from the proceeds of such bonds). The Council agrees not to issue bonds or other debt obligations to refund the portion of the Bonds allocable to this Agreement without the prior written consent of the Authorized Representative of the Borrower.

SECTION 5.07. Prepayment. The Loan may be prepaid in whole or in part by the Borrower on the dates and in the amounts on which the Bonds are subject to optional redemption and notice provisions pursuant to Section 3.01 of the Indenture.

ARTICLE VI

DEFEASANCE

This Loan Agreement shall continue to be obligatory and binding upon the Borrower in the performance of the obligations imposed by this Loan Agreement and the repayment of all sums due by the Borrower under this Loan Agreement shall continue to be secured by this Loan Agreement as provided herein until all of the indebtedness and all of the payments required to be made by the Borrower shall be fully paid to the Council or the Trustee. Provided, however, if, at any time, the Borrower shall have paid, or shall have made provision for payment of, the principal amount of the Loan, interest thereon and redemption premiums, if any, with respect to the Bonds and shall have paid all amounts due pursuant to Section 5.03 hereof, then, and in that event, the covenant regarding the Non-Ad Valorem Revenues and the lien on the revenues pledged, if any, to the Council for the benefit of the holders of the Bonds shall be no longer in effect and all future obligations of the Borrower under this Loan Agreement shall cease. For purposes of the preceding sentence, deposit of sufficient cash and/or Governmental Obligations in irrevocable trust with a banking institution or trust company, for the sole benefit of the Council, the principal, interest and prepayment premiums, if any, received will be sufficient (as reflected in an accountants verification report provided to the Trustee by the Borrower) to make timely payment of the principal, interest and prepayment premiums, if any, on the Outstanding Loan, shall be considered "provision for payment." The prepayment premium, if any, shall be calculated based on the prepayment date selected by the Borrower in accordance with Section 5.07 hereof.

If the Borrower determines to prepay all or a portion of the Loan pursuant to Section 5.07 hereof, the Council shall redeem a like amount of Bonds which corresponds in terms of amount and scheduled maturity date to such Loan prepayment pursuant to Section 3.01 of the Indenture.

If the Borrower shall make advance payments to the Council in an amount sufficient to retire the Loan of the Borrower, including redemption premium and accrued interest to the next succeeding redemption date of the Bonds, all future obligations of the Borrower under this Loan Agreement shall cease, including the obligations under Section 5.03 hereof, except as provided in Section 4.02 hereof. However, prior to making such payments, the Borrower shall give at least 60 days' irrevocable notice by certified or registered mail to the Council.

ARTICLE VII

ASSIGNMENT AND PAYMENT BY THIRD PARTIES

SECTION 7.01. Assignment by Council. The Borrower expressly acknowledges that this Loan Agreement and the obligations of the Borrower to make payments hereunder (with the exception of certain of the Council rights to indemnification, fees, notices and expenses), have been pledged and assigned to the Trustee as security for the Bonds under the Indenture, and that the Trustee shall be entitled to act hereunder and thereunder in the place and stead of the Council whether or not the Bonds are in default.

SECTION 7.02. Assignment by Borrower. This Loan Agreement may not be assigned by the Borrower for any reason without the express prior written consent of the Council, the Bond Insurer and the Trustee.

SECTION 7.03. Payments by the Bond Insurer. The Borrower acknowledges that payment under this Loan Agreement from funds received by the Trustee or Bondholders from the Bond Insurer do not constitute payment under this Loan Agreement for the purposes hereof or fulfillment of its obligations hereunder.

SECTION 7.04. Payments by the Surety Bond Provider. The Borrower acknowledges that payment under this Loan Agreement from funds received by the Trustee or Bondholders from the Surety Bond Provider do not constitute payment under this Loan Agreement for the purposes hereof or fulfillment of its obligations hereunder.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

SECTION 8.01. Events of Default Defined. The following shall be “Events of Default” under this Loan Agreement and the terms “Event of Default” and “Default” shall mean (except where the context clearly indicates otherwise), whenever they are used in this Loan Agreement, any one or more of the following events:

(a) Failure by the Borrower to timely pay any Loan Repayment, when due, so long as the Bonds are outstanding;

(b) Failure by the Borrower to timely pay any other payment required to be paid hereunder on the date on which it is due and payable, provided the Borrower has prior written notice of any such payments being due;

(c) Failure by the Borrower to observe and perform any covenant, condition or agreement other than a failure under (a), on its part to be observed or performed under this Loan Agreement, for a period of thirty (30) days after notice of the failure, unless the Council, the Bond Insurer and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice can be wholly cured within a period of time not materially detrimental to the rights of the Council, the Bond Insurer or the Trustee, but cannot be cured within the applicable 30-day period, the Council, the Bond Insurer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the failure is corrected;

(d) Any warranty, representation or other statement by the Borrower or by an officer or agent of the Borrower contained in this Loan Agreement or in any instrument furnished in compliance with or in reference to this Loan Agreement, is false or misleading in any material respect when made;

(e) A petition is filed against the Borrower under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within 60 days of such filing;

(f) The Borrower files a petition in voluntary bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Borrower admits insolvency or bankruptcy or its inability to pay its debts as they become due or is generally not paying its debts as such debts become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or a custodian (including without limitation a receiver, liquidator or trustee) of the Borrower or any of its

property is appointed by court order or takes possession thereof and such order remains in effect or such possession continues for more than 60 days;

(h) Default under any agreement to which the Borrower is a party evidencing, securing or otherwise respecting any indebtedness of the Borrower outstanding in the amount of \$100,000 or more if, as a result thereof, such indebtedness may be declared immediately due and payable or other remedies may be exercised with respect thereto;

(i) Any material provision of this Loan Agreement shall at any time for any reason cease to be valid and binding on the Borrower, or shall be declared to be null and void, or the validity or enforceability of this Loan Agreement shall be contested by the Borrower or any governmental agency or authority, or if the Borrower shall deny any further liability or obligation under this Loan Agreement; or

(j) Final judgment for the payment of money in the amount of \$250,000 or more is rendered against the Borrower and at any time after 90 days from the entry thereof, unless otherwise provided in the final judgment, (i) such judgment shall not have been discharged, or (ii) the Borrower shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and have caused the execution of or levy under such judgment, order, decree or process of the enforcement thereof to have been stayed pending determination of such appeal, provided that such execution and levy would materially adversely affect the Borrower's ability to meet its obligations hereunder; or (iii) the Borrower is not obligated with respect to such judgment pursuant to the provisions of Chapter 768, Florida Statutes.

SECTION 8.02. Notice of Default. The Borrower agrees to give the Trustee, the Bond Insurer and the Council prompt written notice if any petition, assignment, appointment or possession referred to in Section 8.01(e), 8.01(f) and 8.01(g) is filed by or against the Borrower or of the occurrence of any other event or condition which constitutes a Default or an Event of Default, or with the passage of time or the giving of notice would constitute an Event of Default, immediately upon becoming aware of the existence thereof.

SECTION 8.03. Remedies on Default. Whenever any Event of Default referred to in Section 8.01 hereof shall have happened and be continuing, the Council or the Trustee shall, with the written consent of the Bond Insurer or upon the direction of the Bond Insurer, in addition to any other remedies herein or by law provided, have the right, at its or their option without any further demand or notice, to take such steps and exercise such remedies as provided in Section 9.02 of the Indenture, and, without limitation, one or more of the following:

(a) Declare all Loan Repayments, in an amount equal to 100% of the principal amount thereof plus all accrued interest thereon to the date on which such Loan Repayments shall be used to redeem Bonds pursuant to Section 3.02 of the Indenture and all other amounts due hereunder, to be immediately due and payable, and upon notice to the Borrower the same shall become immediately due and payable by the Borrower without further notice or demand.

(b) Take whatever other action at law or in equity which may appear necessary or desirable to collect amounts then due and thereafter to become due hereunder or to enforce any other of its or their rights hereunder.

SECTION 8.04. [Reserved].

SECTION 8.05. No Remedy Exclusive; Waiver, Notice. No remedy herein conferred upon or reserved to the Council or the Trustee is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Council or the Trustee to exercise any remedy reserved to it in this Article VIII, it shall not be necessary to give any notice other than such notice as may be required in this Article VIII.

SECTION 8.06. Application of Moneys. Any moneys collected by the Council or the Trustee pursuant to Section 8.03 hereof shall be applied (a) first, to pay any attorney's fees or other expenses owed by the Borrower pursuant to Section 5.03(b)(3) and (4) hereof, (b) second, to pay interest due on the Loan, (c) third, to pay principal due on the Loan, (d) fourth, to pay any other amounts due hereunder, and (e) fifth, to pay interest and principal on the Loan and other amounts payable hereunder but which are not due, as they become due (in the same order, as to amounts which come due simultaneously, as in (a) through (d) in this Section 8.06).

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. Notices. All notices, certificates or other communication hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the parties at the following addresses:

Council: Florida Municipal Loan Council
c/o Florida League of Cities
301 South Bronough Street
Tallahassee, Florida 32301

Bond Insurer: MBIA Insurance Corporation
113 King Street
Armonk, New York 10504

Trustee: Wachovia Bank, National Association
Corporate Trust Department
225 Water Street, 3rd Floor
Jacksonville, Florida 32202

For purposes other than presentation of Bonds for transfer, exchange or payment:

Wachovia Bank, National Association
Corporate Trust Department
225 Water Street, 3rd Floor
Jacksonville, Florida 32202

Borrower: _____

Attention: _____

Any of the above parties may, by notice in writing given to the others, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Council and the Borrower and their respective successors and assigns.

SECTION 9.03. Severability. In the event any provision of the Loan Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 9.04. Amendments, Changes and Modifications. This Loan Agreement may be amended by the Council and the Borrower as provided in the Indenture; provided, however, that no such amendment shall be effective unless it shall have been consented to in writing by the Bond Insurer.

SECTION 9.05. Execution in Counterparts. This Loan Agreement may be simultaneously executed in several counterparts, each of which, when so executed and delivered, shall be an original and all of which shall constitute but one and the same instrument.

SECTION 9.06. Applicable Law. This Loan Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

SECTION 9.07. Benefit of Bondholders; Compliance with Indenture. This Loan Agreement is executed in part to induce the purchase by others of the Bonds. Accordingly, all covenants, agreements and representations on the part of the Borrower and the Council, as set forth in this Loan Agreement, are hereby declared to be for the benefit of the holders from time to time of the Bonds. The Borrower covenants and agrees to do all things within its power in order to comply with and to enable the Council to comply with all requirements and to fulfill and to enable the Council to fulfill all covenants of the Indenture. The Borrower also acknowledges that the Council has delegated certain of its duties under the Indenture to its Program Administrator, including the direction to make investments in accordance with Article VII thereof, including but not limited to the investment of the Borrower's Project Loan Fund.

SECTION 9.08. Consents and Approvals. Whenever the written consent or approval of the Council shall be required under the provisions of this Loan Agreement, such consent or approval may be given by an Authorized Representative of the Council or such other additional persons provided by law or by rules, regulations or resolutions of the Council.

SECTION 9.09. Immunity of Officers, Employees and Members of Council and Borrower. No recourse shall be had for the payment of the principal of or premium or interest hereunder or for any claim based thereon or upon any representation, obligation, covenant or agreement in this Loan Agreement against any past, present or future official officer, member, counsel, employee, director or agent, as such, of the Council or the Borrower, either directly or through the Council or the Borrower, or respectively, any successor public or private corporation thereto under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, members, counsels, employees, directors or agents as such is hereby expressly waived and released as a condition of and consideration for the execution of this Loan Agreement.

SECTION 9.10. Captions. The captions or headings in this Loan Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions of sections of this Loan Agreement.

SECTION 9.11. No Pecuniary Liability of Council. No provision, covenant or agreement contained in this Loan Agreement, or any obligation herein imposed upon the Council, or the breach thereof, shall constitute an indebtedness or liability of the State or any

political subdivision or municipal corporation of the State or any public corporation or governmental agency existing under the laws thereof other than the Council. In making the agreements, provisions and covenants set forth in this Loan Agreement, the Council has not obligated itself except with respect to the application of the revenues, income and all other property as derived herefrom, as hereinabove provided.

SECTION 9.12. Payments Due on Holidays. With the exception of Basic Payments, if the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Loan Agreement, shall be other than on a Business Day, such payments may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Loan Agreement.

SECTION 9.13. Calculations. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 9.14. Time of Payment. Any Loan Repayment or other payment hereunder which is received by the Trustee or Council after 2:00 p.m. (New York time) on any day shall be deemed received on the following Business Day.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Florida Municipal Loan Council has caused this Loan Agreement to be executed in its corporate name with its corporate seal hereunto affixed and attested by its duly authorized officers and [Borrower], has caused this Loan Agreement to be executed in its corporate name with its corporate seal hereunto affixed and attached by its duly authorized officers. All of the above occurred as of the date first above written.

FLORIDA MUNICIPAL LOAN COUNCIL

(SEAL)

By: _____
Name: Raul Martinez
Title: Chairman

ATTEST:

By: _____
Name: Michael Sittig
Title: Executive Director

LOAN AGREEMENT

[BORROWER]

(SEAL)

By: _____
Name:
Title:

ATTESTED BY:

By: _____
Name:
Title:

Approved as to form and correctness
this ___ day of _____, 2005.

By: _____
Name:
Title:

EXHIBIT A

[BORROWER]
USE OF LOAN PROCEEDS

DESCRIPTION OF PROJECT TO BE ACQUIRED OR CONSTRUCTED

PROJECT

**TOTAL AMOUNT
TO BE FINANCED**

EXHIBIT B

CERTIFIED [ORDINANCE][RESOLUTION] OF THE BORROWER

See Document No. _____

EXHIBIT C

OPINION OF BORROWER'S COUNSEL

[Letterhead of Counsel to Borrower]

_____, 2005

Florida Municipal Loan Council
c/o Florida League of Cities, Inc.
301 Bronough Street
Tallahassee, Florida 32301

Wachovia Bank, National Association
Corporate Trust Department
225 Water Street, 3rd Floor
Jacksonville, Florida 32202

Bryant Miller & Olive P.A.
One Tampa City Center
201 North Franklin Street, Suite 2700
Tampa, Florida 33602

Banc of America Securities LLC
1640 Gulf-to-Bay Boulevard
Clearwater, Florida 33755

MBIA Insurance Corporation
113 King Street
Armonk, New York 10504

Gentlemen:

We are counsel to [Name of Borrower], Florida (the "Borrower"), and have been requested by the Borrower to give this opinion in connection with the loan by the Florida Municipal Loan Council (the "Council") to the Borrower of funds to finance or refinance or reimburse the Borrower for all or a portion of the cost of a certain Project (the "Project") as defined in, and as described in Exhibit A of, the Loan Agreement, dated as of _____, 2005 (the "Loan Agreement"), between the Council and the Borrower.

In this connection, we have reviewed such records, certificates and other documents as we have considered necessary or appropriate for the purposes of this opinion, including applicable laws, and ordinances adopted by the [name of governing board] of the Borrower, the Loan Agreement, an Trust Indenture dated as of February 1, 2005 (the "Indenture") between the Council and _____, as trustee (the "Trustee") and Ordinance No. _____ enacted by the Borrower on _____, 2005 (the "Ordinance"). Based on such review, and such other considerations of law and fact as we believe to be relevant, we are of the opinion that:

(a) The Borrower is a municipality duly organized and validly existing under the Constitution and laws of the State of Florida and under the provisions of the Constitution and

laws of the State of Florida. The Borrower has the legal right and all requisite power and authority to enter into the Loan Agreement, to enact the Ordinance and to consummate the transactions contemplated thereby and otherwise to carry on its activities and own its property.

(b) The Borrower has duly authorized, executed and delivered the Ordinance, the Loan Agreement, the Bond Purchase Contract and the Continuing Disclosure Agreement, and such instruments are legal and binding obligations of the Borrower enforceable against the Borrower in accordance with its terms, except to the extent that the enforceability hereof may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity, and to the sovereign police powers of the State of Florida and the constitutional powers of the United States of America.

(c) The execution and delivery of the Ordinance, the Continuing Disclosure Agreement, the Bond Purchase Contract and the Loan Agreement, the consummation of the transactions contemplated thereby, the purchase or construction of the Project or the reimbursement for costs of the acquisition or construction thereof or the refinancing of the indebtedness to be refinanced with the proceeds of the loan and the fulfillment of or compliance with the terms and conditions of the Loan Agreement, the Bond Purchase Contract and the Continuing Disclosure Agreement does not and will not conflict with or result in a material breach of or default under any of the terms, conditions or provisions of any agreement, contract or other instrument, or law, ordinance, regulation, or judicial or other governmental order, to which the Borrower is now a party or it or its properties is otherwise subject or bound, and the Borrower is not otherwise in violation of any of the foregoing in a manner material to the transactions contemplated by the Loan Agreement.

(d) There is no litigation or legal or governmental action, proceeding, inquiry or investigation pending or, to the best of our knowledge, threatened by governmental authorities or to which the Borrower is a party or of which any property of the Borrower is subject, which has not been disclosed in writing to the Council and the Bond Insurer and which, if determined adversely to the Borrower, would individually or in the aggregate materially and adversely affect the validity or the enforceability of the Loan Agreement, the Bond Purchase Contract or the Continuing Disclosure Agreement.

(e) Any indebtedness being refinanced, directly or indirectly, with the proceeds of the Loan was initially incurred by the Borrower, and the proceeds of such indebtedness have been fully expended, to finance the cost of the Project.

We are attorneys admitted to practice law only in the State of Florida and express no opinion as to the laws of any other state and further express no opinion as to the status of interest on the Bonds under either Federal laws or the laws of the State of Florida.

Very truly yours,

EXHIBIT D

DEBT SERVICE SCHEDULE

<u>Date</u>	<u>Principal Amounts</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
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[TO COME]

EXHIBIT E TO LOAN AGREEMENT
FORM OF REQUISITION CERTIFICATE

TO: WACHOVIA BANK, NATIONAL ASSOCIATION, AS TRUSTEE
FROM: [BORROWER] (THE "BORROWER")
SUBJECT: LOAN AGREEMENT DATED AS OF THE 1ST DAY OF FEBRUARY, 2005

This represents Requisition Certificate No. ____ in the total amount of \$ _____ for payment of those Costs of the Project detailed in the schedule attached.

The undersigned does certify that:

1. All of the expenditures for which monies are requested hereby represent proper Costs of the Project, have not been included in a previous Requisition Certificate and have been properly recorded on the Borrower's books as currently due and owing.

2. The monies requested thereby are not greater than those necessary to meet obligations due and payable or to reimburse the Borrower for funds actually advanced for Costs of the Project. The monies requested do not include retention or other monies not yet due or earned under construction contracts.

3. This requisition is in compliance with Section 5.03 of the Indenture.

4. After payment of monies hereby requested, to the knowledge of the undersigned, there will remain available to the Borrower sufficient funds to complete the Project substantially in accordance with the plans.

5. The Borrower is not in default under the Loan Agreement and nothing has occurred that would prevent the performance of its obligations under the Loan Agreement.

Executed this ____ day of _____, ____.

[BORROWER]

By: _____
Name:
Title:

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds in definitive form, Bryant Miller & Olive P.A., Bond Counsel, propose to render their separate final approving opinion in substantially the following form:

[dated date of closing]

Florida Municipal Loan Council
Tallahassee, Florida

\$55,630,000

**FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BONDS, SERIES 2005A**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Florida Municipal Loan Council (the “Council”) of its \$55,630,000 Florida Municipal Loan Council Revenue Bonds, Series 2005A (the “Bonds”), pursuant to the Constitution and laws of the State of Florida, including Chapter 166, Part II and Chapter 163, Part I, Florida Statutes, as amended and a Trust Indenture dated as of February 1, 2005, between the Council and Wachovia Bank, National Association, as Trustee (the “Indenture”). All capitalized terms used herein which are not otherwise defined herein shall have the meanings ascribed in the Indenture.

The proceeds of the Bonds will be loaned to the City of Bartow, Florida; City of Hallandale Beach, Florida, City of Hialeah, Florida, Town of Indian Shores, Florida, City of Inverness, Florida and City of Valparaiso, Florida (collectively, the “Borrowers”) for the purpose of financing, refinancing or reimbursing the cost of qualified projects of such Borrowers, and to pay certain costs of issuing the Bonds pursuant to Loan Agreements between the Council and such Borrowers to be executed simultaneously with the issuance of the Bonds.

As to questions of fact material to our opinion, we have relied upon representations of the Council contained in the Indenture and of the Borrowers contained in the Loan Agreements and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material related to the Bonds. This opinion should not be construed as offering material relating to the Bonds, but should be considered only for the opinions expressed herein. Furthermore, we are not passing on the accuracy or sufficiency of any CUSIP numbers appearing on the Bonds. In addition, we have not been engaged to and, therefore, express no opinion as to compliance by the

Council or the underwriters with any federal or state statute, regulation or ruling with respect to the sale and distribution of the Bonds.

In rendering this opinion, we have examined and relied upon the opinion of even date herewith of Kraig A. Conn, Esquire, Counsel to the Issuer, as to the due creation and valid existence of the Council, the due authorization, execution and delivery of the Bonds and the compliance by the Council with all conditions contained in the resolutions of the Council precedent to the issuance of the Bonds. Finally, we have assumed the proper authorization, execution and delivery of the Loan Agreements by each Borrower and the validity of such Loan Agreements and in rendering this opinion are not passing upon such matters.

The Bonds do not constitute a general obligation of the Council or the Borrowers within the meaning of any constitutional, statutory or other limitation of indebtedness and the holders thereof shall never have the right to compel the exercise of any ad valorem taxing power of the Council or the Borrowers or taxation in any form of any real or personal property for the payment of the principal of or interest on the Bonds.

Based on our examination, we are of the opinion, as of the date of delivery of and payment for the Bonds, as follows:

1. The Council is duly created and validly existing as a separate legal entity of the State of Florida with the power to execute the Indenture and perform the agreements on its part contained therein and to issue the Bonds.

2. The Indenture has been duly executed by the Council and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and binding obligation of the Council enforceable upon the Council in accordance with its terms.

3. The Bonds have been duly authorized, executed and delivered by the Council and are valid and special obligations of the Council enforceable in accordance with their terms, payable solely from the sources provided therefor in the Indenture.

4. The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income for purposes of federal income taxation. Non-compliance may cause interest on the Bonds to be included in federal gross income retroactive to the date of issuance of the Bonds, regardless of the date on which such non-compliance occurs or is ascertained. The Council has covenanted in the Indenture and the Borrowers have covenanted in their Loan Agreements to comply with such requirements in order to maintain the exclusion from federal gross income of the interest on the Bonds.

Subject to compliance by the Council and the Borrowers with the aforementioned covenants, (a) interest on the Bonds is excluded from gross income of the owners thereof for purposes of federal income taxation and (b) interest on the Bonds is not an item of tax preference for purposes of the

federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The Bonds are exempt from intangible taxes imposed pursuant to Chapter 199, Florida Statutes, as amended.

It is to be understood that the rights of the owners of the Bonds and the enforceability thereof may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign police powers of the State of Florida and of the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

Our opinions expressed herein are predicated upon present law, facts and circumstances, and we assume no affirmative obligation to update the opinions expressed herein if such laws, facts or circumstances change after the date hereof.

Very truly yours,

BRYANT MILLER & OLIVE P.A.

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APPENDIX F

SPECIMEN OF FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

The insurance provided by this policy is not covered by the Florida Insurance Guaranty Association created under chapter 631, Florida Statutes.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED:

Resident Licensed Agent

City, State

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

STD-RCS-FL-6
4/95

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APPENDIX G

FINANCIAL INFORMATION REGARDING THE CITY OF BARTOW

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CITY OF BARTOW, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
For the Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:			
Taxes	\$4,288,879	\$4,227,575	\$3,389,520
Licenses and permits	198,447	167,352	121,860
Intergovernmental revenue	1,555,561	904,663	802,966
Charges for services	1,200,534	1,375,662	1,320,346
Fines and forfeitures	188,440	175,848	125,282
Other	<u>469,286</u>	<u>386,196</u>	<u>488,561</u>
Total revenues	\$7,901,147	\$7,237,296	\$6,248,535
Expenditures:			
General government	3,336,868	3,004,713	2,888,365
Public safety	6,137,219	5,657,756	5,514,215
Physical environment	2,591,462	1,974,857	1,926,205
Economic environment	52,365	--	--
Transportation	--	--	--
Culture/recreation	4,981,244	4,401,156	4,130,211
Capital outlay	1,390,619	1,088,135	1,149,486
Debt service	<u>769,754</u>	<u>1,172,320</u>	<u>576,076</u>
Total expenditures	<u>19,259,531</u>	<u>17,298,937</u>	<u>16,184,558</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(11,358,384)</u>	<u>(10,061,641)</u>	<u>(9,936,023)</u>
Other Financing Sources (Uses):			
Proceeds from debt	713,828	1,798,604	536,500
Transfers in (out)	<u>10,646,088</u>	<u>8,965,333</u>	<u>8,203,046</u>
Total other financing sources	<u>11,359,916</u>	<u>10,763,937</u>	<u>8,739,546</u>
Net change in fund balance	1,532	--	--
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources	--	702,296	(1,196,477)
Fund Balance, beginning of year	<u>2,687,291</u>	<u>1,984,995</u>	<u>3,181,472</u>
Fund Balance, end of year	<u>\$ 2,688,823</u>	<u>\$ 2,687,291</u>	<u>\$ 1,984,995</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Commissioners
City of Bartow, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **City of Bartow, Florida** as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **City of Bartow, Florida's** management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Bartow Municipal Police Retirement Trust Fund, whose statements reflect total assets of \$8,297,359 as of September 30, 2003, and additions to net assets of \$1,035,027 for the year then ended. Those statements were audited by other auditors who report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the **City of Bartow, Florida**, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Bartow, Florida** as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments*, as of September 30, 2003.

INDEPENDENT AUDITORS' REPORT

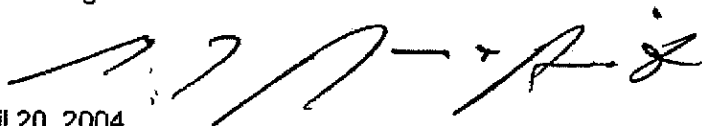
(cont...)

The required supplementary information, as listed in the accompanying table of contents consisting of management's discussion and analysis and the budgetary comparison schedules, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2004 on our consideration of **City of Bartow, Florida's** internal control structure over financial reporting and over tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

April 20, 2004

A handwritten signature in black ink, appearing to be 'M. J. ...', is written over the date.

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CITY OF BARTOW, FLORIDA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
as of September 30, 2003

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Equity in pooled cash and cash equivalents	\$ 4,190,333	\$ 3,045,028	\$ 7,235,361
Receivables, current:			
Customer accounts, net	407,876	4,242,636	4,650,512
Intergovernmental	330,817		330,817
Franchise and service taxes	171,808		171,808
Customer contributions for construction		182,111	182,111
Inventories	130,013	1,345,597	1,475,610
Prepaid expenses	493,453		493,453
Restricted assets:			
Equity in pooled cash and cash equivalents		6,759,944	6,759,944
Interfund note receivable		697,532	697,532
Investments		2,027,384	2,027,384
Capital assets:			
Non-depreciable	4,994,242	3,411,201	8,405,443
Depreciable, net	10,286,376	47,685,481	57,971,857
Unamortized bond issue costs		521,206	521,206
Total assets	\$ 21,004,918	\$ 69,918,120	\$ 90,923,038
Liabilities			
Accounts payable	\$ 544,679	\$ 1,790,744	\$ 2,335,423
Accrued wages	395,189	145,293	540,482
Accrued interest payable		721,502	721,502
Construction costs payable:			
Current		150,797	150,797
Due to other governments	83,601		83,601
Deferred revenue, non-current		63,295	63,295
Customer deposits		1,116,035	1,116,035
Long-term obligations:			
Due within one year	699,835	810,467	1,510,302
Due in more than one year	4,307,890	29,628,944	33,936,834
Total liabilities	\$ 6,031,194	\$ 34,427,077	\$ 40,458,271
Net Assets			
Invested in capital assets, net of related debt	12,440,220	23,893,642	36,333,862
Restricted for:			
Transportation expenses	198,237		198,237
Community redevelopment	440,471		440,471
Police education and training	11,367		11,367
Impact fees		870,475	870,475
Unrestricted (Deficit)	1,883,429	10,726,926	12,610,355
Total net assets	\$ 14,973,724	\$ 35,491,043	\$ 50,464,767

See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
for the year ended September 30, 2003

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 2,620,387	\$ 124,106			\$ (2,496,281)		\$ (2,496,281)
Library	812,297	33,772	\$ 143,720		(634,805)		(634,805)
Mental health services	471,190		551,459		80,269		80,269
Law enforcement	4,928,832	196,961	292,860		(4,439,011)		(4,439,011)
Fire control	1,581,967	101,536		\$ 23,098	(1,457,333)		(1,457,333)
Building and zoning	299,559	181,599			(117,960)		(117,960)
Public works	2,377,605				(2,377,605)		(2,377,605)
Roads and streets	1,121,827	1,038,800			(83,027)		(83,027)
Parks and recreation	4,346,282	1,009,198			(3,095,609)		(3,095,609)
Community redevelopment	323,708			241,475	(262,856)		(262,856)
Interest on long-term debt	85,612			60,852	(85,612)		(85,612)
Total governmental activities	18,969,266	2,685,972	988,039	325,425	(14,969,830)		(14,969,830)
Business-type Activities:							
Electric	18,934,536	26,090,085				\$ 7,155,549	7,155,549
Water	3,153,220	2,413,831	53,469			(685,920)	(685,920)
Wastewater	2,206,257	3,082,488				876,231	876,231
Sanitation	2,015,179	1,951,604				(63,575)	(63,575)
Airport	2,494,922	2,478,015		1,537,899		1,520,992	1,520,992
Total business-type activities	28,804,114	36,016,023	53,469	1,537,899		8,803,277	8,803,277
Total primary government	\$ 47,773,380	\$ 38,701,995	\$ 1,041,508	\$ 1,863,324	(14,969,830)	8,803,277	(6,166,553)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					1,808,588		1,808,588
Public service taxes and franchise fees					2,124,545		2,124,545
State shared revenue					1,309,735		1,309,735
Investment Earnings					93,144	264,539	357,683
Miscellaneous					273,909	22,755	296,664
Transfers					10,820,658	(10,820,658)	
Total General Revenues, Special Items, and Transfers					16,430,577	(10,533,362)	5,897,215
Change in net assets					1,460,747	(1,730,085)	(269,338)
Net assets - Beginning					13,512,977	37,221,128	50,734,105
Net assets - Ending					\$ 14,973,724	\$ 35,491,043	\$ 50,464,767

See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
as of September 30, 2003

	General Fund	Transportation Fund	Community Redevelopment Authority	Total
ASSETS				
Equity in pooled cash and cash equivalents	\$ 3,641,985	\$ 65,590	\$ 482,758	\$ 4,190,333
Receivables, net				
Customer accounts, net	407,876			407,876
Taxes	358,486	144,138		502,624
Inventory	130,013			130,013
Prepaid expenses	14,814			14,814
Total assets	4,553,174	209,728	482,758	5,245,660
LIABILITIES AND FUND EQUITY				
Accounts payable	486,819	8,697	42,287	537,803
Accrued payroll	399,270	2,794		402,064
Due to other governments	83,601			83,601
Estimated workers' compensation claims	894,661			894,661
Total liabilities	1,864,351	11,491	42,287	1,918,129
Fund balance:				
Reserved for inventory	130,013			130,013
Reserved for prepaid expenses	14,814			14,814
Unreserved	2,543,996	198,237	440,471	3,182,704
Total fund balance	2,688,823	198,237	440,471	3,327,531
Total liabilities and fund balance	\$ 4,553,174	\$ 209,728	\$ 482,758	\$ 5,245,660

See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS -
GOVERNMENTAL FUNDS
as of September 30, 2003

Fund balances-total governmental funds \$ 3,327,531

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. 15,280,618

Prepaid contributions above the employer's annual pension cost are not current financial resources and therefore are not reported in the Governmental Fund Balance Sheet.

Amount related to the General Employee Pension Plan 378,750
Amount related to the Police Officers' Pension Plan : 99,889

Long-term liabilities (including certain accounts payable and compensated absences) are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.

(4,113,064)

Net Assets of Governmental Activities

\$ 14,973,724

See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
for the year ended September 30, 2003

	General Fund	Transportation Fund	Community Redevelopment Authority	Other Governmental Funds	Total
REVENUES:					
Taxes	\$ 4,288,879	\$ 954,834	\$ 486,886		\$ 5,730,599
Licenses and permits	198,447				198,447
Intergovernmental revenue	1,555,561	169,671			1,725,232
Charges for services	1,200,534	83,966			1,284,500
Fines and forfeitures	188,440				188,440
Other	469,286	23,050	62,037	\$ 27,017	554,499
Total revenues	<u>7,901,147</u>	<u>1,231,521</u>	<u>548,923</u>	<u>27,143</u>	<u>9,708,734</u>
EXPENDITURES:					
General government	3,336,868				3,336,868
Public safety	8,137,219			12,775	8,149,994
Physical environment	2,591,462				2,591,462
Economic environment	52,365		50,147		102,512
Transportation		644,779			644,779
Culture/recreation	4,981,244				4,981,244
Capital outlay	1,390,619	639,969	288,470		2,317,058
Debt service	769,754				769,754
Total expenditures	<u>19,259,531</u>	<u>1,284,748</u>	<u>338,617</u>	<u>12,775</u>	<u>20,893,671</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	<u>(11,358,384)</u>	<u>(53,227)</u>	<u>212,306</u>	<u>14,368</u>	<u>(11,184,937)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from debt	713,828				713,828
Transfers in (out)	10,646,088			174,568	10,820,656
Total other financing sources	<u>11,359,916</u>			<u>174,568</u>	<u>11,534,484</u>
NET CHANGE IN FUND BALANCE					
	1,532	(53,227)	212,306	188,936	349,547
FUND BALANCE, beginning of year					
	<u>2,687,291</u>	<u>251,464</u>	<u>228,165</u>	<u>(188,936)</u>	<u>2,977,984</u>
FUND BALANCE, end of year					
	<u>\$ 2,688,823</u>	<u>\$ 198,237</u>	<u>\$ 440,471</u>	<u>\$</u>	<u>\$ 3,327,531</u>

See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
for the year ended September 30, 2003

Net Change In Fund Balances—Total Governmental Funds	\$ 349,547
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	1,859,563
Net pension obligations are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, prepaid pension expense is not reported as expenditures in Governmental Funds.	
This amount represents the portion of the General Employee Plan	378,750
This amount represents the portion of the Police Officers' Plan	99,889
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(1,048,316)
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, compensated absences are not reported as expenditures in Governmental Funds.	(158,333)
Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.	
This amount represents bond proceeds.	(713,828)
This amount represents long-term debt repayments.	693,475
Change In Net Assets of Governmental Activities	<u>\$ 1,460,747</u>

See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
as of September 30, 2003

	Business Type Activities - Enterprise Funds					Total
	Electric Fund	Water Fund	Wastewater Fund	Sanitation Fund	Airport Fund	
ASSETS						
Current assets:						
Equity in pooled cash and cash equivalents	\$	\$	\$	\$	\$	\$
Customer accounts receivable, net	3,095,331	1,236,186	349,622	(41,138)	1,849,980	3,045,028
Due from other governments		554,670		200,862	42,151	4,242,636
Inventory	1,241,256	59,227	13,460		182,111	182,111
Total current assets	<u>4,336,587</u>	<u>1,850,083</u>	<u>363,082</u>	<u>159,724</u>	<u>2,105,896</u>	<u>1,345,597</u>
Noncurrent assets:						
Restricted assets:						
Equity in pooled cash and cash equivalents	3,832,430	1,785,356	1,142,158			6,759,944
Note receivable from General Fund	697,532					697,532
Investments		2,027,384				2,027,384
Capital assets, net	12,277,308	18,280,418	12,525,984	432,967	7,580,005	51,096,682
Unamortized bond issue costs		177,044	344,162			521,206
Total noncurrent assets	<u>16,807,270</u>	<u>22,270,202</u>	<u>14,012,304</u>	<u>432,967</u>	<u>7,580,005</u>	<u>61,102,748</u>
Total assets	<u>21,143,857</u>	<u>24,120,285</u>	<u>14,375,386</u>	<u>592,691</u>	<u>9,685,901</u>	<u>69,918,120</u>
LIABILITIES						
Current liabilities:						
Accounts payable	1,629,436	55,236	47,030	37,304	21,738	1,790,744
Accrued wages	72,759	17,618	20,362	18,550	16,004	145,293
Construction costs payable					150,797	150,797
Bonds and notes payable, current portion	148,974	8,252	506,955	96,544	30,737	791,472
Total current liabilities	<u>1,851,169</u>	<u>81,106</u>	<u>574,357</u>	<u>152,398</u>	<u>219,276</u>	<u>2,878,306</u>
Noncurrent liabilities:						
Compensated absences	340,533	47,756	39,490	64,089	117,339	609,207
Deferred revenues		36,531			26,764	63,295
Payable from restricted assets:						
Accrued interest payable		567,545	153,957			721,502
Customer deposits	916,693					916,693
Bonds and notes payable, noncurrent portion	484,775	21,936,589	6,545,675	54,971	199,342	1,116,035
Total noncurrent liabilities	<u>1,742,001</u>	<u>22,588,421</u>	<u>6,739,122</u>	<u>54,971</u>	<u>16,722</u>	<u>29,038,732</u>
Total liabilities	<u>3,593,170</u>	<u>22,669,527</u>	<u>7,313,479</u>	<u>271,458</u>	<u>360,167</u>	<u>31,548,771</u>
NET ASSETS						
Invested in capital assets, net of related debt	11,043,559	(1,381,423)	5,817,507	281,453	7,532,546	23,893,642
Restricted for:						
Impact fees		389,239	481,236			870,475
Electric deferred income	3,613,269					3,613,269
Rate stabilization		750,000				750,000
Unrestricted	2,293,859	1,692,942	763,164	39,780	1,573,912	6,363,657
Total net assets	<u>\$ 17,550,687</u>	<u>\$ 1,450,758</u>	<u>\$ 7,061,907</u>	<u>\$ 321,233</u>	<u>\$ 9,106,458</u>	<u>\$ 35,491,043</u>

See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
for the year ended September 30, 2003

	Business Type Activities - Enterprise Funds					Total
	Electric Fund	Water Fund	Wastewater Fund	Sanitation Fund	Airport Fund	
OPERATING REVENUES:						
Charges for services	\$ 26,090,085	\$ 2,413,831	\$ 3,082,488	\$ 1,951,604	\$ 2,478,015	\$ 36,016,023
Total operating income	<u>26,090,085</u>	<u>2,413,831</u>	<u>3,082,488</u>	<u>1,951,604</u>	<u>2,478,015</u>	<u>36,016,023</u>
OPERATING EXPENSES:						
Personal services	2,596,426	589,113	594,964	917,677	799,692	5,497,872
Operating expenses	14,728,420	317,469	571,229	788,698	709,773	17,115,589
Materials and supplies	1,108,254	307,613	175,636	72,829	466,864	2,130,196
Depreciation	463,020	771,926	495,943	223,323	516,088	2,470,300
Total operating expenses	<u>18,896,120</u>	<u>1,986,121</u>	<u>1,837,772</u>	<u>2,002,527</u>	<u>2,491,417</u>	<u>27,213,957</u>
OPERATING INCOME	<u>7,193,965</u>	<u>427,710</u>	<u>1,244,716</u>	<u>(50,923)</u>	<u>(13,402)</u>	<u>8,802,066</u>
NONOPERATING REVENUE (EXPENSE):						
Grant income		53,469				53,469
Interest revenue	84,590	163,549	4,985	199	11,216	264,539
Interest expense	(38,416)	(1,167,099)	(368,485)	(12,652)	(3,505)	(1,590,157)
Other	19,885	5,359			(2,289)	22,755
Total nonoperating revenues (expenses)	<u>65,859</u>	<u>(944,722)</u>	<u>(363,500)</u>	<u>(12,453)</u>	<u>5,422</u>	<u>(1,249,394)</u>
Income (loss) before contributions and transfers	7,259,824	(517,012)	881,216	(63,376)	(7,980)	7,552,672
CAPITAL CONTRIBUTIONS						
TRANSFERS IN (OUT)						
Change in net assets	<u>(8,126,136)</u>	<u>(2,489,263)</u>	<u>(205,257)</u>		<u>1,537,899</u>	<u>(10,820,656)</u>
Total net assets - beginning	<u>18,416,999</u>	<u>4,457,033</u>	<u>6,385,948</u>	<u>(63,376)</u>	<u>1,529,919</u>	<u>(1,730,085)</u>
Total net assets - ending	<u>\$ 17,550,687</u>	<u>\$ 1,450,758</u>	<u>\$ 7,061,907</u>	<u>\$ 321,233</u>	<u>\$ 9,106,458</u>	<u>\$ 35,491,043</u>

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See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
as of September 30, 2003

	Business Type Activities - Enterprise Funds					Total
	Electric Fund	Water Fund	Wastewater Fund	Sanitation Fund	Airport Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 26,871,922	\$ 1,895,682	\$ 2,732,866	\$ 1,750,742	\$ 2,458,269	\$ 35,709,491
Payments to suppliers	(16,555,800)	(560,521)	(641,920)	(785,036)	(1,191,494)	(18,734,771)
Payments for salaries and benefits	(2,579,196)	(564,483)	(585,422)	(950,061)	(814,928)	(5,494,090)
Net cash flows from operating activities	8,736,926	770,688	1,505,524	15,645	451,847	11,480,630
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Increase (decrease) in customer deposits	46,260					
Grant proceeds received					4,157	50,417
Transfers (to) from other funds		53,469				53,469
Net cash flows from noncapital financing activities	(8,126,136)	(2,489,283)	(205,257)			(10,820,656)
	(8,079,876)	(2,435,794)	(205,257)		4,157	(10,716,770)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets, net of related payables	(545,492)	(502,577)	(197,959)		(2,047,064)	(3,293,092)
Payment of bond issue costs		17,239				17,239
Principal paid on notes, bonds and lease obligations	(26,757)		(485,831)	(154,935)	(56,200)	(723,723)
Note payable to General Fund	(697,532)					(697,532)
Interest paid on borrowings	(38,416)	(1,167,099)	(379,349)	(12,652)	(3,505)	(1,601,021)
Proceeds from sale of capital assets					17,500	17,500
Capital contributions received, net of receivables					1,651,171	1,651,171
Net cash flows from capital and related financing activities	(1,308,197)	(1,662,437)	(1,063,139)	(167,587)	(438,098)	(4,629,458)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Other investing income / (loss)	19,685	5,359				25,044
Maturities of restricted investments		(2,027,384)			3,049	(2,027,384)
Interest on invested funds	84,590	163,549	4,985	199	11,216	264,539
Net cash flows from investing activities	104,275	(1,858,476)	4,985	199	14,265	(1,734,752)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(546,872)	(5,178,019)	242,113	(151,743)	32,171	(5,600,350)
CASH AND CASH EQUIVALENTS, beginning of year	4,379,302	8,197,561	900,045	110,605	1,817,809	15,405,322
CASH AND CASH EQUIVALENTS, end of year	\$ 3,832,430	\$ 3,021,542	\$ 1,142,158	\$ (41,138)	\$ 1,849,980	\$ 9,804,972
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income / (loss)	\$ 7,193,965	\$ 427,710	\$ 1,244,716	\$ (50,923)	\$ (13,402)	\$ 8,802,066
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	463,020	771,926	495,943	223,323	516,088	2,470,300
(Increase) decrease in inventory	(8,393)	(1,377)	(3,496)		(5,782)	(19,048)
(Increase) decrease in accounts receivable	781,837	(554,670)	(349,622)	(200,862)	3,156	(320,161)
Noncash loss on disposal of fixed assets		5,700		79,999		85,699
Increase (decrease) in accounts payable	283,472	51,238	47,030	(3,508)	(25,311)	352,921
Increase (decrease) in accrued wages	5,795	10,310	7,284	3,975		27,365
Amortized bond issue costs		9,000	81,411			70,411
Increase (decrease) in comp absences	17,230	14,320	2,258	(36,360)	(15,235)	(17,787)
Increase (decrease) in deferred revenue and other		36,531			(7,667)	28,664
Net cash flows from operating activities	\$ 8,736,926	\$ 770,688	\$ 1,505,524	\$ 15,645	\$ 451,847	\$ 11,480,630

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See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
as of September 30, 2003

	Pension Trust Funds
ASSETS	
Receivables:	
City	\$ 75,074
Plan members	6,491
Total receivables	<u>81,565</u>
Investments, at fair market value:	
Pooled fixed income funds	4,423,826
Pooled domestic stock funds	9,094,754
Pooled international stock funds	171,192
Total investments	<u>13,689,772</u>
Total assets	<u>13,771,337</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 13,771,337</u>

See Accompanying Notes to Financial Statements

CITY OF BARTOW, FLORIDA
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
for the year ended September 30, 2003

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
City	\$ 1,287,184
Plan members	198,472
State of Florida	164,582
Plan member contribution buybacks	293,070
Total contributions	<u>1,943,308</u>
Investment income:	
Net realized and unrealized investment income	1,363,580
Total investment income	<u>1,363,580</u>
Less investment expenses:	
Performance evaluation	6,945
Trustee fees	81,654
Total investment expenses	<u>88,599</u>
Net investment income (loss)	<u>1,274,981</u>
Total additions	<u>3,218,289</u>
DEDUCTIONS	
Administrative expenses:	
Legal	17,529
Actuarial	13,890
Audit	5,244
Insurance	3,136
Total administrative expenses	<u>39,799</u>
Benefits	426,323
Refunds of contributions	1,209
Total deductions	<u>467,331</u>
NET INCREASE	2,750,958
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Balance, beginning of year	<u>11,020,379</u>
Balance, end of year	<u>\$ 13,771,337</u>

See Accompanying Notes to Financial Statements.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time, the financial statements include;
 - a) A Managements' Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - b) Financial statements prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to implement the provisions of this Statement in the current year, including the retroactive recording of infrastructure assets.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

A. REPORTING ENTITY

The City of Bartow, Florida (the "City") is a municipal corporation governed by a board of five (5) elected commissioners and was established by a special act of the Florida legislature, laws of the State of Florida Chapter 63-1109, House Bill No. 1953.

The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). Certain of the component units, although legally separate, are presented in the financial statements as "blended" components. Blending refers to the fact that the component unit's funds and account groups are combined with those of the primary government for financial reporting purposes. These entities include: (1) the Municipal Firemens' Retirement Trust Fund established pursuant to Florida Statute chapter 175 and Ordinance No. 1805, (2) the Municipal Police Officers' Retirement Trust Fund established pursuant to Florida Statute chapter 185 and Ordinance No. 1806, (3) the General Employees' Pension Trust Fund established pursuant to Ordinance No. 2002-33, (4) the Bartow Community Redevelopment Authority (the "CRA") which was created by City Ordinance No. 1544 pursuant to Florida Statutes chapter 163, and (5) the Bartow Municipal Airport Development Authority (the "Airport") which was created pursuant to a special act of the Florida legislature, F.S. Ch. 63-1109 and 67-1097, to operate the City's airport and industrial park. All component units of the City, except the Bartow Community Redevelopment Authority, issue separately audited Component Unit Financial Statements (CUFS). Copies of the CUFS may be obtained from the City's Finance Department.

Related organizations are those legally separate entities for which the City is responsible for appointing the board members or Trustees and for which the City is not otherwise financially accountable. These organizations are not included in the primary government's financial statements as they are not considered to be part of the financial reporting entity. The only entities meeting these criteria are the Bartow Housing Authority (the "Housing Authority") and the Bartow Employees Internal Revenue Code (IRC) Section 457 deferred compensation plan. The Housing Authority is a Corporation established to provide affordable housing. The Bartow Employees I.R.C. 457 Deferred Compensation Trust Fund is a trust fund established solely for the benefit of the plan participants. All record keeping, administration and investing activities are handled by a third-party trustee.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

B. BASIC FINANCIAL STATEMENTS

The basic financial statements consist of the government-wide financial statements and fund financial statements.

Government-wide Financial Statements - The required government-wide financial statements are the Statement of Net Assets and the Statement of Activities, which report information on all of the nonfiduciary activities of the City. The effects of interfund activity have been removed from these statements. Fiduciary funds are also excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment including depreciation. The City does not allocate the interest expense of governmental fund debt or indirect costs such as finance, personnel, legal, etc. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements - The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. Non-major funds by category are summarized into a single column. The various funds are reported by type within the financial statements. The following fund types and funds are used and reported by the City:

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

B. BASIC FINANCIAL STATEMENTS (cont...)

a) Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City;

- **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- **Transportation Fund** is a special revenue fund of the City. It is used to account for all transportation revenues and the related expenses incurred for street and road construction, maintenance and repair.
- **Bartow Community Redevelopment Authority** (the "CRA") was created by City Ordinance No. 1544 pursuant to Florida Statutes chapter 163. Due to its profile in the community, the City electively added the Bartow CRA as a major fund. The CRA has the power to levy taxes or appropriate funds to preserve and enhance the downtown Bartow area. The CRA receives the incremental ad valorem taxes generated in future years by the increase in property values in the redevelopment area. The CRA's property taxes are levied under the taxing authority of the City and are included as part of the City's total tax levy. The CRA's Board members consist of five citizens appointed by the City Commission.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

B. BASIC FINANCIAL STATEMENTS (cont...)

b) Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

- **Electric Fund** is used to account for operations associated with providing electric service to its customers inside and outside the City. The Electric Fund is a distribution utility, with no significant power generation assets.
- **Water Fund** is used to account for the operations associated with potable water supply, treatment, transmission and distribution services to area residents.
- **Wastewater Fund** is used to account for the operations associated with sewer collection, treatment and disposal services to area residents.
- **Sanitation Fund** is used to account for the operations associated with sanitation collection and disposal services for the residents of the City.
- **Airport Fund** is used to account for the operations associated with the costs and revenues of the Bartow Municipal Airport Authority.

c) Fiduciary Funds:

- Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds. The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The City has three *Pension Trust Funds* which accumulate resources to provide retirement benefits to City employees. The three pension trust funds are the Police Officers' Retirement Trust Fund, Firefighters' Retirement Trust Fund, and the General Employees' Pension Trust Fund.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

C. MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING

The government-wide financial statements, the proprietary fund financial statements and the fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Operating revenues shown for proprietary operations generally result from producing or providing goods and services such as water and sewer. Operating expenses for these operations include all costs related to providing the service or product. These costs include billing and collection, personnel and purchased services, repairs and maintenance, depreciation, materials and supplies, and other expenses directly related to costs of services.

All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual as revenue of the current period. Grant revenues are considered earned and are accrued simultaneously with the grant expenditure. In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e. revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

CASH AND CASH EQUIVALENTS - The City maintains a central pooled cash account that is used by all operating funds of the City. In addition, deposits and investments are separately held by certain enterprise funds and the pension trust funds. Interest income earned in the pooled cash and investments account is allocated to the funds. Each fund's equity in pooled cash is recorded on its respective balance sheet in the caption "equity in pooled cash and cash equivalents." Amounts, if any, reported as deficits in pooled cash do not represent actual overdrawn balances in any bank account, but merely report a negative cash balance in the particular fund. The financial statement caption "equity in pooled cash and cash equivalents" includes all deposits with banks and financial institutions including certificates of deposit and all highly-liquid investments (with original maturities of three months or less), including repurchase agreements, short-term commercial paper and investments in the State Board of Administration investment pool.

INVESTMENTS - Debt securities owned are reported at cost plus accrued interest which approximates market. Investments in pooled accounts, such as the pension fund investments and the State Board of Administration are reported at market value, as determined by the trustees. Purchases and sales of investments are reflected on trade dates. Net realized gains or losses on sales of investments are based on the cost of investments applied on a first-in, first-out basis and are reflected in current operating results.

NOTE RECEIVABLE - Consists of a note receivable held by the Electric fund which bears interest at 4% and is secured by equipment purchased by the General fund. The note calls for 42 equal payments of \$18,241 beginning September 30, 2003 with the final payment on February 28, 2007.

RECEIVABLES - The City accrues unbilled service of its enterprise funds. This represents the estimated value of service from the last billing date to year-end and totalled \$519,495 at September 30, 2003. A reserve for doubtful accounts is maintained in each fund equal to the value of the utility customer receivables that are not expected to be collected. As of September 30, 2003, such reserves for all funds totalled \$592,744. Receivables are reported in the financial statements net of the reserve for doubtful accounts.

INTERFUND RECEIVABLES AND PAYABLES - To the extent any interfund balances exist, management anticipates they will be settled in cash as opposed to a permanent transfer.

INVENTORIES - Inventories in governmental and enterprise funds consist of expendable supplies held for consumption and are recorded at the lower of cost or market computed on an average cost basis.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (cont...)

CAPITAL ASSETS - In the government-wide financial statements, capital assets include land, buildings, improvements, utility plant, furniture and equipment, and infrastructure assets (e.g., roads, sidewalks, streets, and drainage systems). Capital assets are defined by City resolution as tangible property or improvements having an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at date of gift, if donated. Assets meeting these criteria (over \$5,000) are capitalized while others are charged to expense.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Utility plant in service	30
Buildings and improvements	20-40
Infrastructure	20-80
Machinery and equipment	5-15

RESTRICTED ASSETS - Include cash, investments and other assets that are legally restricted to specific uses by external parties. The City generally uses restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

INTEREST DURING CONSTRUCTION - Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. For the year ended September 30, 2003, no interest cost was capitalized.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (cont...)

LONG-TERM OBLIGATIONS - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligation are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the bonds outstanding method. Bond issuance costs are reported as assets, net of amortization. Bond premiums and discounts are reported, net of amortization, in the related debt balances shown in the financial statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements; rather the debt proceeds are reported as other financing sources and payment of principle and interest are reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

COMPENSATED ABSENCES - The City's policies permit employees to accumulate vacation and sick time up to certain limits and to be compensated for these upon termination of employment. The liability for these compensated absences is recorded as long-term in the government-wide statements and in the proprietary fund financial statement because the maturities are not determinable. In the fund financial statements, the governmental funds do not report the compensated absence liability because it is generally not payable from expendable available financial resources.

EQUITY CLASSIFICATIONS -

Government-wide Statements - Equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation and other assets financed by the related debt (e.g. bond issuance costs and restricted bond sinking and reserve accounts), reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (cont...)

EQUITY CLASSIFICATIONS (cont...) -

Fund Statements - Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

INTERFUND TRANSFERS - Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the Government-wide Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

PENSION COSTS - The provision for pension costs is recorded on an accrual basis, and the City's policy is to fund pension costs as they accrue.

NOTE 2 - PROPERTY TAX CALENDAR

Under Florida Law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The tax levy of the City is established by the City Commission prior to October 1 of each year and the Polk County Property Appraiser incorporates the millages into the total tax levy, which includes the municipalities, the County, independent districts and the County School Board tax requirements. State statutes permit cities to levy property taxes at a rate of up to 10 mills. The City's millage rate in effect for the fiscal year ended September 30, 2003 was 3.500.

All taxes are due and payable on November 1 (levy date) of each year and unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment as follows: 4% in of November, 3% in December, 2% in January, 1% in February. The taxes paid in March are without discount. Delinquent taxes on real and personal property bear interest of 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 3 - BUDGETARY LAW AND PRACTICE

The budget is adopted by Resolution on a City-wide basis for all City funds on or before October 1 of each year as required by State Statute. City Ordinance establishes the legal level of budgetary control at the city-wide level. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations within and among funds subject to notification of the City Commission. Budgets for all funds are adopted on the basis of cash receipts and disbursements which differs from the basis used for financial reporting purposes. These differences are usually not significant for the governmental funds, however they are for the enterprise fund as the budget includes capital outlay and debt principal repayments as expenses and does not include depreciation. All budget amounts presented in the accompanying supplementary information have been adjusted for legally authorized amendments.

For the year ended September 30, 2003, the City Commission passed resolution 03-3457R granting the City Manager authority to transfer unencumbered appropriations from the general fund to other funds within the City, effectively eliminating any budget over expenditures in the City.

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Compliance With Finance Related Legal and Contractual Provisions - The City has no material violations of finance related legal and contractual provisions including with respect to investment of funds and long-term debt covenants.
- B. Deficit Fund Balance or Fund Equity of Individual Funds - As of September 30, 2003, no individual fund had a deficit fund balance or retained earnings deficit.
- C. Excess of Expenditures Over Budget Appropriations in Individual Funds - For the year ended September 30, 2003, no budgetary fund had an excess of expenditures over appropriations.

NOTE 5 - DEPOSITS AND INVESTMENTS

The City's deposits and investments are categorized to give an indication of the level of custodial risk assumed by the City at year end. Category 1 includes balances that are insured or registered or which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered deposits or investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name. These broad categories do not apply to all types of deposits and investments owned by the City. Investments in money market and open-end mutual funds, unit investment trusts and investment pools are not categorized because they are not evidenced by securities that exist in physical or book-entry form. The City maintained no other types of deposits or investments during the year other than those shown.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (cont...)

DEPOSITS IN FINANCIAL INSTITUTIONS - Cities in Florida are required by State Statute Chapter 280 - "Security for Public Deposits Act", to deposit operating funds only with financial institutions who are members of the State of Florida collateral pool ("qualified public depositories"). The State of Florida collateral pool is a multiple financial institution collateral pool with the ability to make additional assessments to satisfy the claims of governmental entities if any member financial institution fails. This ability provides protection which is similar to depository insurance.

INVESTMENTS - The types of investments in which the City may invest are governed by State Statutes and City policy. The City is authorized to invest in the following instruments: Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized through the Florida Interlocal Cooperation Act; S.E.C. registered money market funds with the highest credit quality rating from a nationally recognized rating company; interest-bearing time deposits and savings accounts in qualified public depositories; direct obligations of the U.S. Treasury and federal agencies and instrumentalities or repurchases agreements fully collateralized by such securities; and interest in an entity registered under the Investment Company act of 1940 whose investments are limited to U.S. Governments. City policy states that maturities must not exceed two years and no more than 15% of the portfolio can be invested in any one security other than direct obligations of the U.S. Treasury. In addition, the City Commission may authorize by ordinance, certain other types of investments in connection with the issuance of debt. These would be one-time investments not otherwise permitted by the City policy. The City pension trust funds are also authorized by City Ordinances to invest in corporate stocks and bonds subject to certain limitations.

The captions on the government-wide statement of net assets for "equity in pooled cash and cash equivalents" and "investments", both restricted and unrestricted, are comprised of the following:

Equity in pooled cash and cash equivalents:	
Cash on hand	\$3,525
Deposits in financial institutions:	
Insured or fully collateralized bank deposits	13,776,952
Uncategorized deposits:	
State Board of Administration Local Government Surplus Trust Funds Investment Pool	<u>214,828</u>
Total equity in pooled cash and cash equivalents	<u>13,995,305</u>
Investments:	
Category 2 short-term cash equivalent investment:	
Short-term corporate commercial paper	<u>2,027,384</u>
Total deposits and investments	<u>2,027,384</u>
Total cash and investments	<u>\$16,022,689</u>

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2003, was as follows:

	Balance October 1, 2002	Restatement	Restated Balance	Additions	Deletions	Balance September 30, 2003
Governmental Activities:						
Capital assets not being depreciated:						
Land	\$ 3,293,170		\$ 3,293,170	\$ 112,859		\$ 3,406,029
Infrastructure land		\$ 1,588,213	1,588,213			1,588,213
Total	\$ 3,293,170	\$ 1,588,213	\$ 4,881,383	\$ 112,859		\$ 4,994,242
Capital assets being depreciated:						
Buildings and improvements	\$ 9,745,883	\$ (4,207,991)	\$ 5,537,892	\$ 355,284		\$ 5,893,176
Equipment	6,254,754	(2,659,667)	3,595,087	733,420		4,328,507
Infrastructure:						
Road network		17,031,766	17,031,766	658,000	\$ (252,630)	17,437,136
Sidewalk network		2,104,343	2,104,343			2,104,343
Drainage network		3,579,437	3,579,437			3,579,437
Total	16,000,637	15,647,888	31,848,525	1,746,704	(252,630)	33,342,599
Total all capital assets	19,293,807	17,436,101	36,729,908	1,859,563	(252,630)	38,336,841
Less accumulated depreciation for:						
Buildings and improvements	(7,659,425)	4,456,788	(3,202,637)	(111,477)		(3,314,114)
Equipment	(3,999,309)	2,410,869	(1,588,440)	(439,888)		(2,026,328)
Infrastructure:						
Road network		(13,027,655)	(13,027,655)	(372,753)	252,630	(13,147,778)
Sidewalk network		(1,578,257)	(1,578,257)	(52,609)		(1,630,866)
Drainage network		(2,863,548)	(2,863,548)	(71,589)		(2,935,138)
Total accumulated depreciation	(11,658,734)	(10,601,804)	(22,260,538)	(1,048,316)	252,630	(23,056,224)
Depreciable capital assets, net	\$ 4,341,903	\$ 5,246,084	\$ 9,597,987	\$ 698,386		\$ 10,286,375
Business-type activities:						
Capital assets not being depreciated:						
Land	\$ 1,002,594		\$ 1,002,594	\$ 24,597		\$ 1,027,191
Construction in process	677,497		677,497	2,200,178	\$ (493,665)	2,384,010
Total	\$ 1,680,091		\$ 1,680,091	\$ 2,224,775	\$ (493,665)	\$ 3,411,201
Capital assets being depreciated:						
Buildings and improvements	\$ 70,021,951	\$ 4,437,990	\$ 74,459,941	\$ 167,581	\$ 493,665	\$ 75,121,167
Equipment	7,455,431	(4,437,990)	3,017,441	594,241	(382,073)	3,229,609
Capitalized lease equipment	436,698		436,698		(76,599)	360,099
Total	77,914,080		77,914,080	761,822	34,993	78,710,895
Total all capital assets	79,594,171		79,594,171	2,986,597	(458,672)	82,122,096
Less accumulated depreciation						
	(28,834,351)		(28,834,351)	(2,470,300)	279,237	(31,025,414)
Depreciable capital assets, net	\$ 49,079,729		\$ 49,079,729	\$ (1,706,478)	\$ 314,230	\$ 47,685,481

Amounts presented in the "restatement" column related to "infrastructure" are the results of capitalizing infrastructure assets and the related accumulated depreciation as required by GASB 34. The other restatement amounts are the result of deleting those capital assets that no longer meet the City's \$5,000 threshold or that were found to no longer be in service. All of these assets were fully depreciated as of October 1, 2002 and the restatement had no effect on the change in net assets.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 6 - CAPITAL ASSETS (cont...)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General government	\$ 43,119
Library	59,313
Law enforcement	246,176
Fire control	115,492
Public works	47,191
Roads and streets	497,600
Parks and recreation	39,425
Total depreciation expense - governmental activities	<u>\$ 1,048,316</u>

Business-type Activities:

Electric	\$ 463,020
Water	771,926
Wastewater	495,943
Sanitation	223,323
Airport	516,088
Total depreciation expense - business-type activities	<u>\$ 2,470,300</u>

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 8 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2003:

	Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003	Amounts Due within One Year
Governmental Activities					
Long-term debt:					
Communications Services Tax revenue bonds, Series 2002	\$ 1,326,904		\$ (312,755)	\$ 1,014,149	\$ 262,301
Installment notes payable	953,802		(214,657)	739,145	160,249
Capitalized equipment leases payable	530,004		(140,433)	389,571	82,764
Note payable to Electric fund		713,828	(16,296)	697,532	194,521
Total long-term debt	2,810,710	713,828	(584,141)	2,840,397	699,835
Other liabilities:					
Estimated workers compensation claims	964,704	197,652	(267,695)	894,661	
Compensated absences	1,030,331	158,333		1,188,664	
Landfill post-closure costs	93,337		(9,334)	84,003	
Total other liabilities	2,088,372	355,985	(277,029)	2,167,328	
Total long-term obligations	\$ 4,899,082	\$ 1,069,813	\$ (961,170)	\$ 5,007,725	\$ 699,835
Less amount due in one year				(699,835)	
Total non-current obligations due in more than one year				\$ 4,307,890	
Business-type Activities					
Long-term debt:					
Revenue certificates:					
Water and Sewer, Series 1998	\$ 7,448,285		\$ (485,831)	\$ 6,962,454	\$ 506,965
Water and Sewer, Series 1999	22,240,000			22,240,000	
Communications Services Tax revenue bonds, Series 2002	553,275		(57,903)	495,372	137,184
Installment notes payable	291,406		(179,988)	111,418	94,738
Capitalized equipment leases payable	430,997		(70,899)	360,098	71,580
Less premiums (discounts), net	(356,377)		17,239	(339,138)	
Total long-term debt	30,607,586		(777,382)	29,830,204	810,467
Other liabilities:					
Compensated absences	626,994		(17,767)	609,207	
Total other liabilities	626,994		(17,767)	609,207	
Total long-term obligations	\$ 31,234,580		\$ (795,169)	30,439,411	\$ 810,467
Less amount due in one year				(810,467)	
Total non-current obligations due in more than one year				\$ 29,628,944	

The \$2 million Series 2002 Communication Services Tax Revenue Notes are secured by the City's portion of the Communications Services Tax. Proceeds of this debt were used to fund projects in the general fund, electric fund, and sanitation fund. The revenue notes bear interest at 3.91% and have a final maturity date of May 30, 2007.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 8 - NOTES PAYABLE AND LONG-TERM DEBT (cont...)

- **Water and Sewer Revenue Certificates** - The water and sewer revenue certificates Series 1998 and 1999 are secured by the net revenues of the water and wastewater systems and all utility services taxes collected by the City. The 1998 bonds bear interest at 4.35% with a final maturity of April 1, 2014. The 1999 bonds have an effective interest rate of 5.1% and a final maturity date of October 1, 2030. The resolutions creating these bond issues require that funds be deposited into sinking funds monthly at amounts which will fully fund the next succeeding principal and interest payments when due. Additionally, there are requirements to maintain monies in reserves and renewal and replacement accounts at various specified amounts and to maintain minimum debt service coverage of 1.25% prior to issuing any additional bonds. As of September 30, 2003, the City was in compliance with all significant restrictions and limitations contained in the resolutions.

- **Landfill Post-Closure Costs** - The City owns a closed (non-operating) landfill for which it has environmental responsibilities. Generally, the City is required to monitor the environmental impact of the landfill site for a period of years following closure under the supervision of the Florida Department of Environmental Protection. The remaining costs of monitoring, \$84,003, were estimated by consulting engineers and are reported as a long-term liability of governmental activities in the government-wide financial statements. There are approximately nine years of monitoring remaining at a cost of approximately \$9,333 per year, which are being funded from current general fund resources as the costs are incurred.

- **Maturities** - Annual requirements to repay all long-term debt as of September 30, 2003, were as follows:

Fiscal Year Ending	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 699,835	\$ 125,524	\$ 810,467	\$ 1,480,119
2005	913,343	74,079	1,030,392	1,423,848
2006	653,763	44,865	742,995	1,387,013
2007	351,137	19,899	732,089	1,354,556
2008	69,820	12,164	666,101	1,324,020
2009 - 2013	152,499	11,468	3,806,227	6,143,596
2014 - 2018			4,746,071	5,168,916
2019 - 2023			6,095,000	3,769,565
2024 - 2028			7,820,000	1,995,419
2029 - 2033			3,720,000	192,956
Less unamortized: bond discount			(339,138)	
Total	\$ 2,840,397	\$ 287,999	\$ 29,830,204	\$ 24,240,008

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 9 - INTERFUND TRANSACTIONS

Interfund receivables and payables for the year ending September 30, 2003, consisted of:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Fund	General Fund	\$ 697,532

The receivable held by the electric fund is an authorized loan to the general fund to pay outstanding debt on equipment purchased by the City.

Interfund transfers for the year ending September 30, 2003, consisted of:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 8,126,136
General Fund	Water Fund	\$ 2,489,263
General Fund	Wastewater Fund	\$ 205,257
Non-major Governmental Funds	General Fund	\$ 174,568

The transfer from the electric, water, and wastewater funds to the general fund are budgeted annual operating transfers to finance services accounted for in the general fund. The transfer from the general fund to the non-major governmental funds was to close out those funds as the City is now accounting for those activities in the general fund.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 10 - PENSION TRUST FUNDS

The City maintained three single-employer, defined benefit pension plans, as described below.

- A. The Bartow Municipal Firefighters' Retirement Trust Fund and the Bartow Municipal Police Officers' Retirement Trust Fund are administrators of single-employer pension plans (the "Plans") established by City ordinance pursuant to authority contained in Florida Statutes Chapters 175 and 185 for the benefit of its municipal firefighters and municipal police officers. The funding methods and determination of benefits payable are provided in the Florida Statutes and City ordinances. The statutes and ordinances provide, in general, that funds are to be accumulated from employee contributions, state appropriations and income from investments of accumulated funds. Actuarial liabilities are determined by consulting actuaries. Investments of the Plans are maintained in Trust with SunTrust as Trustee. These Plans are administered by separate boards of trustees. Both police officers and firefighters contribute 1% of their salary with the City contributing only such amounts as are necessary to fund any shortfall in contributions necessary to fully fund the actuarially required annual contribution for the Plans. Contributions are also provided by the State of Florida from a tax on insurance premiums. All benefits are 100% vested after ten years of credited service.

Benefits for firefighters are payable at normal retirement, the earlier of age 55 with 10 years service, age 52 with 25 years service, or the completion of 28 years service, regardless of age. Benefits for police officers are payable the earlier of age 55 with 10 years of service or completion of 25 years of service regardless of age. Benefits for both plans are equal to 3.15% of average compensation multiplied by the number of service years. Both plans provide for early retirement with reduced benefits at age 45 with 10 years service and provide disability, death and survivor benefit provisions.

- B. The Bartow General Employees' Pension Plan ("Plan") is a single-employer defined benefit, contributory pension plan administered by the City Manager and the Pension Trust Committee which consists of at least one City Commissioner and a minimum of two City employees appointed by the City Commission. The authority for the plan and benefits is established by City Ordinances. Participation in the Plan is mandatory for all full-time City employees who are not police officers or firefighters. Plan members contribute 2% of salary with the City contributing such amounts as are necessary to fully fund the actuarially required annual contribution. For the year ended September 30, 2003 the City's contribution rate was approximately 8.02% of annual covered payroll. Contributions are deposited with Circle Trust Company where they are invested in a mutual fund managed by a private investment manager. Benefits provided by the plan are paid from amounts on deposit with Circle Trust Company.

Employees are fully vested upon completion of 10 years service. Benefits are payable at normal retirement, the earlier of age 62 with 10 years service or 25 years service, regardless of age, equal to 1.68% of average compensation multiplied by the number of service years. Early retirement is available with reduced benefits at 10 years of credited service, regardless of age. The Plan also has disability, death and survivor benefit provisions.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 10 - PENSION TRUST FUNDS (cont...)

C. Participant Data - All Plans

	as of October 1, 2002		
	General Employees	Municipal Police	Municipal Firefighters
Retirees and beneficiaries			
currently receiving benefits		10	5
Terminated vested employees		3	2
Active Employees:			
Vested		14	7
Nonvested	228	36	14
Totals	228	63	28

D. Annual Pension Cost - All Plans

The annual pension cost and the dollar amount actually contributed by the employer for each of these plans for the three years ended September 30, 2003, is summarized below:

Year Ended September 30	Actual Employer Contribution	Employer Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
General Employees				
2003	\$ 1,026,549	\$ 647,799	158%	\$ (378,750)
Municipal Police Officers				
2003	\$ 144,390	\$ 145,499	99%	\$ 1,109
2002	\$ 225,988	\$ 124,990	181%	\$ (100,998)
2001	\$ 365,808	\$ 365,808	100%	\$ 0
Net pension obligation (asset) as of September 30, 2003				\$ (99,889)
Municipal Firefighters				
2003	\$ 116,318	\$ 116,245	100%	\$ (73)
2002	\$ 79,361	\$ 86,034	92%	\$ 6,673
2001	\$ 152,311	\$ 152,311	100%	\$ 0
Net pension obligation (asset) as of September 30, 2003				\$ 6,600

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 10 - PENSION TRUST FUNDS (cont...)

E. Actuarial Assumptions - All Plans

	<u>General Employees</u>	<u>Fire Pension</u>	<u>Police Pension</u>
Actuarial valuation date	October 1, 2002	October 1, 2002	October 1, 2002
Actuarial cost method	Aggregate cost	Frozen entry age	Frozen entry age
Amortization method	None	Level percentage of pay	Level percentage of pay
Remaining amortization period	None	24 years	24 years
Asset valuation method	4 year smooth	4 year smooth	4 year smooth
Investment rate of return	8.0%	8.0%	8.0%
Project salary increases	5.0%	6.5%	6.5%
Inflation rate	3.5%	3.0%	3.0%

F. Schedule of Contributions and Funding Progress - All Plans

All three Plans issue a publicly available financial report that includes financial information and the required supplementary information consisting of the contributions and funding progress information. These reports may be obtained by contacting the City of Bartow, Finance Department, 450 North Wilson Avenue, Bartow, Florida, 33830.

NOTE 11 - OTHER EMPLOYEE BENEFITS PLANS

The City offers its employees a non-contributory deferred compensation plan created pursuant to Internal Revenue Code Section 457. The Plan, administered by Hartford Life Insurance Company, is available to all employees after completing one year of continuous service and permits them to defer a portion of their salary until future years. The assets are held in trust for each participant who is free to direct their investments to a variety of mutual fund offerings. Participation in the plan is optional. The Plan's assets are not considered part of the reporting entity and are not included in these financial statements. Employee contributions to the plan during the year totalled \$388,043 and the total fair value of all plan assets as of September 30, 2003, was \$5,270,674.

The City has a policy of paying the cost of post-employment Medicare supplement health insurance for its retiree's upon reaching age 65. The City funds these costs as they incurred. The City's cost for providing these benefits for 25 participants for the year ended September 30, 2003 was \$109,084.

NOTE 12 - RISK MANAGEMENT

INSURANCE - Commercial insurance protection with normal deductibles is in place to limit the City's exposure from losses arising from liability and property damages for which there has been no significant reduction in coverages, nor have settlement amounts exceeded the City's coverages during the year ended September 30, 2003. All of the City's insurance is from commercial carriers and there is no self-insurance other than for workers' compensation as discussed below.

CITY OF BARTOW, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2003

NOTE 12 - RISK MANAGEMENT (cont...)

SELF-INSURED WORKERS' COMPENSATION - The City provides its employees with workers' compensation coverage for job-related claims expenses through a self-funded plan administered by a third-party administrator. The City carries specific stop-loss insurance against catastrophic losses exceeding \$350,000 per incident and for aggregate claims over a two-year period exceeding \$2 million.

The City records an estimated liability in the General Fund for reported workers' compensation claims based on loss reserves estimated by the third-party administrator and for loss reserves for claims incurred but not reported, based on actuarially determined estimates of the ultimate cost of such claims (including future claims adjustment expenses) provided by outside consulting actuaries. The following represents the changes in aggregate workers' compensation liabilities for the year ended September 30, 2003.

Claims liability balance, October 1, 2002	\$	964,704
Claims and changes in estimates		197,652
Claims payments		<u>(267,695)</u>
Claims liability balance, September 30, 2003	\$	<u>894,661</u>
Assets available to pay claims at September 30, 2003	\$	<u>549,958</u>

NOTE 13 - COMMITMENTS AND CONTINGENCIES

UNEMPLOYMENT CLAIMS - The City reimburses the State directly for its unemployment claims rather than participate in the State insurance fund for this purpose. As a result, the cost for unemployment claims is deducted when paid. Such costs have been insignificant in the past and no provisions for potential claims have been made in the financial statements.

LITIGATION - The City is a party to various claims and assessments arising from its actions in the course of carrying out its public services. The City carries general liability coverage and management believes its coverage is sufficient to cover all significant losses arising from the unsuccessful outcome of any pending and/or threatened litigation.

APPENDIX H

FINANCIAL INFORMATION REGARDING THE CITY OF HALLANDALE BEACH

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CITY OF HALLANDALE BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:			
Property taxes	\$12,560,842	\$10,902,452	\$10,325,542
Charges for services	5,000,686	4,079,379	4,135,076
Utility taxes	2,829,124	2,684,084	4,042,776
Intergovernmental	2,639,840	2,543,824	2,619,495
Franchise taxes	3,631,924	3,640,334	2,258,073
Licenses and permits	1,214,122	947,291	1,067,121
Fines and forfeitures	369,672	301,373	294,389
Investment earnings	265,544	--	--
Other revenue	<u>1,808,853</u>	<u>1,700,680</u>	<u>2,236,075</u>
Total revenue	<u>\$30,320,607</u>	<u>\$26,799,417</u>	<u>\$27,088,547</u>
Expenditures:			
Current:			
General government	\$4,508,204	\$ 4,400,700	\$3,786,201
Public safety	16,681,627	14,886,587	14,646,682
Physical environment	2,365,017	--	--
Transportation	--	--	--
Culture and recreation	1,960,205	1,792,710	1,634,393
Human services	596,433	617,733	595,517
Public Works	--	2,218,696	2,075,268
Economic environmental/housing	--	--	--
Debt Service:			
Principal	--	--	--
Interest	--	--	--
Capital outlay:			
Capital outlay	<u>901,179</u>	<u>--</u>	<u>595,517</u>
Total expenditures	<u>\$27,012,665</u>	<u>\$25,010,499</u>	<u>\$23,491,339</u>
Excess (Deficiency) of revenue over (under) expenditures	<u>\$ 3,307,942</u>	<u>\$ 1,788,918</u>	<u>\$3,597,208</u>
Other financing sources (uses):			
Operating transfers in	372,867	1,004,874	1,078,285
Operating transfers out	(3,016,234)	(1,318,986)	<u>(1,835,638)</u>
Sale of capital assets	21,800	--	--
Total other financing sources (uses)	<u>(2,621,567)</u>	<u>(314,112)</u>	<u>(757,353)</u>
Excess of revenue and other financing sources over expenditures and other financing uses	686,375	1,474,806	2,839,855
Fund Balances - beginning of year	<u>\$19,443,888</u>	<u>\$ 17,952,169</u>	<u>\$15,112,314</u>
Fund Balances - end of year	<u>\$20,130,263</u>	<u>\$ 19,426,975</u>	<u>\$17,952,169</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.



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Fort Lauderdale, FL 33301

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Independent Auditors' Report

To the Honorable Mayor and Members of the City Commission
City of Hallandale Beach, Florida:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallandale Beach, Florida (the City), as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallandale Beach, Florida, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus an amendment of GASB Statements No. 21 and No. 34*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of October 1, 2002.



In accordance with *Government Auditing Standards*, we have also issued our report, dated December 31, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (MD&A) and required supplementary information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining and individual fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 31, 2003

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City of Hallandale Beach, Florida
Statement of Net Assets
September 30, 2003

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$29,736,805	\$17,344,997	\$47,081,802
Accounts receivable, net of allowance	4,037,282	2,390,765	6,428,047
Assessments receivable	4,016	37,032	41,048
Due from other governments	1,245,898	-	1,245,898
Inventory	79,300	455,150	534,450
Confiscated property	74,125	-	74,125
Restricted cash and cash equivalents	-	6,202,539	6,202,539
Deferred charges	-	82,740	82,740
Net pension asset	449,968	-	449,968
Capital Assets (net of accumulated depreciation)			
Land	14,234,185	195,074	14,429,259
Buildings	7,127,846	1,462,848	8,590,694
Improvements other than buildings	2,023,249	32,285	2,055,534
Autos and equipment	3,392,148	1,343,228	4,735,376
Infrastructure	6,875,282	8,307,347	15,182,629
Construction in progress	-	913,687	913,687
Total capital assets (net of accumulated depreciation)	33,652,710	12,254,469	45,907,179
Total assets	69,280,104	38,767,692	108,047,796
Liabilities			
Accounts payable	\$1,026,076	\$1,148,630	\$2,174,706
Accrued liabilities	32,256	86,810	119,066
Due to other governments	7,782	-	7,782
Deposits	100,170	1,193,721	1,293,891
Deferred revenue	465,422	-	465,422
Perpetual care trust	-	121,401	121,401
Noncurrent liabilities:			
Due within one year	1,324,251	349,895	1,674,146
Due in more than one year	7,791,865	5,009,620	12,801,485
Total liabilities	10,747,822	7,910,077	18,657,899
Net assets			
Invested in capital assets, net of related debt	33,402,570	10,363,801	43,766,371
Restricted for capital improvements	-	5,624,768	5,624,768
Restricted for equipment acquisition	533,417	577,771	1,111,188
Restricted for community development	3,061,685	-	3,061,685
Restricted for debt service	627,662	-	627,662
Unrestricted	20,906,948	14,291,275	35,198,223
Total net assets	\$58,532,282	\$30,857,615	\$89,389,897

The notes to the financial statements are an integral part of this statement.

City of Hallandale Beach, Florida
Statement of Activities
Year Ended September 30, 2003

	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$7,206,856	\$6,676,233	\$148,941	\$301,647	(\$80,035)	\$ -	(\$80,035)
Public safety	19,124,946	2,110,374	275,431	82,898	(16,656,043)	-	(16,656,043)
Physical environment	3,577,033	-	-	-	(3,577,033)	-	(3,577,033)
Transportation	1,250,114	137,831	35,000	666,741	(410,542)	-	(410,542)
Culture and recreation	2,337,774	105,728	14,210	623,607	(1,594,229)	-	(1,594,229)
Human services	903,241	-	205,258	-	(697,983)	-	(697,983)
Econ environment	18,692	-	18,692	-	-	-	-
Total governmental activities	34,418,656	9,030,366	697,532	1,674,893	(23,015,865)	-	(23,015,865)
Business - type activities:							
Cemetery	103,847	77,692	-	-	-	(26,155)	(26,155)
Sanitation	4,276,033	4,031,956	-	-	-	(244,077)	(244,077)
Sewer utility	5,660,284	6,569,263	-	-	-	908,979	908,979
Stormwater drainage	810,080	923,489	-	702,410	-	815,819	815,819
Water utility	5,097,039	6,447,363	-	200,176	-	1,550,500	1,550,500
Total business - type activities	15,947,283	18,049,763	-	902,586	-	3,005,066	3,005,066
Total	50,365,939	27,080,129	697,532	2,577,479	(23,015,865)	3,005,066	(20,010,799)
General revenue							
Property taxes					13,061,654	-	13,061,654
Franchise fees and utility taxes					6,461,048	34,860	6,495,908
Sales taxes					1,992,799	-	1,992,799
Motor fuel taxes					678,208	-	678,208
Alcoholic beverage taxes					17,762	-	17,762
Intergovernmental revenue					2,017,931	-	2,017,931
Investment earnings					483,568	361,329	844,897
Other revenue/(expense)					763,362	(292,849)	470,513
Transfers					4,585,000	(4,585,000)	-
Total general revenue and transfers					30,061,332	(4,481,660)	25,579,672
Change in net assets					7,045,467	(1,476,594)	5,568,873
Net Assets, beginning of year					51,486,815	32,334,209	83,821,024
Net Assets, end of year					\$58,532,282	\$30,857,615	\$89,389,897

The notes to the financial statements are an integral part of this statement.

City of Hallandale Beach, Florida
 Balance Sheet
 Governmental Funds
 September 30, 2003

	General	Community Redevelopment Agency	Grant Administration Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$18,648,409	\$1,718,433	\$ -	\$5,577,375	\$25,944,217
Accounts receivable, net of allowance	2,105,734	1,877,586	-	53,962	4,037,282
Assessments receivable	4,016	-	-	-	4,016
Due from other funds	255,343	-	-	-	255,343
Due from other governments	292,498	-	849,341	104,059	1,245,898
Inventory	79,300	-	-	-	79,300
Confiscated property	-	-	-	74,125	74,125
Total assets	21,385,300	3,596,019	849,341	5,809,521	31,640,181
Liabilities and fund balances					
Liabilities:					
Accounts payable	418,838	468,571	30,921	102,819	1,021,149
Accrued liabilities	32,256	-	-	-	32,256
Due to other funds	-	-	194,665	60,678	255,343
Due to other governments	-	-	7,782	-	7,782
Deposits	100,170	-	-	-	100,170
Deferred revenue	20,577	-	422,141	22,704	465,422
Estimated liability for compensated absences	683,196	-	-	1,484	684,680
Total liabilities	1,255,037	468,571	655,509	187,685	2,566,802

(continued)

City of Hallandale Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2003

	General	Community Redevelopment Agency	Grant Administration Fund	Other Governmental Funds	Total Governmental Funds
Fund balances					
Reserved for:					
Encumbrances	712,321	227,274	728,775	1,152,053	2,820,423
Inventory	79,300	-	-	-	79,300
Debt service	-	250,000	-	-	627,662
Fire equipment	533,417	-	-	377,662	533,417
Capital improvements	-	2,650,174	-	-	2,650,174
Unreserved, reported in:					
General fund	18,805,225	-	-	-	18,805,225
Grant administration fund	-	-	(534,943)	-	(534,943)
Non-major special revenue funds	-	-	-	2,392,442	2,392,442
Non-major capital projects funds	-	-	-	1,699,679	1,699,679
Total fund balances	<u>20,130,263</u>	<u>3,127,448</u>	<u>193,832</u>	<u>5,621,836</u>	<u>29,073,379</u>
Total liabilities & fund balances	<u>\$21,385,300</u>	<u>\$3,596,019</u>	<u>\$849,341</u>	<u>\$5,809,521</u>	<u>\$31,640,181</u>

8-H

The notes to the financial statements are an integral part of this statement.

City of Hallandale Beach, Florida
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2003

Fund balances - total governmental funds		\$29,073,379
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.</p>		
Governmental capital assets	63,436,166	
Less accumulated depreciation	(29,783,456)	
		33,652,710
<p>Net pension asset resulting from overfunding of the pension plans is not reported in the fund financial statements as it is not a financial resource.</p>		
		449,968
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Notes payable	(3,540,539)	
Compensated absences	(2,749,090)	
		(6,289,629)
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net assets and liabilities of internal service funds is reported with governmental activities.</p>		
		1,645,854
<p>Net Assets - governmental activities</p>		\$58,532,282

The notes to the financial statements are an integral part of this statement.

City of Hallandale Beach, Florida
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2003

	General	Community Redevelopment Agency	Grant Administration Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$12,560,842	\$ -	\$ -	\$500,812	\$13,061,654
Charges for services	5,000,686	-	-	744,381	5,745,067
Utility taxes	2,829,124	-	-	-	2,829,124
Intergovernmental	2,639,840	1,169,816	1,942,239	1,345,703	7,097,598
Franchise taxes	3,631,924	-	-	-	3,631,924
Licenses and permits	1,214,122	2,695	-	-	1,216,817
Fines and forfeitures	369,672	-	-	274,277	643,949
Investment earnings	265,544	26,357	-	104,665	396,566
Other revenue	1,808,853	-	-	63,383	1,872,236
Total revenue	30,320,607	1,198,868	1,942,239	3,033,221	36,494,935
Expenditures					
Current:					
General government	4,508,204	708,060	9,120	472,376	5,697,760
Public safety	16,681,627	-	186,865	559,644	17,428,136
Physical environment	2,365,017	-	31,499	23,731	2,420,247
Transportation	-	-	-	1,083,558	1,083,558
Culture and recreation	1,960,205	-	46,033	-	2,006,238
Human services	596,433	-	163,094	65,274	824,801
Economic environment/housing	-	-	-	18,692	18,692
Debt service:					
Principal	-	250,000	-	377,663	627,663
Interest	-	61,951	-	28,303	90,254
Capital outlay:					
Capital outlay	901,179	125,483	1,540,962	2,779,611	5,347,235
Total expenditures	27,012,665	1,145,494	1,977,573	5,408,852	35,544,584
Excess (Deficiency) of revenue over expenditures	3,307,942	53,374	(35,334)	(2,375,631)	950,351

City of Hallandale Beach, Florida
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2003

	General	Community Redevelopment Agency	Grant Administration Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses)					
Transfers in	372,867	1,016,234	-	601,134	1,990,235
Transfers out	(3,016,234)	(151,134)	-	(472,867)	(3,640,235)
Sale of capital assets	21,800	-	-	-	21,800
<i>Total other financing sources (uses)</i>	<u>(2,621,567)</u>	<u>865,100</u>	<u>-</u>	<u>128,267</u>	<u>(1,628,200)</u>
Net change in fund balances	686,375	918,474	(35,334)	(2,247,364)	(677,849)
Fund balances, beginning of year	<u>19,443,888</u>	<u>2,208,974</u>	<u>229,166</u>	<u>7,869,200</u>	<u>29,751,228</u>
Fund balances, end of year	<u><u>\$20,130,263</u></u>	<u><u>\$3,127,448</u></u>	<u><u>\$193,832</u></u>	<u><u>\$5,621,836</u></u>	<u><u>\$29,073,379</u></u>

The notes to the financial statements are an integral part of this statement.

City of Hallandale Beach, Florida
Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2003

Net change in fund balances - total governmental funds (\$677,849)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	4,320,407	
Depreciation expense	(2,290,117)	
	2,030,290	

Proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, gains/losses on the sale of capital assets in the statement of activities are adjusted for the net book value of the assets disposed.

Net book value of capital assets disposed (35,906)

Overfunded pension contributions are reported as expenditures in the fund financial statements and are recorded as a net pension asset in the statement of net assets.

(5,874)

Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Notes principal payments 627,663

Increases/(decreases) in compensated absences balances during the year has no effect on the expenditures in the governmental funds. The increase/(decrease) is reported in the statement of activities. In the current year these amounts consist of:

Increase in compensated absences payable (1,282,416)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

6,389,559

Change in Net Assets - governmental activities

\$7,045,467

The notes to the financial statements are an integral part of this statement.

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City of Hallandale Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2003

Business-Type activities - Enterprise Funds

	Water Fund	Sewer Fund	Sanitation Fund	Stormwater Drainage Fund	Non-Major Cemetery Fund	Total	Governmental Activities- Internal Service Funds
Assets							
Current assets:							
Cash and cash equivalents	\$9,799,799	\$4,816,886	\$1,156,718	\$1,209,842	\$361,752	\$17,344,997	\$3,792,588
Accounts receivable, net of allowance	881,020	960,375	505,369	33,166	10,835	2,390,765	-
Assessments receivable	-	37,032	-	-	-	37,032	-
Inventory	-	-	-	-	455,150	455,150	-
<i>Total current assets</i>	<u>10,680,819</u>	<u>5,814,293</u>	<u>1,662,087</u>	<u>1,243,008</u>	<u>827,737</u>	<u>20,227,944</u>	<u>3,792,588</u>
Noncurrent assets:							
Restricted cash and cash equivalents	3,431,988	1,909,387	140,567	720,597	-	6,202,539	-
Deferred charges	48,048	17,346	-	17,346	-	82,740	-
Capital assets:							
Land	155,027	40,047	-	-	-	195,074	-
Buildings and improvements	3,972,966	701,425	151,276	32,628	134,540	4,992,835	-
Autos and equipment	884,345	853,974	2,465,424	389,693	34,377	4,627,813	-
Infrastructure	6,885,241	19,570,092	-	3,950,257	-	30,405,590	-
Construction in progress	825,593	44,047	-	44,047	-	913,687	-
Less accumulated depreciation	(9,569,342)	(16,703,900)	(1,726,135)	(754,540)	(126,613)	(28,880,530)	-
Total capital assets (net of accumulated depreciation)	<u>3,153,830</u>	<u>4,505,685</u>	<u>890,565</u>	<u>3,662,085</u>	<u>42,304</u>	<u>12,254,469</u>	<u>-</u>
<i>Total noncurrent assets</i>	<u>3,201,878</u>	<u>4,523,031</u>	<u>890,565</u>	<u>3,679,431</u>	<u>42,304</u>	<u>12,337,209</u>	<u>-</u>
Total assets	<u>\$17,314,685</u>	<u>\$12,246,711</u>	<u>\$2,693,219</u>	<u>\$5,643,036</u>	<u>\$870,041</u>	<u>\$38,767,692</u>	<u>\$3,792,588</u>

(continued)

City of Hallandale Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2003

	Water Fund	Sewer Fund	Sanitation Fund	Stormwater Drainage Fund	Non-Major Cemetery Fund	Total	Governmental Activities- Internal Service Funds
Liabilities							
Current liabilities:							
Accounts payable	\$226,435	\$732,273	\$163,648	\$25,136	\$1,138	\$1,148,630	\$4,927
Accrued liabilities	50,412	18,199	-	18,199	-	86,810	-
Deposits	1,193,721	-	-	-	-	1,193,721	-
Perpetual care trust	-	-	-	-	-	1,193,721	-
Estimated liability for compensated absences	113,682	28,395	42,997	9,821	-	194,895	-
Current portion of bonds and notes payable	89,900	32,550	-	32,550	-	155,000	-
<i>Total current liabilities</i>	<u>1,674,150</u>	<u>811,417</u>	<u>206,645</u>	<u>85,706</u>	<u>122,539</u>	<u>2,900,457</u>	<u>4,927</u>
Noncurrent liabilities:							
Bonds and notes payable	2,707,652	977,397	-	977,397	-	4,662,446	-
Estimated liability for compensated absences	202,505	50,581	76,593	17,495	-	347,174	11,909
Estimated liability for self-insured risks	-	-	-	-	-	-	-
Estimated liability for management health	-	-	-	-	-	-	2,078,058
<i>Total noncurrent liabilities</i>	<u>2,910,157</u>	<u>1,027,978</u>	<u>76,593</u>	<u>994,892</u>	<u>-</u>	<u>5,009,620</u>	<u>51,840</u>
<i>Total liabilities</i>	<u>4,584,307</u>	<u>1,839,395</u>	<u>283,238</u>	<u>1,080,598</u>	<u>122,539</u>	<u>7,910,077</u>	<u>2,146,734</u>
Net assets							
Invested in capital assets, net of related debt	2,057,196	4,108,668	890,565	3,265,068	42,304	10,363,801	-
Restricted for capital improvements	3,277,599	1,777,728	-	569,441	-	5,624,768	-
Restricted for equipment acquisition	154,389	131,659	140,567	151,156	-	577,771	-
Unrestricted net assets	7,241,194	4,389,261	1,378,849	576,773	705,198	14,291,275	1,645,854
<i>Total net assets</i>	<u>\$12,730,378</u>	<u>\$10,407,316</u>	<u>\$2,409,981</u>	<u>\$4,562,438</u>	<u>\$747,502</u>	<u>\$30,857,615</u>	<u>\$1,645,854</u>

The notes to the financial statements are an integral part of this statement.

City of Hallandale Beach, Florida
Statement of Revenue, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended September 30, 2003

	Business-Type activities - Enterprise Funds					Total	Governmental Activities- Internal Service Funds
	Water Fund	Sewer Fund	Sanitation Fund	Stormwater Drainage Fund	Non-Major Cemetery Fund		
Operating revenue:							
Charges for services	\$6,447,363	\$6,566,612	\$4,029,016	\$918,989	\$76,672	\$18,038,652	\$1,066,307
Franchise taxes			34,860			34,860	
Other revenue	108	31,929	3,000	54,935	1,550	91,522	
<i>Total operating revenue</i>	<u>6,447,471</u>	<u>6,598,541</u>	<u>4,066,876</u>	<u>973,924</u>	<u>78,222</u>	<u>18,165,034</u>	<u>1,066,307</u>
Operating expenses:							
Costs of sales and services	1,296,477	3,484,332	2,094,150	59,651	63,666	6,998,276	821,292
Administration	3,617,437	1,620,907	1,911,634	683,243	22,792	7,856,013	177,472
Depreciation	257,628	600,567	296,703	166,279	17,389	1,338,566	
<i>Total operating expenses</i>	<u>5,171,542</u>	<u>5,705,806</u>	<u>4,302,487</u>	<u>909,173</u>	<u>103,847</u>	<u>16,192,855</u>	<u>998,764</u>
<i>Operating income (loss)</i>	<u>1,275,929</u>	<u>892,735</u>	<u>(235,611)</u>	<u>64,751</u>	<u>(25,625)</u>	<u>1,972,179</u>	<u>67,543</u>
Nonoperating revenue (expenses):							
Investment earnings	184,964	119,584	25,032	28,784	2,965	361,329	87,016
Losses on the sale of capital assets	(114,850)	(206)	(4,235)	(2,122)	(1,700)	(123,119)	
Other	(2,653)	(958)		(958)		(4,569)	
<i>Total nonoperating revenue (expenses)</i>	<u>67,461</u>	<u>118,420</u>	<u>20,797</u>	<u>25,704</u>	<u>1,259</u>	<u>233,641</u>	<u>87,016</u>
<i>Income (loss) before contributions and transfers</i>	<u>1,343,390</u>	<u>1,011,155</u>	<u>(214,814)</u>	<u>90,455</u>	<u>(24,366)</u>	<u>2,205,820</u>	<u>154,559</u>
Capital contributions	200,176			702,410		902,586	
Transfers in							6,235,000
Transfers out	(1,301,500)	(3,148,500)	(120,000)	(15,000)		(4,585,000)	
Change in net assets	<u>242,066</u>	<u>(2,137,345)</u>	<u>(334,814)</u>	<u>777,865</u>	<u>(24,366)</u>	<u>(1,476,594)</u>	<u>6,389,559</u>
Total net assets, beginning	<u>12,488,312</u>	<u>12,544,661</u>	<u>2,744,795</u>	<u>3,784,573</u>	<u>771,868</u>	<u>32,334,209</u>	<u>(4,743,705)</u>
Total net assets, ending	<u>\$12,730,378</u>	<u>\$10,407,316</u>	<u>\$2,409,981</u>	<u>\$4,562,438</u>	<u>\$747,502</u>	<u>\$30,857,615</u>	<u>\$1,645,854</u>

The notes to the financial statements are an integral part of this statement.

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City of Mandate Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2003

	Business-Type activities - Enterprise Funds					Total	Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Sanitation Fund	Stormwater Drainage Fund	Non-Major Cemetery Fund		
Cash flows from operating activities							
Cash received from fees and charges	\$6,480,339	\$6,495,551	\$4,059,313	\$917,117	\$85,434	\$18,037,754	\$1,066,307
Cash paid to suppliers for goods, services, claims & administrative charges	(2,251,478)	(4,606,685)	(2,828,277)	(395,369)	(66,859)	(10,148,668)	(\$8,241,668)
Cash paid to employees for services	(2,509,111)	(652,653)	(1,144,184)	(221,477)	-	(4,527,425)	(\$148,366)
<i>Net cash provided (used) by operating activities</i>	<u>1,719,750</u>	<u>1,236,213</u>	<u>86,852</u>	<u>300,271</u>	<u>18,575</u>	<u>3,361,661</u>	<u>(7,323,727)</u>
Cash flows from non-capital financing activities							
Transfers in	-	-	-	-	-	-	-
Transfers out	(1,301,500)	(3,148,500)	(120,000)	(15,000)	-	(4,585,000)	6,235,000
Non-operating revenue	-	-	-	-	-	-	-
<i>Net cash provided (used) by non-capital financing activities</i>	<u>(1,301,500)</u>	<u>(3,148,500)</u>	<u>(120,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>(4,585,000)</u>	<u>6,235,000</u>
Cash flows from capital and related financing activities							
Acquisition and construction of capital assets	(365,557)	(892,351)	(377,827)	(1,217,807)	(19,109)	(2,872,651)	-
Principal paid on long term debt	(92,914)	(33,543)	-	(33,543)	-	(160,000)	-
Interest paid on long term debt	(128,661)	(46,448)	-	(46,448)	-	(221,557)	-
Capital contributions	200,176	-	-	702,410	-	902,586	-
Cash received from the sale of capital assets	1,750	1,900	9,000	-	-	12,650	-
<i>Net cash used by capital and related financing activities</i>	<u>(385,206)</u>	<u>(970,442)</u>	<u>(368,827)</u>	<u>(595,388)</u>	<u>(19,109)</u>	<u>(2,338,972)</u>	<u>-</u>
Cash flows from investing activities							
Interest received on investments	184,964	119,584	25,032	28,784	2,965	361,329	87,016
<i>Net cash provided by investing activities</i>	<u>184,964</u>	<u>119,584</u>	<u>25,032</u>	<u>28,784</u>	<u>2,965</u>	<u>361,329</u>	<u>87,016</u>
Net increase (decrease) in cash and cash equivalents	<u>218,008</u>	<u>(2,763,145)</u>	<u>(376,943)</u>	<u>(281,333)</u>	<u>2,431</u>	<u>(3,200,982)</u>	<u>-</u>
Cash and cash equivalents, beginning of year	13,013,779	9,489,418	1,674,228	2,211,772	359,321	26,748,518	4,794,299
Cash and cash equivalents, end of year	<u>\$13,231,787</u>	<u>\$6,726,273</u>	<u>\$1,297,285</u>	<u>\$1,930,439</u>	<u>\$361,752</u>	<u>\$23,547,536</u>	<u>\$3,792,588</u>

(continued)

City of Jacksonville Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2003

Business-Type activities - Enterprise Funds

	Water Fund	Sewer Fund	Sanitation Fund	Stormwater Drainage Fund	Non-Major Cemetery Fund	Total	Governmental Activities - Internal Service Funds
Reconciliation of operating income (loss) to net cash							
Provided by (used for) operating activities:							
Operating income (loss)	\$1,275,929	\$892,735	(\$235,611)	\$64,751	(\$25,625)	\$1,972,179	\$67,543
Depreciation and amortization	257,628	600,567	296,703	166,279	17,389	1,338,566	-
Change in assets and liabilities:							
Increase in accounts receivable	(78,546)	(120,285)	(7,563)	(3,889)	(2,382)	(212,665)	-
Decrease in assessments receivable	-	18,894	-	-	-	18,894	-
Decrease in due from other governments	-	-	-	-	-	-	-
Decrease in inventory	-	-	-	75,434	-	75,434	-
Increase (Decrease) in accounts payable	66,236	(172,618)	(4,229)	-	19,775	19,775	-
Decrease in due to profit/mgmt pension	-	-	-	(11,540)	(176)	(122,327)	1,610
Decrease in accrued liabilities	(6,598)	(2,382)	-	(2,382)	-	(11,362)	(215,000)
Increase in deposits	111,414	-	-	-	-	111,414	-
Increase in perpetual care trust	-	-	-	-	9,594	9,594	-
Increase (Decrease) in estimated liability for compensated absences	93,687	19,302	37,552	11,618	-	162,159	(494)
Decrease in estimated liability for self-insured risks	-	-	-	-	-	-	(7,197,026)
Increase in estimated liability for management health	-	-	-	-	-	-	19,640
Net cash provided (used) by operating activities	<u>\$1,719,750</u>	<u>\$1,236,213</u>	<u>\$86,852</u>	<u>\$300,271</u>	<u>\$18,575</u>	<u>\$3,361,661</u>	<u>(\$7,323,727)</u>

The notes to the financial statements are an integral part of this statement.

City of Hallandale Beach, Florida
Combined Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2003

	Pension	Agency
Assets		
Cash and cash equivalents	\$1,848,375	\$1,182,309
Investments	75,711,260	-
Accounts receivable	4,396	47,315
Deferred charges	-	354
	77,564,031	1,229,978
Liabilities		
Accounts and contracts payable	-	177,151
Accrued liabilities	-	1,052,827
<i>Total liabilities</i>	-	1,229,978
Net assets		
Held in trust for pension benefits	77,564,031	-
<i>Total net assets</i>	\$77,564,031	\$ -

The notes to the financial statements are an integral part of this statement.

City of Hallandale Beach, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2003

	Pension
Additions	
Contributions:	
Employer	\$1,323,056
Plan members	1,513,546
State	307,031
<i>Total contributions</i>	3,143,633
Investment earnings:	
Interest	1,234,033
Net appreciation in the fair value of investments	8,941,963
	10,175,996
Less investment expense	(375,382)
Net investment income	9,800,614
<i>Total additions</i>	12,944,247
Deductions	
Benefits	4,177,701
<i>Total deductions</i>	4,177,701
<i>Change in net assets</i>	8,766,546
Net assets, beginning of year	68,797,485
Net assets, end of year	\$77,564,031

The notes to the financial statements are an integral part of this statement.

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The City of Hallandale, Florida (the City) was incorporated in 1927 by Laws of Florida 12791 Acts of 1927. On August 17, 1999, the City Commission approved an ordinance amending the City Charter to change the name of the City to Hallandale Beach. The City operates under the Commission-Manager form of government and provides the following services as authorized by its charter: general government, public safety, public works, physical environment, human services, culture, and recreation.

In accordance with accounting principles generally accepted in the United States of America (GAAP), these basic financial statements present the City (the primary government) and its component units. A component unit is a legally separate organization for which the City is financially accountable.

The City is financially accountable if it appoints a voting majority of the organization's governing Board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. The City is also financially accountable if the entity is fiscally dependent on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. Furthermore, GAAP require that the basic financial statements allow the user to clearly distinguish between the primary government and its discretely presented component units. However, because of the closeness of their relationship with the primary government (City), some component units are blended as though they are part of the primary government.

The application of these criteria results in the inclusion of the following component units in the City's basic financial statements. Because of the closeness of their relationship with the City, these component units are blended as special revenue funds in the City's financial statements.

Blended Component Units:

Golden Isles Safe Neighborhood District

The Golden Isles Safe Neighborhood District is governed by a board comprised of the City's elected commissioners. The commissioners approve the District's budgets, levy taxes, and must approve any debt issuances. The District is considered to be a blended component unit and is reported as a special revenue fund.

Three Islands Safe Neighborhood District

The Three Islands Safe Neighborhood District is governed by a board comprised of the City's elected commissioners. The commissioners approve the District's budgets, levy taxes and must approve any debt issuances. The District is considered to be a blended component unit and is reported as a special revenue fund.

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CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Hallandale Community Redevelopment Agency

Pursuant to Section 163.387, Florida Statutes, the City of Hallandale Beach established a Redevelopment Trust Fund for the Community Redevelopment Agency (CRA or Agency), effective December 1996. The City Commission, acting as the agency board of directors, approved a Community Redevelopment Plan, which will primarily utilize Tax Increment Financing (T.I.F.) to fund community redevelopment within the designated area. The specific area incorporates approximately two thirds of the City with the exception of the most easterly portion. The base year established of January 1, 1996, will be utilized in determining the base amount of property valuation. Each year the City, County and Children's Services Council must contribute 95% of the incremental increase, if any, in ad valorem taxes levied over and above the base year. The Hospital District has made a separate agreement for a flat amount. The CRA is governed by a board comprised of the City's elected officials. Although it is legally separate from the City, the CRA is reported as part of the primary government because its sole purpose is to finance and redevelop the City's designated redevelopment areas. The CRA is reported as a blended component unit and is reported as a special revenue fund.

(b) *Government-wide and Fund Financial Statements- New Accounting Standards Adopted*

Effective October 1, 2002, the City adopted the following financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments
- Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34
- Statement No. 38, Certain Financial Statement Note Disclosures
- Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements

Statement No. 34 (as amended by Statement No. 37) represents very significant changes in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements (i.e. the statement of net assets and statement of activities) do not provide information by fund or account group, but distinguish between the City's governmental activities and business type activities. Significantly, the statement of net assets will include non-current assets and non-current liabilities, which were previously, recorded in the General Fixed Asset and Long Term Debt Account Groups. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets. As required by the statement, infrastructure assets acquired prior to October 1, 2002 were added. The statement also requires a narrative overview and analysis in the form of Management's Discussion and Analysis, which was not required in prior years. Information in fund financial statements is now presented separately for major individual governmental and enterprise funds

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

as well as for non-major governmental, non-major enterprise, internal service funds and fiduciary funds in the aggregate.

Statement No. 38 requires certain disclosure to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. The statement eliminates certain prior disclosures that were no longer relevant or useful, revises certain ongoing disclosures to improve the information they provide and adds new disclosures of relevant and useful information not previously required. Adoption of this statement has not resulted in any restatement of beginning balances.

Interpretation No. 6 requires certain long-term liabilities to be reported in the governmental fund statements only if the amount is due for payment in the period being reported.

(c) *Basic Financial Statements*

The basic financial statements consist of the government-wide financial statements and fund financial statements.

Government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements report on the government as a whole and provide a consolidated financial picture of the government. As part of the consolidation process, interfund activities are eliminated to avoid distorted financial results. The amounts reported as internal balances represent the residual amounts due between governmental and business-type activities. The City's fiduciary funds are presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The Statement of Net Assets reports all financial and capital resources of Hallandale Beach's governmental and business-type activities. Governmental activities are those supported by taxes and intergovernmental revenue. Business-type activities rely to a significant extent on fees and charges for support. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue include 1) charges for goods or services that are recovered directly from customers for services rendered and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is provided

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

which briefly explains the adjustments necessary to reconcile the governmental fund financial statements to the government-wide presentations.

(d) *Measurement Focus, Basis Of Accounting And Financial Statement Presentation*

The government-wide financial statements, the proprietary fund financial statements and the fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue are recorded when earned and expenses reported when a liability is incurred, regardless of the timing of related cash flows.

Pronouncements of the Financial Accounting Standards Board (FASB) issued prior to December 1, 1989 are followed in both the government-wide and proprietary fund financial statements to the extent that these standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent FASB pronouncements for their business-type activities and enterprise funds subject to the same limitation. The City has elected not to follow subsequent FASB guidance.

All governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenue are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the fiscal year except for certain grants for which the period is one year. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, public services taxes, franchise taxes and interest income associated with the current fiscal period are susceptible to accrual and are recorded as earned since they are measurable and available. In addition, revenue from Federal, State and local reimbursement type grants for which eligibility requirements have been met and which meet the availability criteria have been accrued and recognized as revenue of the period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. Licenses and permits, charges for services and miscellaneous revenue are recorded as revenue when received in cash, because they are generally not measurable until actually received.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts, which comprise its assets, liabilities, reserve, fund equities, revenue and expenditures or expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Accounting principles generally accepted in the United States of America set forth minimum criteria (percentage of the assets, liabilities, revenue or expenditures/expenses of either fund category or the governmental and enterprise combined), for the determination of major funds. The non-major funds, internal service funds, and the fiduciary funds are each presented in the aggregate in the applicable fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenue is derived primarily from property taxes, utility taxes, state and Federal distributions and other intergovernmental revenue. The general operating expenditures, fixed charges and capital outlay costs that are not paid through other funds are paid from the General Fund.

The *Grant Administration Fund* accounts for the activities of the various Federal, State and Local grants procured by the City.

The *Community Redevelopment Agency Fund* accounts for the tax increment revenue assessed on properties in the specified CRA area and capital improvements, neighborhood improvement loans, and other economic incentives that help improve the appearance of property and quality of life for area residents and businesses.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the provision of water services to residents and businesses of the City.

The *Sewer Fund* accounts for the provision of sanitary sewer services to residents and businesses of the City.

The *Sanitation Fund* accounts for the provision of waste and trash collection and disposal services to residents and businesses of the City.

The *Stormwater Drainage Fund* accounts for the provision of stormwater maintenance and capital improvements to residents and businesses of the City.

Additionally, the City reports the following fund types:

Internal Service Funds are used to account for the financing of health insurance, workers' compensation, and general liability insurance provided to the various funds of the City on an estimated-cost basis.

Trust and Agency Funds—Trust and agency funds include pension trust funds and agency funds. Pension trust funds are accounted for and reported as proprietary

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenue for the various functions concerned.

Amounts reported as *program revenue* include 1) charges to customers for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. All revenue that are not program revenue are general revenue, and include *all* taxes, as well as grants, contributions and investment earnings that are not restricted to a particular program.

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenue consist primarily of charges for services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All items not meeting this definition are reported as non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(e) *Cash and Cash Equivalents*

The City considers cash on hand, cash with fiscal agents, bank repurchase agreements, and overnight investments with original maturities of less than 90 days to be cash and cash equivalents. In addition, each fund's equity in the City's investment pool has been treated as a cash equivalent since cash may be deposited or withdrawn from the pool at any time without prior notice or penalty. Interest earned on pooled cash and investments is allocated to funds based on average monthly balances.

(f) *Investments*

Investments, including investments in the pension trust fund, are reported at fair value (quoted market price or the best available estimate thereof).

(g) *Inventory*

Inventory, which generally consists of expendable supplies held for consumption, is valued at cost (first-in, first-out). The cost is recorded as expenditure at the time individual inventory items are consumed. The reserve of fund balance for inventory is equal to the amount of inventory and is reserved to indicate a portion of fund balance is not available for future expenditures.

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Inventory in the Cemetery fund consists of burial plots and crypts. Inventory is valued at its cost and is reduced by depletion, which is calculated based on a weighted-average basis, as burial sites are sold.

(h) *Capital Assets*

Capital assets are stated at cost in the government-wide and proprietary fund financial statements. Donated capital assets are stated at their fair value on the date contributed. Depreciation on all assets meeting the City's capitalization threshold of \$1,000, including those acquired through contributions, is recorded as an operating expense. Interest is capitalized on projects of the business-type activities and proprietary funds during construction based upon the cost of borrowings less interest earned on related investments acquired with the proceeds of borrowings. In the current year interest was capitalized in the water, sewer, stormwater drainage funds and business-type activities for \$122,011, \$44,047, \$44,047, and \$210,105 respectively. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but are expensed as incurred.

Depreciation is provided over estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Autos & Equipment	5 years
Buildings & Improvements	20 years
Enterprise Infrastructure	20 years
Government Infrastructure	42 years

(i) *Employee Vacations and Sick Leave*

City employees are granted vacation pay and sick leave in varying amounts based on employee classification and length of service. Employees may elect to use sick leave as earned or receive cash payments in lieu of time off at reduced amounts. Unused vacation pay and sick-leave pay are paid upon an employee's termination. The City accrues for vacations and sick leave based on anticipated use or payout. (i.e. amounts that are due and payable).

Accumulated and unpaid vacation pay and sick leave are recorded as expenses in the government wide and proprietary funds when earned. Expenditures for accumulated compensated absences, including related payroll liabilities, have been recorded in the governmental funds to the extent that such amounts will be paid from expendable available resources.

(j) *Long-term Obligations*

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(k) Fund Equity/Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net assets of the government-wide activities and proprietary funds are categorized as invested in capital assets net of related debt, restricted or unrestricted. The first category represents capital assets net of accumulated depreciation, less outstanding debt related to the acquisition or construction of the capital assets. The restricted category represents the balance of assets restricted by requirements of revenue bonds and other externally imposed constraints or by legislation in excess of the related liabilities payable from restricted assets. Unrestricted net assets represent resources that are available for spending.

(l) Pension Plans

The City provides separate defined benefit pension plans for general employees, professional/management, and uniformed police and fire department personnel. The City still provides a defined-contribution plan for those management employees who did not elect to transfer to the Professional/Management Plan. All new professional and management employees will be required to enter the defined benefit pension plan, as the defined contribution plan will be phased out as employees retire or resign. It is the City's policy to fund the normal cost and the amortization of the unfunded prior service cost.

(m) Self Insurance

The City is currently self-insured for all general liability claims, workers' compensation, and auto liability. Operating funds are charged premiums by the internal service funds. The accrued liability for estimated insurance claims represents an estimate of the eventual loss on claims arising prior to year-end, including those incurred but not yet reported.

(n) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

(2) Property Tax

The City's property tax is levied and becomes a lien on real and personal property located in the City, including the Golden Isles Safe Neighborhood District and the Three Islands Safe Neighborhood District, on October 1 of each year based upon the assessed value listed as of the prior January 1. Assessed values are established by the Broward County Property Appraiser. The assessed values at January 1, 2002, upon which the 2002-03 levy was based, were approximately \$1.9 billion, \$126.0 million, and \$350.9 million for the City, the Golden Isles Safe Neighborhood District, and the Three Islands Safe Neighborhood District, respectively.

The City is permitted by state law to levy taxes up to 10 mills of assessed valuation for the General Fund. Taxes were levied at 6.748 mills, 1.09 mills, and 1.117 mills for the General Fund, the Golden Isles Safe Neighborhood District and the Three Islands Safe Neighborhood District, respectively, for the 2002-03 fiscal year.

All taxes are due from property holders on March 31, become delinquent on April 1 and become subject to the issuance of tax sale certificates on June 1. Current tax collections for the year ended September 30, 2003, were approximately 96% of the total tax levy.

(3) Deposits and Investments

The following are the components of the City's cash and cash equivalents and investments at September 30, 2003:

	<u>Total</u>
Cash and cash equivalents:	
Cash	\$ 7,086,714
Investment in Florida State Board of Administration Local Government Surplus Funds Trust Fund	<u>49,228,311</u>
Total cash and cash equivalents	56,315,025
Investments - pension trust funds and 401(a) qualified plan	<u>75,711,260</u>
Total cash and investments	\$ <u>132,026,285</u>

Deposits

Florida Statutes authorize the deposit of City funds in demand deposits or time deposits of financial institutions approved by the State Treasurer. These are defined as public deposits. All City public deposits are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, "Florida Security for Public Deposits Act." Under the act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository's collateral pledging level. The collateral pledging level may range from 50% to 125% depending upon the depository's financial condition and the length of time that the depository has been established. All collateral must be

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

deposited with the State Treasurer. Any losses to public depositors resulting from insolvency are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessment against other qualified public depositories of the same type as the depository in default. The City bank balances were insured either by the federal depository insurance or collateralized in the bank's participation in the Florida Security for Public Deposits Act.

Investments

The Florida State Board of Administration Local Government Surplus Funds Trust Fund (SBA) is not a registrant with the Securities and Exchange Commission (SEC); however, its board has adopted operating procedures consistent with the requirements for a 2a-7 fund. In accordance with these requirements, the method used to determine the participants' shares sold and redeemed is the amortized cost method. The amortized cost method is the same method used to report investments. Amortized cost includes accrued income and is a method of calculating an investment's value by adjusting its acquisition cost for the amortization of discount or premium over the period from purchase to maturity. Thus, the City's account balance in the fund is its fair value. The Local Government Surplus Funds Trust Fund is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General of the State of Florida performs the operational audit of the activities and investment of the SBA.

Florida Statutes and City ordinance authorize City officials to invest funds in U.S. bonds and obligations, guaranteed U.S. agency issues, Florida county, municipal and district general, excise and revenue obligations, bankers' acceptances, reverse repurchase agreements, and prime commercial paper issues. In addition, the pension trust funds are authorized to invest in corporate bonds and stocks, money market funds, and mortgages and notes.

The City's investments are categorized by type to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes insured or registered investments or investments for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments that are held by the counter party's trust department or agent but not in the City's name.

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CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

At September 30, 2003, the fair value and custodial credit risk category of the City's investments are as follows:

Investments subject to risk categorization:

	<u>Category 3</u>	<u>Fair value</u>
Pension funds:		
Police and Fire:		
Government securities	\$ 13,464,854	13,464,854
Corporate bonds	5,111,390	5,111,390
Common stock	26,216,863	26,216,863
	\$ <u>44,793,107</u>	<u>44,793,107</u>

Investments not subject to risk categorization:

State Board Administration Local Government Surplus Funds Trust Fund	49,228,311
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Pension funds:

General Employees:

General investment-intermediate-term, investment grade fixed income securities	2,119,738
Value separate accounts	3,341,958
Growth separate accounts	2,483,059
International separate accounts	1,072,706
Government securities	1,914,679
Real estate	1,088,470
Bond and mortgage	8,923,069
Preferred securities	652,950

Professional/Management Employees:

Government securities	119,761
Bond & mortgage	560,228
Real estate	235,735
Value separate accounts	948,994
Growth separate accounts	704,437
International separate accounts	305,140
Preferred securities	90,677
Cash management fund	9,243

Police and Fire:

Mutual funds	5,010,237
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401(a) Qualified Plan:

Mutual funds	1,337,072
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Total investments	<u>124,939,571</u>
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Carrying amount of City deposits	7,086,714
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Total deposits and investments	\$ <u>132,026,285</u>
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(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

The general employees pension plan investments consist primarily of pooled investment accounts and mutual funds: General Investment Fund, Value Stock Separate Account, U.S. Stock Separate Account, Government Securities, Real Estate, and Bond & Mortgage Account. These investments are not categorized, as they are not evidenced by securities that exist in physical or book entry form.

Investments of the 401(a) plan totaling \$1,337,072 are under contract with the International City Management Association (ICMA) at agreed-upon terms. These investments are not categorized, as they are not evidenced by securities that exist in physical or book entry form.

Investments in the Florida State Board of Administration Local Government Pooled Investment Account can not be categorized as they are not evidenced by securities that exist in physical or book entry form, and can be withdrawn upon demand.

Due to fluctuating cash flows throughout the year, the City's investment in its overnight bank repurchase agreement varies.

(4) Accounts Receivable

Accounts receivable for the City's governmental activities and each major governmental fund and non-major governmental funds in the aggregate, with related allowance for doubtful accounts at September 30, 2003 were as follows:

<u>Governmental</u>	<u>General</u>	<u>CRA</u>	<u>Non-Major Funds</u>	<u>Total Governmental Activities</u>
EMS transport	\$ 2,394,717	\$ -	\$ -	\$ 2,394,717
Utility & sales tax	294,293	-	-	294,293
Franchise fees	195,864	-	-	195,864
Sales and user fees	120,264	-	31,318	151,582
Miscellaneous	149,282	-	22,644	171,926
CRA Loans	-	1,877,586	-	1,877,586
Gross receivables	3,154,420	1,877,586	53,962	5,085,968
Less: allowance for Uncollectibles	(1,048,686)	-	-	(1,048,686)
Net total receivables	<u>\$ 2,105,734</u>	<u>\$ 1,877,586</u>	<u>\$ 53,962</u>	<u>\$ 4,037,282</u>

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

(5) Due from Other Governments

Net amounts due from other governments for major governmental funds, non-major governmental funds in the aggregate and governmental activities include the following:

	<u>General</u>	<u>Grant Admin.</u>	<u>Other Non-Major Funds</u>	<u>Total Governmental Activities</u>
Federal Government	\$ -	\$ 178,356	\$ -	\$ 178,356
Florida Department of Revenue	287,698	73,500	90,010	451,208
Broward County, Florida	4,800	597,485	14,049	616,334
Net due from other governments	<u>\$ 292,498</u>	<u>\$ 849,341</u>	<u>\$ 104,059</u>	<u>\$ 1,245,898</u>

(6) Capital Assets

The following is a summary of capital asset activity for the year ended September 30, 2003:

Governmental activities:	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases and Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 13,972,484	261,701	-	14,234,185
Total capital assets not being depreciated	<u>13,972,484</u>	<u>261,701</u>	<u>-</u>	<u>14,234,185</u>
Capital assets being depreciated:				
Buildings	14,092,720	200,539	6,440	14,286,819
Improvements other than buildings	4,325,990	1,688,484	12,740	6,001,734
Autos & equipment	8,898,378	1,406,558	473,851	9,831,085
Infrastructure	18,316,711	765,632	-	19,082,343
Total capital assets being depreciated	<u>45,633,799</u>	<u>4,061,213</u>	<u>493,031</u>	<u>49,201,981</u>
Less accumulated depreciation for:				
Buildings	6,561,055	597,918	-	7,158,973
Improvements other than buildings	3,823,192	155,293	-	3,978,485
Autos & equipment	5,340,062	1,098,875	-	6,438,937
Infrastructure	11,769,030	438,031	-	12,207,061
Total accumulated depreciation	<u>27,493,339</u>	<u>2,290,117</u>	<u>-</u>	<u>29,783,456</u>
Total capital assets being depreciated, net	<u>18,140,460</u>	<u>1,771,096</u>	<u>493,031</u>	<u>19,418,525</u>
Governmental activities capital assets, net	<u>\$ 32,112,944</u>	<u>2,032,797</u>	<u>493,031</u>	<u>33,652,710</u>

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Business Type activities:

	Beginning Balance	Increases	Decreases and Transfers	Ending Balance
Water				
Capital assets not being depreciated:	\$			
Land	155,027	-	-	155,027
Construction in progress	703,582	122,011	-	825,593
Total Capital Assets not being depreciated	<u>858,609</u>	<u>122,011</u>	<u>-</u>	<u>980,620</u>
Capital Assets being depreciated:				
Buildings	3,720,774	-	-	3,720,774
Improvements other than buildings	252,192	-	-	252,192
Autos & Equipment	779,517	120,620	15,792	884,345
Infrastructure	6,640,303	244,938	-	6,885,241
Total capital assets being depreciated	<u>11,392,786</u>	<u>365,558</u>	<u>15,792</u>	<u>11,742,552</u>
Less Accumulated depreciation for:				
Buildings	2,802,387	60,346	-	2,862,733
Improvements other than buildings	234,834	17,358	-	252,192
Autos & Equipment	543,736	93,481	15,258	621,959
Infrastructure	5,746,015	86,443	-	5,832,458
Total accumulated depreciation	<u>9,326,972</u>	<u>257,628</u>	<u>15,258</u>	<u>9,569,342</u>
Total capital assets being depreciated, net	<u>2,065,814</u>	<u>107,930</u>	<u>534</u>	<u>2,173,210</u>
Total water capital assets, net	\$ <u>2,924,423</u>	<u>229,941</u>	<u>534</u>	<u>3,153,830</u>
Stormwater Drainage				
Capital assets not being depreciated:				
Construction in progress	-	44,047	-	44,047
Total capital Assets not being depreciated	<u>-</u>	<u>44,047</u>	<u>-</u>	<u>44,047</u>
Capital Assets being depreciated:				
Buildings	\$ 24,203	-	-	24,203
Improvements other than buildings	8,425	-	-	8,425
Autos & Equipment	380,163	9,530	-	389,693
Infrastructure	2,795,440	1,154,817	-	3,950,257
Total capital assets being depreciated	<u>3,208,231</u>	<u>1,164,347</u>	<u>-</u>	<u>4,372,578</u>
Less Accumulated depreciation for:				
Buildings	2,777	1,210	-	3,987
Improvements other than buildings	4,123	1,475	-	5,598
Autos & Equipment	327,610	19,010	-	346,620
Infrastructure	253,751	144,584	-	398,335
Total accumulated depreciation	<u>588,261</u>	<u>166,279</u>	<u>-</u>	<u>754,540</u>
Total capital assets being depreciated, net	<u>2,619,970</u>	<u>998,068</u>	<u>-</u>	<u>3,618,038</u>
Total stormwater drainage capital assets, net	\$ <u>2,619,970</u>	<u>1,042,115</u>	<u>-</u>	<u>3,662,085</u>

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

	Beginning Balance	Increases	Decreases and Transfers	Ending Balance
Business Type activities:				
<u>Sewer</u>				
Capital assets not being depreciated:				
Land	\$ 40,047	-	-	40,047
Construction in progress	-	44,047	-	44,047
Total capital Assets not being depreciated	<u>40,047</u>	<u>44,047</u>	<u>-</u>	<u>84,094</u>
Capital Assets being depreciated:				
Buildings	694,999	-	-	694,999
Improvements other than buildings	6,426	-	-	6,426
Autos & Equipment	888,939	20,921	55,886	853,974
Infrastructure	18,698,661	871,431	-	19,570,092
Total capital assets being depreciated	<u>20,289,025</u>	<u>892,352</u>	<u>55,886</u>	<u>21,125,491</u>
Less Accumulated depreciation for:				
Buildings	127,844	34,750	-	162,594
Improvements other than buildings	6,115	311	-	6,426
Autos & Equipment	615,867	107,382	55,819	667,430
Infrastructure	15,409,326	458,124	-	15,867,450
Total accumulated depreciation	<u>16,159,152</u>	<u>600,567</u>	<u>55,819</u>	<u>16,703,900</u>
Total capital assets being depreciated, net	<u>4,129,873</u>	<u>291,785</u>	<u>67</u>	<u>4,421,591</u>
Total sewer capital assets, net	\$ <u>4,169,920</u>	<u>335,832</u>	<u>67</u>	<u>4,505,685</u>
Business Type activities:				
<u>Sanitation</u>				
Capital Assets being depreciated:				
Buildings	\$ 119,721	31,555	-	151,276
Autos & Equipment	2,278,603	346,269	159,448	2,465,424
Total capital assets being depreciated	<u>2,398,324</u>	<u>377,824</u>	<u>159,448</u>	<u>2,616,700</u>
Less Accumulated depreciation for:				
Buildings	91,921	7,169	-	99,090
Autos & Equipment	1,496,960	289,533	159,448	1,627,045
Total accumulated depreciation	<u>1,588,881</u>	<u>296,702</u>	<u>159,448</u>	<u>1,726,135</u>
Total capital assets being depreciated, net	<u>809,443</u>	<u>81,122</u>	<u>-</u>	<u>890,565</u>
Total sanitation capital assets, net	\$ <u>809,443</u>	<u>81,122</u>	<u>-</u>	<u>890,565</u>

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Business type activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases and Transfers</u>	<u>Ending Balance</u>
<u>Non-major cemetery</u>				
Capital assets being depreciated:				
Improvements other than buildings	\$ 117,542	16,998	-	134,540
Autos & equipment	32,267	2,110	-	34,377
Total capital assets being depreciated	<u>149,809</u>	<u>19,108</u>	<u>-</u>	<u>168,917</u>
Less accumulated depreciation for:				
Improvements other than buildings	92,609	12,473	-	105,082
Autos & equipment	16,615	4,916	-	21,531
Total accumulated depreciation	<u>109,224</u>	<u>17,389</u>	<u>-</u>	<u>126,613</u>
Total capital assets being depreciated, net	<u>40,585</u>	<u>1,719</u>	<u>-</u>	<u>42,304</u>
Total non-major cemetery capital assets, net	<u>40,585</u>	<u>1,719</u>	<u>-</u>	<u>42,304</u>
Total business-type activities capital assets, net	<u>\$ 10,564,341</u>	<u>1,480,625</u>	<u>601</u>	<u>12,044,365</u>
<u>Total business-type activities capital assets</u>				
Capital assets not being depreciated:				
Land	\$ 195,074	-	-	195,074
Construction in progress	703,582	210,105	-	913,687
Total capital assets not being depreciated	<u>898,656</u>	<u>210,105</u>	<u>-</u>	<u>1,108,761</u>
Capital assets being depreciated:				
Buildings	4,559,697	31,555	-	4,591,252
Improvements other than buildings	384,585	16,998	-	401,583
Autos & equipment	4,359,489	499,450	231,126	4,627,813
Infrastructure	28,134,404	2,271,186	-	30,405,590
Total capital assets being depreciated	<u>37,438,175</u>	<u>2,819,189</u>	<u>231,126</u>	<u>40,026,238</u>
Less accumulated depreciation for:				
Buildings	3,024,929	103,475	-	3,128,404
Improvements other than buildings	337,681	31,617	-	369,298
Autos & equipment	3,000,788	514,322	230,525	3,284,585
Infrastructure	21,409,092	689,151	-	22,098,243
Total accumulated depreciation	<u>27,772,490</u>	<u>1,338,565</u>	<u>230,525</u>	<u>28,880,530</u>
Total capital assets being depreciated, net	<u>9,665,685</u>	<u>1,480,624</u>	<u>601</u>	<u>11,145,708</u>
Total non-major cemetery capital assets, net	<u>10,564,341</u>	<u>1,690,729</u>	<u>601</u>	<u>12,254,469</u>
Total business-type activities capital assets, net	<u>\$ 10,564,341</u>	<u>1,480,625</u>	<u>601</u>	<u>12,044,365</u>

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Depreciation expense was charged to function/programs of the primary government as follows:

	<u>Depreciation Expense</u>
Governmental activities:	
General government	\$ 448,308
Public safety	319,369
Physical environment	1,092,823
Culture & recreation	256,838
Transportation	128,508
Human services	44,271
Total depreciation expense, governmental activities	<u>\$ 2,290,117</u>
Business-type activities:	
Cemetery	\$ 17,389
Sanitation	296,702
Sewer utility	600,567
Stormwater drainage	166,279
Water utility	257,628
Total depreciation expense, business-type activities	<u>\$ 1,338,565</u>

Construction and Purchase Commitments:

The City has active construction projects as of September 30, 2003. The projects include a membrane water plant, stormwater drainage, street and beautification projects, sewer capacity improvements and park facilities renovations construction. At year-end, the City's significant commitments with contractors are as follows:

<u>Project</u>	<u>Spent to-date</u>	<u>Remaining Commitment</u>
Stormwater drainage improvements	\$ 717,110	978,743
Water membrane plant	782,618	999,953
Sewer Capacity Improvements	0	135,782
Street and beautification projects	2,386,354	586,924
Park facilities renovations construction	1,750,651	1,012,349
Total	<u>\$ 5,636,733</u>	<u>3,713,751</u>

The water membrane plant is partially financed by revenue bonds secured by water revenue. The parks facilities renovations projects are partially financed from grants received from the Florida Recreation Development Assistance Program and Broward County. All other commitments are financed from existing City resources.

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CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

(7) Interfund Receivables, Payables, and Transfers

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet and proprietary funds statement of net assets. The composition of interfund balances as of September 30, 2003 is as follows:

(a) Due from/to other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose for balance</u>	<u>Amount</u>
General Fund	Grant Administration Fund	Short-term loan to fund operations	\$ 194,665
General Fund	CDBG Fund	Short-term loan to fund operations	60,678
			<u>\$ 255,343</u>

(b) Interfund Transfers

<u>Transfers out</u>	<u>Transfers in</u>				<u>Total transfers out</u>
	<u>General Fund</u>	<u>Community Redevelopment Agency</u>	<u>Nonmajor Governmental</u>	<u>Internal Service</u>	
General Fund	\$ —	1,016,234	—	2,000,000	3,016,234
Community redevelopment agency	—	—	151,134	—	151,134
Nonmajor governmental	372,867	—	—	100,000	472,867
Water	—	—	301,500	1,000,000	1,301,500
Sewer	—	—	148,500	3,000,000	3,148,500
Sanitation	—	—	—	120,000	120,000
Stormwater Drainage	—	—	—	15,000	15,000
	<u>\$ 372,867</u>	<u>1,016,234</u>	<u>601,134</u>	<u>6,235,000</u>	<u>8,225,235</u>

The transfers to the general fund primarily relate to excess funds from the capital projects funds, which were no longer needed. The transfers to the community redevelopment agency fund from the general fund were for the City's portion of tax increment financing. Transfers to the non-major governmental funds include a transfer to from the community redevelopment agency to fund the police narcotics unit program. Transfers from water and sewer to the non-major funds were to repay cash borrowed in prior years. The transfers into the internal service fund relate to the City transferring monies to fund payments made by the self-insurance fund. The majority of the funds were used to pay a litigation settlement.

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

(8) Long-Term Debt and Other Obligations

The following is a summary of long-term debt and other obligation transactions for the fiscal year ended September 30, 2003:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Loans and notes payable:					
Pledged revenue note	\$ 1,321,816	-	377,662	944,154	377,662
Revenue note, Series 2002	2,846,385	-	250,000	2,596,385	250,000
Estimated liability for self insured risks	9,275,084	104,567	7,301,593	2,078,058	-
Estimated liability for management health stipend	32,200	19,640	-	51,840	-
Compensated Absences	2,125,477	3,542,061	2,221,859	3,445,679	696,589
Total governmental activity, long-term liabilities	\$ <u>15,600,962</u>	<u>3,666,268</u>	<u>10,151,114</u>	<u>9,116,116</u>	<u>1,324,251</u>

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Business Type activities:					
<u>Water</u>					
Revenue Bonds	\$ 2,770,000	-	92,914	2,677,086	89,900
Unamortized bond premium	127,117	-	6,651	120,466	-
	<u>2,897,117</u>	<u>-</u>	<u>99,565</u>	<u>2,797,552</u>	<u>89,900</u>
Compensated absences	222,500	248,748	155,061	316,187	113,682
Total water	<u>3,119,617</u>	<u>248,748</u>	<u>254,626</u>	<u>3,113,739</u>	<u>203,582</u>
<u>Sewer</u>					
Revenue Bonds	1,000,000	-	33,543	966,457	32,550
Unamortized bond premium	45,890	-	2,400	43,490	-
	<u>1,045,890</u>	<u>-</u>	<u>35,943</u>	<u>1,009,947</u>	<u>32,550</u>
Compensated absences	59,674	62,567	43,265	78,976	28,395
Total sewer	<u>1,105,564</u>	<u>62,567</u>	<u>79,208</u>	<u>1,088,923</u>	<u>60,945</u>
<u>Sanitation</u>					
Compensated absences	82,038	98,305	60,753	119,590	42,997
<u>Stormwater drainage</u>					
Revenue Bonds	1,000,000	-	33,543	966,457	32,550
Unamortized bond premium	45,890	-	2,400	43,490	-
	<u>1,045,890</u>	<u>-</u>	<u>35,943</u>	<u>1,009,947</u>	<u>32,550</u>
Compensated absences	15,697	25,862	14,243	27,316	9,821
Total stormwater	<u>1,061,587</u>	<u>25,862</u>	<u>50,186</u>	<u>1,037,263</u>	<u>42,371</u>
Total business type activity, revenue bonds-series 2001A	4,988,897	-	171,451	4,817,446	155,000
Total business type activity, compensated absences	379,909	435,482	273,322	542,069	194,895
Total business type activity, long-term liabilities	<u>\$ 5,368,806</u>	<u>435,482</u>	<u>444,773</u>	<u>5,359,515</u>	<u>349,895</u>

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

The Pledged Revenue Note is closed and was used for the purpose of financing the cost of capital projects. The note is not a general obligation of the City and it is to be paid from franchise fees, public services tax or any non-ad valorem revenue, which the City has designated. Interest at 59.7% of the prime rate is payable semiannually. Principal is payable semiannually in equal installments and is due and payable on December 1, 2005. At September 30, 2003, \$944,154 was outstanding at an interest rate of 2.39 %.

The Revenue Note, Series 2002 line of credit, not to exceed \$5,000,000 with a draw closing date of August 15, 2003 is for the purpose of funding various CRA projects. The note is not a general obligation of the City and it is to be paid from CRA District revenue. Interest at 51.2% of the prime rate is payable semiannually. Principal is payable semiannually in equal installments and is due and payable on February 15, 2023. At September 30, 2003, \$2,596,385 was outstanding at an interest rate of 2.05%.

The Revenue Bonds, Series 2001 were issued for the purpose of financing the acquisition and construction of a new membrane water treatment plant, construction and improvements to the stormwater drainage system and the sewer system. The bonds are not general obligation bonds of the City and are to be repaid solely from non-ad valorem revenue. Principal is payable annually and is due and payable on November 01, 2021. At September 30, 2003, \$4,610,000 was outstanding at an interest rate of 4.46%.

Summary of annual debt service requirements is as follows:

Fiscal year	Governmental Activities				Business-Type Activities	
	Pledged Revenue Note		Revenue Note, Series 2002		Revenue Bonds, Series 2001A	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$377,662	\$24,096	\$250,000	\$53,174	\$155,000	\$222,594
2005	377,662	13,387	250,000	48,054	160,000	216,875
2006	188,830	2,677	250,000	42,934	170,000	209,850
2007	-	-	250,000	37,814	175,000	202,088
2008	-	-	250,000	32,694	185,000	193,988
2009-2013	-	-	1,250,000	86,670	1,055,000	822,750
2014-2018	-	-	96,385	1,974	1,355,000	514,881
2019-2023	-	-	-	-	1,355,000	133,431
Totals	\$944,154	\$40,161	\$2,596,385	\$303,314	\$4,610,000	\$2,516,456

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

(9) Pension Plans

General Employees Retirement Plan

Plan description—The General Employees Retirement Plan (the Plan) is a single-employer defined-benefit plan, which covers all City employees except police officers, firefighters, and Management/Professional employees. The City's payroll for employees covered by the system applicable to the October 1, 2002 actuarial valuation was \$5.5 million. The City's total payroll for the fiscal year ended September 30, 2003, was approximately \$22.6 million. As of October 1, 2002, employee membership data related to the Plan was as follows:

Retirees and beneficiaries currently receiving benefits	103
Terminated employees entitled to benefits but not yet receiving them	50
Current active employees:	165
Total	<u>318</u>

The Plan provides retirement benefits as well as death benefits. Benefits vest 20% after three years of active participation, plus 20% for each additional year to 100% after seven years. Employees who retire at or after age 60 with 15 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 56% of average compensation times the accrued benefit adjustment. Average compensation is equal to the monthly average of total pay within the five-year period ending on the day prior to the normal retirement date. Employees with 20 years of credited service may retire at or after age 55 and receive reduced retirement benefits. The City Commission has the authority to create or amend benefit and contribution provisions.

Covered employees are required by City ordinance to contribute 3% of monthly earnings. The City is required to contribute the remaining amounts necessary to fund the Plan, based on an actuarially determined amount each year.

If an employee leaves covered employment or dies before five years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. If an employee retires at age 55 with 20 years of service, he or she is eligible for a 50% joint-survivor benefit.

The City does not issue a stand-alone financial report for the plan.

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Funding Policy—The following table provides information concerning funds policy:

Valuation date	October 1, 2002
Actuarial cost method	Aggregate
Amortization method for unfunded actuarial accrued liabilities	Level payment
Amortization period	5 to 30 years
Actuarial asset valuation method	Market value (adjusted)
Actuarial assumptions:	
Assumed rate of return on investments	7.75% per annum
Salary increases	Assumed salaries increase at 5.2% to 8.4% per year
Mortality rate	1983 Group Annuity Mortality
Cost of living adjustments	None

Actuarially Determined Contribution Requirements and Contributions Made—The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentages of payroll contribution rates are determined using the entry age normal—aggregate actuarial cost method. Unfunded actuarial accrued liability is amortized over 5 to 30 years.

Significant actuarial assumptions used to compute contribution requirements are a 7.75% investment return and annual salary increase ranging from 5.2 to 8.4%. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

The employees in accordance with City ordinance made contributions for the year ending September 30, 2003, totaling \$171,866. Employer contributions for same period totaled \$504,000 or \$494 greater than the actual amount required of \$503,506. Payments of contributions, benefits and refunds are recognized in the financial statements when paid. Administrative costs are paid out of the assets of the plan, provided that such payment is consistent with any law to which the plan is subject.

Trend Information—Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. An analysis of funding progress for the fiscal year ended September 30, 2003, for the General Employees Retirement System is as follows:

<u>Fiscal year ended</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation (asset)</u>
September 30, 2003	\$ 508,939	99%	(124,276)
September 30, 2002	163,178	161%	(129,215)
September 30, 2001	1,460	0%	(30,450)

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Specific Investment Information

There were no investments that individually represented 5% or more of the assets of the General Employees Retirement Plan.

Police Officers and Firefighters Retirement Plan

Plan description – The Police Officers and Firefighters Retirement Plan is a single-employer defined benefit plan, which covers all police officers and firefighters. The City's payroll for employees covered by this plan applicable to the October 1, 2002 actuarial valuation was approximately \$7.9 million. As of October 1, 2002, employee membership data related to the plan was as follows:

Retirees and beneficiaries currently receiving benefits	117
Terminated employees entitled to benefits but not yet receiving them	4
Current active employees:	
Vested	66
Nonvested	72
Total	<u>259</u>

The Police Officers and Firefighters Retirement Plan provides retirement benefits as well as death and disability benefits. Employees vest after ten years of service. Employees who retire at or after age 52 with ten years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 3.0% of average rate of pay for the highest five consecutive years of the last ten years worked times years and completed months of service not to exceed 75% of final salary. Employees with ten years of credited service may retire at or after age 45 and receive reduced retirement benefits. Employees with 25 years of service may retire at any age and receive normal retirement pension accrued. Employees with 25 years of service or age 52 with 20 years of service may enter a Deferred Retirement Option Plan (DROP).

Covered employees are required by statute to contribute 8% of their salary to the plan. If an employee leaves covered employment or dies before ten years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. The service-incurred benefit is 30% of monthly compensation at time of death or the accrued monthly retirement benefit, whichever is greater. The non-service-incurred benefit requires ten years of service and is the accrued monthly retirement benefit. The City is required by State of Florida statute to contribute the remaining amounts necessary to finance the coverage of its employees.

The City does not issue a stand-alone financial report for the Police Officers and Firefighters Retirement Plan.

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Funding Policy—The following table provides information concerning funding policies:

Valuation date	September 30, 2002
Actuarial cost method	Frozen initial liability
Amortization method for unfunded actuarial accrued liabilities	Level percent closed
Amortization period	30 years
Actuarial asset valuation method	5-year smoothed market
Actuarial assumptions:	
Assumed rate of return on investments	8.00% per annum
Salary increases*	4.5% to 10.5%, based on age
*Includes inflation at	4%
Mortality rate	1983 Group Annuity Mortality
Cost of living adjustments	1%

Actuarially Determined Contribution Requirements and Contributions Made—The Plan's funding policy provides for periodic employer contributions at actuarially determined rates which, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentages of payroll contribution rates are determined using the frozen initial liability actuarial cost method. The retirement plan for police officers and firefighters of the City also amortizes the unfunded liability over a period of 30 years. Payments of contributions, benefits, and refunds are recognized in the financial statements as they are paid. Administrative costs are paid out of the assets of the plan, provided that such payment is consistent with any law to which the plan is subject.

Significant actuarial assumptions used to compute contribution requirements are an 8.0% investment return and annual salary increases of 4.5% to 10.5%, based on age.

Contributions for the year ending September 30, 2003, totaling \$2,035,641, were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at October 1, 2002. Contributions for September 30, 2003, consisting of, \$560,000 for the employer, 1,168,610 for the employee and \$307,031 for the State of Florida, was made in accordance with state statute.

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Trend Information—Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. An analysis of funding progress for the fiscal year ended September 30, 2003, for the Police Officers and Firefighters Retirement Plan is as follows:

<u>Fiscal year ended</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation (asset)</u>
September 30, 2003	\$ 858,225	101%	(210,679)
September 30, 2002	332,460	100%	(209,614)
September 30, 2001	649,168	105%	(209,039)

Specific Investment Information

There were no investments that individually represented 5% or more of the assets of the Police Officers and Firefighters Retirement System.

Professional/Management Employees Retirement Plan

Plan description—The Professional/Management Employees Retirement Plan (the Plan) is a single-employer defined-benefit plan, which covers all professional/management employees as indicated in the Personnel Resource System. The City's payroll for employees covered by the system applicable to the October 1, 2002 actuarial valuation was \$1.5 million. The City's total payroll for the fiscal year ended September 30, 2003, was approximately \$22.6 million. As of October 1, 2002, employee membership data related to the Plan was as follows:

Retirees and beneficiaries currently receiving benefits	0
Terminated employees entitled to benefits but not yet receiving them	0
Current active employees:	29
Total	<u><u>29</u></u>

The Plan provides retirement benefits as well as death benefits. Benefits vest 100% after four years. Employees can retire at or after age 60 with four years of credited service or age 52 with 10 years of credited service. The benefit amount is calculated as 3.0% for each year of eligible service multiplied by a five-year average compensation. Employees who retire early with 10 years of service and age 47 incur a reduction of 6% for each year the early retirement date precedes the normal retirement date. The plan includes a Deferred Retirement Option Plan, Medical Stipend, Excess Benefit Plan and Additional Accrual Service purchase benefits.

The Excess Benefit Plan is utilized when a retiree's calculated benefit under the Plan is limited by IRS 415 calculations. In this instance, the portion of the limited benefit is paid to the retiree from the Excess Benefit Plan. This unfunded plan is administered by Principal Financial Group and annual benefits payment contribution requirements are paid directly from the City's treasury.

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

Covered employees are required by plan documents to contribute 5% of monthly compensation. The City is required to contribute the remaining amounts necessary to fund the Plan, based on an actuarially determined amount each year.

If an employee leaves covered employment or dies before four years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary.

The City does not issue a stand-alone financial report for the plan.

Funding Policy—The following table provides information concerning funds policy:

Valuation date	October 1, 2002
Actuarial cost method	Entry age normal-frozen initial liability
Amortization method for unfunded actuarial accrued liabilities	Level payment
Amortization period	5 to 30 years
Actuarial asset valuation method	Market value is adjusted by spreading expected value less actual value over four years
Actuarial assumptions:	
Assumed rate of return on investments	7.75% per annum
Salary increases	Assumed salaries increase based on age range between 5.18% and 8.4% per year
Mortality rate	1983 Group Annuity Mortality
Cost of living adjustments	None

Actuarially Determined Contribution Requirements and Contributions Made—The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contributions for the year ending September 30, 2003 were made in accordance with actuarially determined contribution requirements through an actuarial valuation performed as of October 1, 2001. The actual City contribution of \$338,435 was in excess of the required contribution of \$334,178. Level percentages of payroll contribution rates are determined using the entry age normal-frozen initial liability actuarial cost method. Unfunded actuarial accrued liability is amortized over 5 to 30 years.

Significant actuarial assumptions used to compute contribution requirements are a 7.75% investment return and annual salary increase ranging from 5.18% to 8.4%. The aggregate actuarial cost method does not identify and separate amortized unfunded actuarial liabilities.

Contributions for the year ending September 30, 2003, totaling \$261,465 were made by the employees in accordance with Plan documents. Payments of contributions, benefits, and refunds are recognized in the financial statements as they are paid. Administrative costs are paid out of the

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

assets of the plan, provided that such payment is consistent with any law to which the plan is subject.

Trend Information--Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. An analysis of funding progress for the fiscal year ended September 30, 2003, for the Professional/Management Retirement System is as follows:

<u>Fiscal year ended</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation (asset)</u>
September 30, 2003	\$ 334,178	101.3%	(115,013)
September 30, 2002	379,038	130.9%	(117,013)

Specific Investment Information

There were no investments that individually represented 5% or more of the assets of the Professional/Management Retirement Plan.

Administrative expenses-All pension plans

Administrative costs paid by the plan include services of administrative personnel, bank charges, investment counsel charges, actuarial costs, insurance expense, and miscellaneous office expenses.

Annual pension cost and net pension obligations - All pension plans

The annual pension cost and net pension obligation for each pension plan for fiscal year ended September 30, 2003 are as follows:

	<u>General employees</u>	<u>Police and firefighters</u>	<u>Professional/management</u>
Annual required contribution (ARC)	\$ 503,506	559,512	334,178
Interest on net pension obligation (asset)	(10,014)	(17,817)	(9,069)
Adjustment to annual required contribution	(15,447)	(17,240)	(15,326)
Annual pension cost	508,939	558,935	340,435
Contributions made	504,000	560,000	338,435
Increase (decrease) in net pension obligation (asset)	4,939	(1,065)	2,000
Net pension asset, beginning of year	(129,215)	(209,614)	(117,013)
Net pension asset, end of year	\$ <u>(124,276)</u>	<u>(210,679)</u>	<u>(115,013)</u>

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

(10) Money-Purchase Plan and Trust

The City maintains a single-employer money-purchase plan (the Plan) created in accordance with Internal Revenue Code Section 401(a). This defined contribution plan is comprised of four plans with varying levels of employer and employee contributions. The Plan is no longer available to new management employees, but will be maintained for current employees that have opted to remain in the 401(a) plan. At September 30, 2003, there were three members participating in the plan. The 401(a) Management Pension Plans require the City to contribute 13% of the members' base pay depending on Plan membership. Employee required contributions are 4%.

As of April 2002, the City eliminated the single-employer money-purchase plan (the Plan) for new management participants. The Plan will be maintained for those employees that did not opt to convert to the General Employee Pension Plan or the Professional/Management Plan. However, there will be no new participants since all new management employees must enter the defined benefit pension plan.

The City's total payroll for the year ended September 30, 2003, was approximately \$22.6 million. The City's contributions were calculated using the covered payroll amount of approximately \$370,000. The City's contribution amounted to \$50,621, or 13.7% of current covered payroll.

(11) Risk Management

The City is exposed to various risk of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's self-insurance internal service funds are used to account for and finance both uninsured and insured risks of loss. Coverage is provided for workers' compensation, general liability, and auto liability, as specified by applicable federal and state statutes. As of October 1, 1997, the City was no longer self-insured for health benefits. In fiscal year 2000, the City initiated a health stipend program whereby retirees are given a monthly payment to help cover the cost of health premiums. This program is recorded in the Health internal service fund. The City purchases commercial stop-loss policies for workers' compensation claims in excess of \$250,000. The City relies on the liability limits of \$100,000 imposed by Florida statute and therefore, does not carry any other coverage's. Other insured risks for loss are budgeted in various operating funds. The City purchases all risk property insurance for City structures (estimated \$15,000,000 replacement value) with a \$2,500 deductible. Other minor liabilities for small City programs or operations are budgeted in the operating funds. The settlements in the past three fiscal years were less than insurance coverage.

All operating funds of the City participate in the program and make payments to the fund based on estimates of the amounts needed to pay prior and current claims and to provide fund equity for catastrophic losses. The estimated liability for self-insured risks at September 30, 2003, of \$2,078,058 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

(Continued)

CITY OF HALLANDALE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

At September 30, 2003 and 2002, the total estimated liabilities on pending claims were as follows:

	<u>2003</u>	<u>2002</u>
Claims payable - beginning of year	\$ 9,275,084	\$ 7,431,327
Incurred claims	104,567	2,506,109
Payments on claims	(7,301,593)	(662,352)
Claims payable - end of year	<u>\$ 2,078,058</u>	<u>\$ 9,275,084</u>

(12) Commitments and Contingent Liabilities

There are several pending claims and lawsuits in which the City is involved. The estimated liability related to these claims has been accrued in the City's general liability self-insurance fund. In the opinion of City management, the ultimate resolution of these claims will not materially exceed the amounts recorded in the financial statements. In the current year a large litigation claim, which was accrued in fiscal years 2001 and 2002, was settled and paid resulting in a reduction in the claim payable balance.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including the amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

STATISTICAL INFORMATION (UNAUDITED)

Table 1

CITY OF HALLANDALE BEACH, FLORIDA

Government-wide Expenses by Function

Last ten fiscal years (A)

(amounts expressed in thousands)

Fiscal year	General government	Public safety	Other physical environment	Transportation	Culture/recreation	Human services	Economic environment	Sewer	Water	Sanitation	Storm Water	Cemetery	Total
2003	\$7,207	\$19,125	\$3,577	\$1,250	\$2,338	\$903	\$19	\$5,660	\$5,097	\$4,276	\$810	\$104	\$50,366

(A) The fiscal years beginning 2003 are reflected for compliance to Governmental Accounting Standards Board (GASB) Statement No. 34 effective for the fiscal year ended September 30, 2003.

CITY OF HALLANDALE BEACH, FLORIDA

Table 2

Government-wide Revenues

Last ten fiscal years (A)

(amounts expressed in thousands)

Fiscal year	PROGRAM REVENUES			GENERAL REVENUES				Total
	Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
2003	\$27,080	\$698	\$2,577	\$22,247	\$2,018	\$845	\$470	\$55,935

(A) The fiscal years beginning 2003 are reflected for compliance to Governmental Accounting Standards Board (GASB) Statement No. 34 effective for the fiscal year ended September 30, 2003.

Table 3

CITY OF HALLANDALE BEACH, FLORIDA
General Governmental Expenditures By Function (A)
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal year	General government	Public safety	Physical environment (B)	Culture/recreation	Human services (C)	Capital outlay	Debt service	Total
1994	\$ 3,802	\$ 12,416	\$ 2,310	\$ 1,215	\$ 454	\$ 3,824	\$ 1,280	\$ 25,301
1995	3,774	12,805	2,748	1,229	479	4,287	762	26,084
1996	4,223	13,686	2,780	1,352	483	5,819	630	28,973
1997	4,255	13,764	2,760	1,367	496	3,737	650	27,029
1998	3,994	13,641	2,601	1,414	481	1,436	529	24,096
1999	4,180	13,975	2,598	1,435	508	2,216	503	25,414
2000	4,469	14,408	2,709	1,482	550	1,941	498	26,056
2001	4,968	15,131	2,861	1,634	596	1,622	470	27,282
2002	5,404	15,479	4,343	1,793	618	3,477	458	31,572
2003	5,698	17,428	3,504	2,006	844	5,347	718	35,545

(A) Includes general, special revenue, capital projects, and expendable trust funds.

(B) Includes transportation.

(C) Includes economic environment/housing.

Table 4

CITY OF HALLANDALE BEACH, FLORIDA
General Governmental Revenues by Source (A)

Last Ten Fiscal Years

(amounts expressed in thousands)

<u>Fiscal year</u>	<u>Property taxes</u>	<u>Intergovt. revenue</u>	<u>Utility taxes</u>	<u>Charges for services</u>	<u>Franchise Taxes</u>	<u>Licenses and permits</u>	<u>Fines and forfeitures</u>	<u>Other</u>	<u>Total</u>
1994	\$ 8,418	\$ 3,579	\$ 3,380	\$ 2,901	\$ 1,703	\$ 632	\$ 456	\$ 966	\$ 22,035
1995	8,992	3,825	3,388	2,946	1,646	706	433	1,676	23,612
1996	8,931	4,704	3,437	2,964	1,758	694	579	3,247	26,313
1997	8,862	4,344	3,554	3,415	2,028	685	367	1,741	24,997
1998	9,547	4,151	3,563	3,816	1,928	786	345	1,824	25,961
1999	9,828	4,778	3,659	4,179	1,964	1,529	553	2,102	28,593
2000	10,143	5,044	3,672	4,376	1,900	705	1,068	2,841	29,749
2001	10,720	5,165	4,043	4,744	2,258	1,067	619	2,749	31,365
2002	11,329	5,221	2,684	4,954	3,640	947	725	2,002	31,501
2003	13,062	7,098	2,829	5,745	3,632	1,217	644	2,268	36,495

(A) Includes general, special revenue, capital projects, and expendable trust funds (excludes interfund transfers)

Table 5

CITY OF HALLANDALE BEACH, FLORIDA

General Governmental Tax Revenues by Source

Last Eight Fiscal Years (A)

(amounts expressed in thousands)

<u>Fiscal year</u>	<u>Property taxes</u>	<u>Franchise fees/utility taxes</u>	<u>Sales taxes</u>	<u>Motor fuel taxes</u>	<u>Alcoholic beverage taxes</u>	<u>Total</u>
1996	\$ 8,970	\$ 5,258	\$ 1,572	\$ 612	\$ 22	\$ 16,434
1997	8,898	5,638	1,606	613	12	16,768
1998	9,547	5,542	1,652	624	20	17,384
1999	9,546	5,677	1,709	628	16	17,577
2000	10,143	5,625	1,795	621	19	18,203
2001	10,720	6,352	2,030	703	17	19,822
2002	11,329	6,369	1,943	673	18	20,332
2003	13,062	6,496	1,993	678	18	22,246

Table 6

CITY OF HALLANDALE BEACH, FLORIDA

Property Tax Levies and Collections

Last Ten Fiscal Years (A)

(amounts expressed in thousands)

Tax roll year	Fiscal year (B)	Total tax levy (A)	Current tax collections	Levy collected percentage	Delinquent collections	Total tax collections	Total tax collected percentage	Out-standing delinquent taxes	Delinquent taxes percentage
1993	1994	\$ 8,584	\$ 8,123	94.63%	\$ 296	\$ 8,419	98.08%	\$ 435,816	5.08%
1994	1995	9,297	8,767	94.30%	225	8,992	96.72%	550,595	5.92%
1995	1996	9,341	8,902	95.30%	29	8,931	95.61%	646,170	6.92%
1996	1997	9,286	8,840	95.20%	23	8,863	95.44%	738,299	7.95%
1997	1998	9,816	9,526	97.05%	21	9,547	97.26%	746,606	7.61%
1998	1999	10,174	9,794	96.26%	34	9,828	96.60%	789,279	7.76%
1999	2000	10,500	10,079	95.99%	63	10,142	96.59%	867,677	8.26%
2000	2001	11,056	10,569	95.60%	151	10,720	96.96%	918,547	8.31%
2001	2002	11,760	11,293	96.03%	36	11,329	96.34%	466,669 (C)	3.97%
2002	2003	13,569	13,025	95.99%	37	13,062	96.26%	526,450 (C)	3.88%

(A) This amount represents gross levy (does not include discounts).

(B) Amounts include Golden Isles, effective 1991, and Three Islands, effective 1995, safe neighborhood districts which are component units of the City of Hallandale Beach.

(C) Source: Broward County Revenue Collection Division

Table 7

CITY OF HALLANDALE BEACH, FLORIDA

Assessed and Taxable Value of Taxable

Properties and Tax Rates

Last Ten Fiscal Years

Tax roll year	Fiscal Year	Assessed value real and personal property (A)	Taxable value (nonexempt) (B)	Property tax millage rate
1993	1994	\$ 1,549,878,959	\$ 1,288,319,150	\$ 6.9000
1994	1995	1,555,747,739	1,308,966,652	6.9000
1995	1996	1,590,506,788	1,314,175,519	6.7214
1996	1997	1,604,369,368	1,326,738,380	6.9870
1997	1998	1,629,830,257	1,346,161,191	6.9870
1998	1999	1,704,443,276	1,409,186,622	6.9870
1999	2000	1,759,607,290	1,453,427,435	6.9870
2000	2001	1,865,430,870	1,538,682,675	6.9870
2001	2002	2,098,073,414	1,722,666,413	6.7480
2002	2003	2,497,888,186	1,957,877,633	6.7480

(A) Assessed value established at 100% of value by State Statute. Source: Broward County Property Appraiser

(B) Taxable value of real and personal property subject to taxation after exemptions.

Table 8

CITY OF HALLANDALE BEACH, FLORIDA
Property Tax Rates -- Direct and Overlapping Governments
Last Ten Fiscal Years

Tax roll year	Fiscal Year	City of Hallandale Beach	Broward County	Broward School District	South Florida Water Mgmt. District	Florida Inland Navigation District	Children's Services Council	South Broward Hospital District	Total	Golden Isles Safe Nghbrhd District (A)	Three Islands Safe Nghbrhd District (A)
1993	1994	6.9000	8.0343	10.0259	0.5970	0.0490	-	2.1132	27.7194	1.0783	2.0000
1994	1995	6.9000	8.1165	10.0366	0.6470	0.0400	-	2.1132	27.8533	1.0900	1.3000
1995	1996	6.7214	7.7524	9.9400	0.6720	0.0380	-	2.1132	27.2370	1.0900	1.3000
1996	1997	6.9870	7.8380	9.9745	0.6970	0.0500	-	2.1132	27.6597	1.0900	1.1170
1997	1998	6.9870	7.5710	9.7256	0.6970	0.0470	-	2.1132	27.1408	1.0900	1.1170
1998	1999	6.9870	7.5710	9.1283	0.6970	0.0440	-	2.0831	26.5104	1.0900	1.1170
1999	2000	6.9870	7.5250	8.9553	0.6970	0.0410	-	1.9939	26.1992	1.0900	1.1170
2000	2001	6.9870	7.4005	8.7541	0.6970	0.0385	-	1.8694	25.7465	1.0900	1.1170
2001	2002	6.7480	7.4005	8.7541	0.6970	0.0385	0.3055	1.8694	25.8130	1.0900	1.1170
2002	2003	6.7480	7.3650	8.8825	0.6970	0.0385	0.3316	1.7336	25.7962	1.0900	1.1170

Notes:

Tax millage rates (per \$1,000 of taxable value).

Source: Broward County Department of Revenue; Broward County Property Appraiser

(A) Not included in total tax rate, as these do not apply to entire City

Table 9

CITY OF HALLANDALE BEACH, FLORIDA

Special Assessment Collections (A)

Last Ten Fiscal Years

Fiscal year	Current assessments	Current assessments collected	Total assessments receivable September 30 (B)
1994	\$ —	706	6,626
1995	—	717	6,912
1996	—	591	7,044
1997	—	2,648	4,785
1998	—	1,133	3,217
1999	—	—	3,419
2000	—	—	3,610
2001	—	—	3,802
2002	—	—	3,892
2003	—	—	4,016

(A) Does not include Enterprise Fund assessments.

(B) Includes interest and penalties.

Table 10

CITY OF HALLANDALE BEACH, FLORIDA
 Ratio of Net General Obligation Debt to
 Taxable Value and Net Obligations Debt Per Capita
 Last Ten Fiscal Years

Fiscal year	Population (B)	Taxable value in thousands (nonexempt)	Gross general obligation debt	Debt enterprise funds	Net general obligation debt	Ratio of net general obligation debt to taxable value	Net general obligation debt per capita
1994	31,217	\$ 1,246,510	3,666,360 (A)	1,841,360	\$ 1,825,000	0.146%	\$ 58.46
1995	31,302	1,288,319	1,770,059	1,501,899	268,160	0.021%	8.57
1996	31,489	1,308,967	1,235,778	1,054,387	181,391	0.014%	5.75
1997	31,458	1,312,892	669,100	587,901	81,199	0.006%	2.58
1998	31,470	1,340,691	182,534	181,979	555	0.000%	0.02
1999	31,413	1,404,950	181,904	181,904	—	0.000%	—
2000	31,504	1,409,187	87,000	87,000	—	0.000%	—
2001	34,282 (C)	1,453,427	96,641	28,993	67,648	0.005%	2.15
2002	34,254	1,538,683	22,973	—	22,973	0.001%	0.67
2003	34,908	1,957,878	—	—	—	0.000%	—

(A) Includes all long-term notes and bonds payable.

(B) Source: University of Florida, Bureau of Economic Research for City of Hallandale Beach.

(C) 2000 U.S. Census

Table 11

CITY OF HALLANDALE BEACH, FLORIDA

Computation of Legal Debt Margin

September 30, 2003

Net assessed value	\$ 1,957,877,633
Plus exempt property	<u>375,407,001</u>
Total assessed value	2,333,284,634
Debt limit -- 10% of total assessed value	233,328,463
Total debt (A)	—
Less assets in debt service funds available for payment of principal	<u>—</u>
Legal debt margin	<u>\$ 233,328,463</u>

(A) The City has no general bonded debt outstanding.

Table 12

CITY OF HALLANDALE BEACH, FLORIDA

Computation of Direct and Overlapping Debt

September 30, 2003

Jurisdiction	Net debt (A)	Percentage applicable to Hallandale Beach (B)	Amount applicable to Hallandale Beach
City of Hallandale Beach	\$ —	100.000%	\$ —
Broward County	330,957,970	2.151%	7,119,464
Broward School District	125,882,169	2.151%	2,707,938
Total	\$ <u>456,840,139</u>		\$ <u>9,827,402</u>

- (A) Gross general obligation debt outstanding, less applicable amounts reserved for debt service.
- (B) Percentage of taxable value of property in Hallandale Beach, to taxable value of property in overlapping unit.

Table 13

CITY OF HALLANDALE BEACH, FLORIDA
 Ratio of Annual Debt Service Expenditures for
 General Debt to Total General Governmental Expenditures
 Last Ten Fiscal Years

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest and agent fees</u>	<u>Total debt service</u>	<u>Total general government expenditures</u>	<u>Ratio of debt service to total general expenditures</u>
1994	\$ 1,235,372	45,044	1,280,416	25,301,450	5.06%
1995	700,388	61,118	761,506	26,083,683	2.92%
1996	450,620	179,758	630,378	28,973,004	2.18%
1997	552,422	97,088	649,510	27,029,331	2.40%
1998	377,661	151,479	529,140	24,096,292	2.20%
1999	377,661	125,157	502,818	25,413,886	1.98%
2000	377,662	119,916	497,578	26,056,270	1.91%
2001	377,662	92,142	469,804	27,282,032	1.72%
2002	377,662	80,790	458,452	31,571,942	1.45%
2003	627,663	90,254	717,917	35,544,584	2.02%

Table 14

CITY OF HALLANDALE BEACH
Revenue Bond Coverage - Water and Sewer Bonds
Last Ten Fiscal Years

Fiscal year	Gross revenue	Direct operating expenses (A)	Net revenue available for debt service	Debt service requirements (B)			Coverage
				Principal	Interest	Total	
1994	\$ 9,873,367	7,035,438	2,837,929	110,000	24,360	134,360	21.12
1995	9,846,753	7,626,186	2,220,567	115,000	17,980	132,980	16.70
1996	10,224,454	6,798,985	3,425,469	120,000	11,310	131,310	26.09
1997	10,360,835	7,423,875	2,936,960	75,000	4,350	79,350	37.01
1998	9,842,832	6,914,991	2,927,841	—	—	—	N/A
1999	9,877,195	8,977,401	899,794	—	—	—	N/A
2000	10,094,249	8,502,439	1,591,810	—	—	—	N/A
2001	10,885,117	9,150,702	1,734,415	—	—	—	N/A
2002	11,747,150	9,409,292	2,337,858	—	206,623	206,623	11.31
2003	13,044,414	10,019,153	3,025,261	160,000	227,713	387,713	7.80

(A) Total expense exclusive of depreciation, debt interest, nonoperating charges and operating transfers out.
(B) Includes bonds and notes payable except for sanitary sewer improvement notes payable which will be paid by special assessment revenue.

Table 15

CITY OF HALLANDALE BEACH, FLORIDA
Property Value, Construction, and Bank Deposits
Last Ten Fiscal Years

Fiscal Year	Commercial construction (A)		Residential construction (A)		Property value		Broward County Bank deposits (thousands) (B)
	Number of units	Value	Number of units	Value	Assessed property	Nontaxable	
1994	—	\$ —	23	\$ 1,485,563	\$ 1,549,078,959	\$ 261,559,809	\$ 11,580,464
1995	3	1,010,135	21	1,587,950	1,555,747,739	246,781,087	13,506,491
1996	—	—	24	1,622,753	1,590,506,788	276,331,269	13,541,832
1997	1	162,300	50	1,797,220	1,604,369,368	277,630,988	13,577,040
1998	1	417,150	55	665,430	1,629,830,257	283,669,066	13,218,721
1999	3	1,675,300	33	2,382,918	1,704,443,276	295,256,654	15,676,883
2000	—	—	246	9,509,349	1,759,607,290	306,179,855	14,861,878
2001	1	952,000	329	39,172,697	1,865,430,870	322,367,005	16,072,000
2002	38	17,493,155	364	19,992,262	2,098,073,414	375,407,001	16,996,000
2003	6	2,450,750	291	18,272,122	2,497,888,186	540,010,553	18,654,000

(A) Source: Hallandale Beach building division.

(B) Source: FDIC website

Table 16

CITY OF HALLANDALE BEACH, FLORIDA

Demographic Statistics

Last Ten Fiscal Years

Fiscal year	Population (1)	Per capita personal income (2)	Broward County unemployment rate (3)	Hallandale Beach unemployment rate (4)	Public school enrollment (5)
1994	31,302	\$ 24,503	6.00%	9.30%	3,696
1995	31,489	25,566	5.70%	8.10%	2,120
1996	31,458	26,336	5.00%	7.80%	2,474
1997	31,470	27,721	5.10%	6.90%	2,601
1998	31,413	28,015	4.50%	7.00%	2,643
1999	31,504	28,281	4.10%	6.20%	2,578
2000	34,282 (6)	29,629	3.90%	5.60%	2,635
2001	34,286	30,702	4.60%	5.40%	2,712
2002	34,254	*	5.90%	4.60%	2,817
2003	34,908	*	5.60%	*	2,835

* Information not available.

(1) Source: University of Florida, Bureau of Economic Research for Hallandale Beach.

(2) Source: U.S. Department of Commerce, Bureau of Economic Analysis for year ended December 31.

(3) Source: Florida Department of Labor and Employment Security for Broward County.

(4) Source: Florida Department of Labor and Employment Security for Hallandale Beach.

(5) Source: Broward School District for Hallandale Beach.

(6) U. S. Census.

Table 17

CITY OF HALLANDALE BEACH, FLORIDA

Principal Taxpayers

September 30, 2003

<u>Taxpayer</u>	<u>Type of business</u>	<u>Nonexempt taxable value (A)</u>	<u>% of total nonexempt taxable value</u>
Omnipoint Communications MB	D/B/A Voicestream Wireless	\$ 42,902,755	2.191%
Diplomat Properties Ltd. Partnership	Country Club/Hotel	30,131,350	1.539%
Gulfstream Park Racing Association	Pari-mutuel track	26,209,913	1.339%
Three Islands Assoc. Residential	Condominiums	22,192,793	1.134%
Florida Power & Light	Utility	19,381,764	0.990%
Hollywood Greyhound Track	Pari-mutuel track	17,618,440	0.900%
17070 Collins Ave. Shopping Center	Shopping Center (Diplomat Mall)	16,992,840	0.868%
Southern Bell Tel & Tel.	Communications	16,275,905	0.831%
Oceanfront LLC	Real Estate Development	14,564,125	0.744%
Wal-Mart Stores Inc.	Retail Store	10,716,497	0.547%
Riviera Yacht & Beach Club	Yacht Club	9,562,650	0.488%
GPH Holdings LC	Promenade at Hallandale	7,237,710	0.370%
		<u>\$ 233,786,742</u>	<u>11.941%</u>

Source: Broward County Revenue Collector

Table 18

CITY OF HALLANDALE BEACH, FLORIDA

Miscellaneous Statistical Data

September 30, 2003

Date of Incorporation	May 15, 1927			
Year of First Charter	1927			
Year of Present Charter	1976			
		Age distribution of population (2000 Census)		
		Age	Percent of total population	
Type of Government:		0-4	4.0	
Commission - Manager		5-14	7.3	
Commission composed of a Mayor, Vice Mayor and three Commissioners. At each regular City election, three terms are filled, with the two candidates receiving the greatest and second-greatest number of votes being elected to terms of four years each, and the candidate receiving the third greatest number of votes being elected to a two-year term.		15-24	7.2	
		25-44	22.9	
		45-54	11.1	
		55-64	11.7	
		65+	35.8	
		Public Education:		
Area:		School	Students	Teachers
4.4 square miles		Elementary	1	1,290
2,816 acres		High school	1	1,545
		2	2,835	169
Miles of streets, alleys, and sidewalks:				
Improved		67.05		
Unimproved		1.0		
Alleys		28.6		
Sidewalks		39.91		
Miles of Sewers:				
Sanitary		72.5		
Storm		30.85		
Water System:				
Miles of water lines		77.1		
Plant capacity		10 million gpd.		
Avg. daily consumption		5.7 million gallons		
Number of connections		6639		
Number of hydrants		545		
Fire Protection:				
Stations		3		
Employees		70		
Police Protection:				
Stations		1		
Employees		122		
		Recreation:		
		Parks and playgrounds		
		12		
		Municipal beaches		
		2		
		Tennis courts		
		14		
		Total recreation acreage		
		49.7		
		Employees:		
		Civil service		
		367		
		Exempt		
		66		
		Part time		
		122		
		555		
		431		
		Building Permits:		
		Permits issued		
		2,541		
		Construction value		
		\$ 20,722,872		

APPENDIX I

FINANCIAL INFORMATION REGARDING THE CITY OF HIALEAH

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City of Hialeah, Florida
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund
 Fiscal Years Ended September 30,

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:			
Ad valorem taxes	\$41,845,484	\$39,840,108	\$37,761,909
Utility taxes	18,801,233	19,913,415	17,169,661
Franchise fees	8,211,709	7,692,273	8,766,068
Licenses and permits	--	--	5,128,004
State and local shared revenues	20,351,928	19,035,139	18,399,706
Fines and forfeitures	1,460,095	1,648,061	1,517,199
Hialeah race course lease	647,515	647,515	--
Interest	637,658	1,488,313	2,295,127
Government grants and other revenues	4,703,902	7,432,382	5,430,427
Occupational licenses	5,286,777	5,167,449	--
Revenues from direct-financing lease	--	--	647,515
Total revenues	<u>101,946,301</u>	<u>102,864,655</u>	<u>97,115,616</u>
Expenditures:			
Current:			
Police	31,325,448	28,405,103	28,742,435
Fire	21,619,600	20,343,022	20,005,416
Fleet maintenance	1,881,045	1,851,115	1,851,343
Construction and maintenance	2,054,030	1,918,975	1,923,927
Recreation and community service	10,195,983	9,227,272	8,749,184
Streets	--	--	--
Planning and development	1,799,826	1,685,782	1,660,652
Law	718,858	678,808	670,619
Risk management	348,490	176,276	151,812
Human resources	525,478	545,610	491,890
City Clerk's office	1,073,200	935,630	876,264
Office of Management and Budget	311,318	300,298	298,513
Office of the Mayor	540,311	510,635	416,074
Employee retirement	442,392	418,449	435,290
Library	1,615,478	1,374,704	1,229,786
Compliance division	417,583	482,642	491,783
Finance	672,957	685,732	655,265
Community development	--	--	--
Grants and human services	--	--	--
S.H.I.P. expenses	--	--	--
General government	22,461,822	21,685,964	22,435,091
Workforce Investment Act programs	--	--	--
Division of licenses	409,197	355,899	314,903
Information systems	672,018	578,067	533,233
Other expenditures	--	18,669	--
Capital outlay	2,542,142	3,772,879	2,552,516
Debt Service:			
Principal	1,855,738	2,235,607	2,117,713
Interest	--	338,728	459,663
Issuance costs	--	--	--
Total expenditures	<u>103,482,914</u>	<u>98,525,866</u>	<u>97,063,372</u>
Excess (deficiency) of revenues over expenditures	<u>(1,536,613)</u>	<u>4,338,789</u>	<u>52,244</u>
Other financing sources (uses):			
Operating transfers in	1,596,160	1,646,160	1,832,181
Operating transfers out	(257,493)	(1,444,534)	(88,869)
Total other financial sources (uses)	1,338,667	201,626	1,743,312
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(197,946)</u>	4,540,415	1,795,556
Fund balance, beginning	26,262,734	21,722,319	19,926,751
Prior period adjustment	1,935,021	--	--
Residual equity transfers in (out)	--	--	--
Cumulative effect of a change in accounting principle	--	--	--
Fund balances - beginning - as restated	<u>\$28,197,755</u>	--	--
Fund balances, ending	<u>\$27,999,809</u>	<u>\$26,262,734</u>	<u>\$21,722,307</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and City Council
City of Hialeah, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hialeah, Florida (the City) for the year then ended September 30, 2003 which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

As disclosed in Note 1 to the basic financial statements, the City early implemented the new financial reporting requirements of Government Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2003, and the respective changes in financial position, and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Required Supplementary Information on pages 3 to 15 and pages 54 to 58, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rachlin Cohen & Holtz LLP

One Southeast Third Avenue ■ Tenth Floor ■ Miami, Florida 33131 ■ Phone 305.377.4228 ■ Fax 305.377.8331 ■ www.rachlin.com

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Honorable Mayor and City Council
City of Hialeah, Florida
Page Two

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying combining, individual fund statements and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Similarly, the accompanying schedule of expenditures of federal awards programs and state financial assistance projects is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rachlin Cohen & Holtz LLP

Miami, Florida
January 23, 2004

CITY OF HIALEAH, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2003.

	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 41,965,314	\$ 11,088,425	\$ 53,053,739
Investments	-	6,829,296	6,829,296
Receivables	8,578,152	8,021,785	16,599,937
Due from other governmental agencies	3,159,339	-	3,159,339
Due from pension trust fund	-	27,373	27,373
Internal balances	(2,160,145)	2,160,145	-
Inventories	528,104	497,061	1,025,165
Other current assets	145,131	-	145,131
Restricted assets:			
Cash and cash equivalents	41,355,770	15,293,379	56,649,149
Investments	-	17,140,636	17,140,636
Other assets	-	2,345,600	2,345,600
Unamortized bond issue costs	1,164,097	-	1,164,097
Capital assets, net	<u>191,254,467</u>	<u>76,733,707</u>	<u>267,988,174</u>
Total assets	<u>\$ 285,990,229</u>	<u>\$ 140,137,407</u>	<u>\$ 426,127,636</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ 13,768,868	\$ 7,177,826	\$ 20,946,694
Deferred revenue	5,263,132	2,327,757	7,590,889
Liabilities payable from restricted assets	-	5,198,953	5,198,953
Other liabilities	719,254	964,750	1,684,004
Non-current liabilities:			
Due within one year	20,484,333	3,230,000	23,714,333
Compensated absences	-	1,532,187	1,532,187
Due in more than one year	<u>148,332,178</u>	<u>10,658,526</u>	<u>158,990,704</u>
Total liabilities	<u>188,567,765</u>	<u>31,089,999</u>	<u>219,657,764</u>
Commitments and contingencies	-	-	-
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	105,547,406	62,845,181	168,392,587
Restricted for:			
Encumbrances	9,202,350	-	9,202,350
Inventories	528,104	-	528,104
General contingencies	19,583,214	6,293,403	25,876,617
Asset renewal and replacement	27,160,753	250,000	27,410,753
Retirement of 1968 revenue bonds	-	871,027	871,027
Unrestricted	<u>(64,599,363)</u>	<u>38,787,797</u>	<u>(25,811,566)</u>
Total net assets	<u>\$ 97,422,464</u>	<u>\$ 109,047,407</u>	<u>\$ 206,469,871</u>

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 47,545,513	\$ 14,425,002	\$ 17,808,146	\$ -	\$ (15,312,365)	\$ -	\$ (15,312,365)
Police	32,377,628	1,846,327	-	-	(30,531,301)	-	(30,531,301)
Fire	22,940,682	-	2,357,135	-	(20,583,547)	-	(20,583,547)
Streets	11,956,652	-	1,920,255	-	(10,036,397)	-	(10,036,397)
Recreation and community services	11,106,559	-	78,905	-	(11,027,654)	-	(11,027,654)
Interest on long term debt	1,245,786	-	-	-	(1,245,786)	-	(1,245,786)
Total governmental activities	<u>127,172,820</u>	<u>16,271,329</u>	<u>22,164,441</u>	<u>-</u>	<u>(88,737,050)</u>	<u>-</u>	<u>(88,737,050)</u>
Business-type activities:							
Water and sewer	35,101,318	41,823,746	845,263	-	-	7,567,690	7,567,690
Solid waste	12,935,775	13,122,644	-	14,759	-	201,628	201,628
Hialeah circulator	1,524,551	1,596,850	-	-	-	72,299	72,299
Total business-type activities	<u>49,561,644</u>	<u>56,543,240</u>	<u>845,263</u>	<u>14,759</u>	<u>-</u>	<u>7,841,618</u>	<u>7,841,618</u>
	<u>\$ 176,734,464</u>	<u>\$ 72,814,568</u>	<u>\$ 23,009,704</u>	<u>\$ 14,759</u>	<u>(88,737,050)</u>	<u>7,841,618</u>	<u>(80,895,433)</u>
General revenues:							
Property taxes					41,845,482	-	41,845,482
Utility taxes					22,134,216	-	22,134,216
State and local shared revenue					29,432,234	-	29,432,234
Grants and contributions not restricted to specific programs					-	1,194,901	1,194,901
Unrestricted interest					883,331	-	883,331
Transfers					800,000	(800,000)	-
Total general revenues and transfers					<u>95,095,263</u>	<u>394,901</u>	<u>95,490,164</u>
Change in net assets					6,358,213	8,236,519	14,594,732
Net assets - beginning, as restated					<u>91,064,251</u>	<u>100,810,888</u>	<u>191,875,139</u>
Net assets - ending					<u>\$ 97,422,464</u>	<u>\$ 109,047,407</u>	<u>\$ 206,469,871</u>

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA

BALANCE SHEET GOVERNMENTAL FUNDS

SEPTEMBER 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 35,987,311	\$ 5,978,003	\$ 41,965,314
Receivables	7,007,099	1,571,053	8,578,152
Due from other funds	6,760,999	3,855,288	10,616,287
Due from other governmental agencies	4,049	3,155,290	3,159,339
Other current assets	-	145,131	145,131
Inventories	528,104	-	528,104
Restricted cash	-	41,355,770	41,355,770
Total assets	<u>\$ 50,287,562</u>	<u>\$ 56,060,535</u>	<u>\$ 106,348,097</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Vouchers payable and accrued liabilities	\$ 5,456,125	\$ 8,312,743	\$ 13,768,868
Compensated absences payable	379,454	-	379,454
Self-insurance claims payable	6,121,098	-	6,121,098
Due to other funds	7,180,999	5,595,433	12,776,432
Deferred revenue	2,684,094	2,579,038	5,263,132
Other liabilities	465,983	253,272	719,255
Total liabilities	<u>22,287,753</u>	<u>16,740,486</u>	<u>39,028,239</u>
Fund balances:			
Reserved for:			
Encumbrances	350,944	8,851,406	9,202,350
Inventories	528,104	-	528,104
Unreserved:			
Designated for:			
Subsequent years' expenditures	17,000,000	2,583,214	19,583,214
Future construction	904,000	26,256,753	27,160,753
Undesignated unreserved reported in:			
General fund	9,216,761	-	9,216,761
Special revenue fund	-	1,628,676	1,628,676
Total fund balances	<u>27,999,809</u>	<u>39,320,049</u>	<u>67,319,858</u>
Total liabilities and fund balances	<u>\$ 50,287,562</u>	<u>\$ 56,060,535</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Unamortized bond issuance costs			1,164,097
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			191,254,467
Long-term liabilities, including bonds payable, are not due and payable in the current period			(168,816,511)
Portion of long term liabilities (claims payable and compensated absence payables) due within one year recorded in the funds			6,500,553
Net assets of governmental activities			<u>\$ 97,422,464</u>

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes:			
Ad valorem taxes	\$ 41,845,484	\$ -	\$ 41,845,484
Utility taxes	18,801,233	3,332,983	22,134,216
Franchise	8,211,709	-	8,211,709
Licenses and permits	-	279,000	279,000
State and local shared revenues	20,351,928	9,080,309	29,432,237
Fines and forfeitures	1,460,095	386,231	1,846,326
Hialeah race course lease	647,515	-	647,515
Interest	637,658	245,674	883,332
Government grants and other revenues	4,703,902	17,610,758	22,314,660
Occupational licenses	5,286,777	-	5,286,777
Total revenues	<u>101,946,301</u>	<u>30,934,955</u>	<u>132,881,256</u>
Expenditures:			
Current:			
General government	22,461,822	3,465,312	25,927,134
Police	31,325,448	67,519	31,392,967
Fire	21,619,600	680,909	22,300,509
Streets	-	5,569,831	5,569,831
Grants and human services	-	1,133,005	1,133,005
State housing initiative expenses	-	1,266,610	1,266,610
Work Investment Act programs	-	1,910,697	1,910,697
City Clerk's office	1,073,200	-	1,073,200
Office of Management and Budget	311,318	-	311,318
Office of the Mayor	540,311	-	540,311
Employee retirement	442,392	-	442,392
Library	1,615,478	-	1,615,478
Compliance division	417,583	-	417,583
Finance	672,957	-	672,957
Division of licenses	409,197	-	409,197
Information systems	672,018	-	672,018
Fleet maintenance	1,881,045	-	1,881,045
Construction and maintenance	2,054,030	-	2,054,030
Recreation and community services	10,195,983	-	10,195,983
Planning and development	1,799,826	-	1,799,826
Law	718,858	-	718,858
Risk management	348,490	-	348,490
Human resources	525,478	-	525,478
Other expenditures	-	7,253	7,253
Debt service:			
Principal	1,855,738	149,107	2,004,845
Interest	-	2,961,109	2,961,109
Issuance costs	-	837,122	837,122
Capital outlay	<u>2,542,142</u>	<u>29,528,738</u>	<u>32,070,880</u>
Total expenditures	<u>103,482,914</u>	<u>47,577,212</u>	<u>151,060,126</u>
Deficiency of revenues over expenditures	<u>(1,536,613)</u>	<u>(16,642,257)</u>	<u>(18,178,870)</u>
Other financing sources (uses):			
Debt issued	-	48,135,000	48,135,000
Premium on debt	-	1,861,747	1,861,747
Transfers in	1,596,160	611,454	2,207,614
Transfers out	(257,493)	(1,150,121)	(1,407,614)
Total other financing sources (uses)	<u>1,338,667</u>	<u>49,458,080</u>	<u>50,796,747</u>
Net change in fund balances	<u>(197,946)</u>	<u>32,815,823</u>	<u>32,617,877</u>
Fund balances - beginning	26,262,734	6,504,226	32,766,960
Prior period adjustment (see Note 15)	1,935,021	-	1,935,021
Fund balances - beginning - as restated	<u>28,197,755</u>	<u>6,504,226</u>	<u>34,701,981</u>
Fund balances - ending	<u>\$ 27,999,809</u>	<u>\$ 39,320,049</u>	<u>\$ 67,319,858</u>

See notes to basic financial statements

CITY OF HIALEAH, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2003

Amounts reported for governmental activities in the statement of activities
(Page 17) are different because:

Net change in fund balances - total governmental funds (Page 19)	\$ 32,617,877
--	---------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

The details of the difference are as follows:

Capital outlay	\$ 29,502,820	
Depreciation expense	<u>(8,922,714)</u>	
Net adjustment		20,580,106

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations)	(251,728)
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The issuance of long-term debt (e.g., bonds, master leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

The details of the differences are as follows:

Debt issued:	
2003A Series Florida Municipal Bonds	(48,135,000)

Principal payments:

Revenue bonds	140,000	
Notes payable	1,733,724	
Mortgage payable	5,398	
Master leases	<u>1,172,727</u>	
		3,051,849

Bond issue costs, bond discount/premium	(1,037,289)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

The details of the difference are as follows:

Compensated absences	(507,602)
Other	<u>40,000</u>

Change in net assets of governmental activities (Page 17)	<u>\$ 6,358,213</u>
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See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2003

<u>ASSETS</u>	<u>Water and Sewers Utility System</u>	<u>Solid Waste Utility System</u>	<u>Nonmajor Fund- Hialeah Circulator</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 11,088,275	\$ 150	\$ -	\$ 11,088,425
Customers accounts receivable	7,488,804	-	-	7,488,804
Other receivable	78,278	-	452,103	530,381
Accrued interest receivable	2,600	-	-	2,600
Investments	6,829,296	-	-	6,829,296
Due from other funds	-	5,612,967	-	5,612,967
Inventories	497,061	-	-	497,061
Total current assets	<u>25,984,314</u>	<u>5,613,117</u>	<u>452,103</u>	<u>32,049,534</u>
Restricted assets:				
Cash	15,293,379	-	-	15,293,379
Investments	17,140,636	-	-	17,140,636
Other assets	2,345,600	-	-	2,345,600
	<u>34,779,615</u>	<u>-</u>	<u>-</u>	<u>34,779,615</u>
Capital assets	129,667,680	11,826,009	59,913	141,553,602
Less accumulated depreciation	(58,643,943)	(6,169,970)	(5,982)	(64,819,895)
	<u>71,023,737</u>	<u>5,656,039</u>	<u>53,931</u>	<u>76,733,707</u>
Total assets	<u>\$ 131,787,666</u>	<u>\$ 11,269,156</u>	<u>\$ 506,034</u>	<u>\$ 143,562,856</u>

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA

STATEMENT OF NET ASSETS PROPRIETARY FUNDS (Continued)

SEPTEMBER 30, 2003

<u>LIABILITIES AND NET ASSETS</u>	Water and Sewers Utility System	Solid Waste Utility System	Nonmajor Fund- Hialeah Circulator	Total
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 6,245,378	\$ 834,305	\$ 98,143	\$ 7,177,826
Self-insurance claims payable	446,807	517,943	-	964,750
Due to other funds	-	-	418,778	418,778
Current portion of compensated absences	66,606	62,368	-	128,974
Total current liabilities	<u>6,758,791</u>	<u>1,414,616</u>	<u>516,921</u>	<u>8,690,328</u>
Current liabilities payable from restricted assets:				
Accrued interest	321,236	-	-	321,236
Current maturities of long-term debt	3,230,000	-	-	3,230,000
Due to other funds	3,006,671	-	-	3,006,671
Customer deposits	4,877,717	-	-	4,877,717
Total current liabilities payable from restricted assets	<u>11,435,624</u>	<u>-</u>	<u>-</u>	<u>11,435,624</u>
Long-term liabilities:				
1968 revenue bond payable, net of current maturities	1,480,000	-	-	1,480,000
State of Florida loan payable, net of current maturities	8,340,000	-	-	8,340,000
Revolving loan	838,526	-	-	838,526
Deferred revenues, net	178,456	-	-	178,456
Deferred interest, net	2,149,301	-	-	2,149,301
Compensated absences payable	740,325	662,888	-	1,403,213
Total long-term liabilities	<u>13,726,608</u>	<u>662,888</u>	<u>-</u>	<u>14,389,496</u>
Total liabilities	<u>31,921,023</u>	<u>2,077,504</u>	<u>516,921</u>	<u>34,515,448</u>
Net assets:				
Invested in capital assets, net of related debt	57,135,211	5,656,039	53,931	62,845,181
Restricted for:				
General contingencies	6,293,402	-	-	6,293,402
Asset renewal and replacement	250,000	-	-	250,000
Retirement of 1968 revenue bonds	871,027	-	-	871,027
Unrestricted	35,317,003	3,535,612	(64,818)	38,787,797
Total net assets	<u>\$99,866,643</u>	<u>\$9,191,651</u>	<u>\$(10,887)</u>	<u>\$ 109,047,407</u>

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	Water and Sewers Utility System	Solid Waste Utility System	Nonmajor Fund- Hialeah Circulator	Total
Operating revenues:				
Metered water sales	\$ 13,962,094	\$ -	\$ -	\$ 13,962,094
Sanitary sewer service	26,059,878	-	-	26,059,878
Sanitation fees	-	13,122,644	-	13,122,644
Other	1,801,774	14,759	1,596,850	3,413,383
Total operating revenues	<u>41,823,746</u>	<u>13,137,403</u>	<u>1,596,850</u>	<u>56,557,999</u>
Operating expenses:				
Operating, administrative and maintenance	31,622,333	12,314,746	1,518,569	45,455,648
Depreciation	2,674,704	621,029	5,982	3,301,715
Total operating expenses	<u>34,297,037</u>	<u>12,935,775</u>	<u>1,524,551</u>	<u>48,757,363</u>
Operating income	<u>7,526,708</u>	<u>201,628</u>	<u>72,299</u>	<u>7,800,636</u>
Non-operating revenues (expenses):				
Interest and other income	1,142,896	52,005	-	1,194,901
Interest expense	(804,280)	-	-	(804,280)
Net non-operating revenues	<u>338,616</u>	<u>52,005</u>	<u>-</u>	<u>390,621</u>
Income before contributions and transfers	7,865,324	253,633	72,299	8,191,256
Capital contributions	845,263	-	-	845,263
Transfers out	-	(800,000)	-	(800,000)
Change in net assets	8,710,587	(546,367)	72,299	8,236,519
Net assets, beginning	<u>91,156,056</u>	<u>9,738,018</u>	<u>(83,186)</u>	<u>100,810,888</u>
Net assets, ending	<u>\$99,866,643</u>	<u>\$9,191,651</u>	<u>\$ (10,887)</u>	<u>\$ 109,047,407</u>

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Water and Sewers Utility System</u>	<u>Solid Waste Utility System</u>	<u>Nonmajor Fund- Hialeah Circulator</u>	<u>Totals</u>
Cash flows from operating activities:				
Cash received from customers	\$ 40,716,839	\$ 14,208,740	\$ 1,144,747	\$ 56,070,326
Cash payments to suppliers	(23,883,394)	(12,841,149)	(1,144,747)	(37,869,290)
Cash payments to employees	(9,320,574)	14,759	-	(9,305,815)
Net cash provided by operating activities	<u>7,512,871</u>	<u>1,382,350</u>	<u>-</u>	<u>8,895,221</u>
Cash flows from noncapital financing activities:				
Capital contributions	845,263	-	-	845,263
Transfers out	-	(800,000)	-	(800,000)
Net cash provided by (used in) noncapital financing activities	<u>845,263</u>	<u>(800,000)</u>	<u>-</u>	<u>45,263</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(4,188,076)	(634,356)	-	(4,822,432)
Interest paid	(804,280)	-	-	(804,280)
Proceeds from long-term debt	25,055	-	-	25,055
Payments on notes payable	(3,045,000)	-	-	(3,045,000)
Net cash used in capital and related financing activities	<u>(8,012,301)</u>	<u>(634,356)</u>	<u>-</u>	<u>(8,646,657)</u>
Cash flows from investing activities:				
Payments for purchase of investments	(450,941)	-	-	(450,941)
Decrease in restricted investments other than cash	162,430	-	-	162,430
Interest received on investments	1,142,897	52,006	-	1,194,903
Net cash provided by investing activities	<u>854,386</u>	<u>52,006</u>	<u>-</u>	<u>906,392</u>
Net increase in cash and cash equivalents	1,200,219	-	-	1,200,219
Cash and cash equivalents, beginning	<u>25,181,435</u>	<u>150</u>	<u>-</u>	<u>25,181,585</u>
Cash and cash equivalents, ending	<u>\$ 26,381,654</u>	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 26,381,804</u>
Cash and cash equivalents per statement of net assets:				
Unrestricted	\$ 11,088,275	\$ 150	\$ -	\$ 11,088,425
Restricted	<u>15,293,379</u>	<u>-</u>	<u>-</u>	<u>15,293,379</u>
	<u>\$ 26,381,654</u>	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 26,381,804</u>

(Continued)

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

(Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Water and Sewers Utility System</u>	<u>Solid Waste Utility System</u>	<u>Nonmajor Fund- Hialeah Circulator</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$7,526,708	\$ 201,628	\$ 72,299	\$ 7,800,636
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	2,674,704	621,029	5,982	3,301,715
Amortization of deferred revenues	(121,980)	-	-	(121,980)
Loss on sale of investments	4,990	-	-	4,990
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(144,076)	-	(452,103)	(596,179)
Other receivables	148,209	-	-	148,209
Due from other funds	-	1,086,096	-	1,086,096
Due from City of Hialeah	(1,111,050)	-	-	(1,111,050)
Inventories	(84,814)	-	-	(84,814)
Prepaid costs	7,488	-	-	7,488
Increase (decrease) in:				
Vouchers payable and accrued liabilities	(2,664,464)	(78,028)	27,090	(2,715,402)
Self insurance claims payable	(401,257)	(314,471)	-	(715,728)
Compensated absences payable	(15,402)	(133,904)	-	(149,306)
Due to other funds	-	-	346,732	346,732
Due to the City of Hialeah	1,577,982	-	-	1,577,982
Liabilities payable from restricted deposits	115,833	-	-	115,833
Total adjustments	<u>(13,837)</u>	<u>1,180,722</u>	<u>(72,299)</u>	<u>1,094,586</u>
Net cash provided by operating activities	<u>\$7,512,871</u>	<u>\$1,382,350</u>	<u>\$ -</u>	<u>\$ 8,895,221</u>

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2003

	<u>Pension Trust</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 41,147,050
Investments	423,357,646
Receivables:	
Accrued interest and dividends	2,097,512
Due from other funds	696,852
Investments sold	<u>725,636</u>
Total receivables	3,520,000
Loans to members	<u>8,833,028</u>
Total assets	<u>476,857,724</u>
<u>LIABILITIES AND NET ASSETS</u>	
Due to retired participants	33,306,866
Investments purchased	1,254,075
Accounts payable and accrued liabilities	772,791
Due to other funds	<u>27,373</u>
Total liabilities	<u>35,361,105</u>
Net assets held in trust for pension benefits	<u>\$ 441,496,619</u>

See notes to basic financial statements.

CITY OF HIALEAH, FLORIDA
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Pension Trust</u>
ADDITIONS	
Contributions:	
Employer	\$ 8,259,997
Employee	<u>5,168,143</u>
Total contributions	<u>13,428,140</u>
 Investment income:	
Net appreciation in fair value of investments	43,938,205
Investment earnings	<u>15,473,939</u>
	59,412,144
Less investment expenses	<u>842,309</u>
Net investment income	<u>58,569,835</u>
Total additions	<u>71,997,975</u>
 DEDUCTIONS	
Pension benefits	24,936,637
Refunds	<u>9,765,690</u>
Total deductions	<u>34,702,327</u>
 Net increase	37,295,648
 Net assets held in trust for pension benefits:	
Beginning	<u>404,200,971</u>
End	<u>\$ 441,496,619</u>

See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hialeah, Florida (the City) was incorporated in 1925. The City operates under a strong mayor form of government with the legislative function being vested in a seven-member council. The City provides the following services as authorized by its charter: public safety (police and fire), streets, water and wastewater, sanitation, social services, culture-recreation, public improvements, planning and zoning and general administrative services. The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles. The more significant of the City's accounting policies are described below.

a. The Financial Reporting Entity

The financial statements were prepared in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of the elected officials. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City is financially accountable for a component unit if it appoints a voting majority of the organization's governing board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. Based upon the application of these criteria, there were no organizations that met the criteria described above.

Related Organization

The City Council is also responsible for appointing the members of the Board of the Hialeah Housing Authority, but the City's accountability for this organization does not extend beyond making the appointments. In fiscal year 2003, the City appropriated an operating grant of approximately \$175,000 to this organization, of which \$173,374 was expended.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The government reports the following major proprietary funds:

The *Water and Sewers Utility System Fund* accounts for the activities of the Water and Sewers Department. The Department operates the sewage treatment plant, sewage pumping stations and collection systems, and the water distribution system.

The *Solid Waste Utility System Fund* accounts for providing solid waste services to customers of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to his same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewers fund and the solid waste fund are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents, for the purpose of the statement of cash flows, are considered to be cash on hand, demand deposits, certificates of deposit and short term investments with original maturities of three months or less from the date of acquisition.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets or Equity (Continued)

1. Deposits and Investments (Continued)

State statutes authorize the City to invest in obligations of the U.S. Government, certificates of deposit, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

The City's Retirement Plans are authorized by its governing board to invest in obligations of the U.S. Government, common stocks and corporate bonds. Investments are reported at fair value.

2. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred as either "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

3. Inventories

Inventories of the general fund are valued at cost determined on the first-in/first-out (FIFO) method, and consist of gasoline and expendable supplies available for consumption. Inventory acquired by the City is expensed when purchased (purchase method). Inventories are recorded on the balance sheet with a reservation of fund balance. Inventories of the water and sewers fund are valued at lower of cost (determined using the weighted average) or market and consist of pipe, valves, fittings and meters.

4. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, bike paths and similar items) are reported in the applicable government or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial,

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets or Equity (Continued)

4. Capital Assets (Continued)

individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Improvements other than buildings	15-25
Furniture, fixtures, machinery and equipment	5-15
Public domain and system infrastructure	50

5. Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and the department, which the employee services.

The City's vacation and sick leave policy is to permit employees to accumulate earned but unused sick pay benefits. Such leave is accrued and reported as a fund liability when it is probable that the City will compensate the employee with expendable available financial resources. Vacation and sick leave is accrued when incurred in proprietary funds and reported as a fund liability. All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Deferred Revenues

Revenues collected in advance are deferred and recognized as revenue in the period earned.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets or Equity (Continued)

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Unreserved undesignated fund balance is the portion of fund equity available for any lawful use.

9. Capital Contributions

Capital contributions in proprietary fund financial statements arise from grants or outside contributions of resources restricted to capital acquisition and construction.

10. Use of Estimates

The financial statements and related disclosures are prepared in conformity with principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities. The disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the period reported. These estimates include assessing the collectibility of accounts receivable, the use and recoverability of inventory, pension and postretirement obligations and useful lives and impairment of tangible assets, the determination of the actuarially accrued liability for unpaid claims, which is prepared based upon certain assumptions pertaining to interest rates, inflation rates, etc., among

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Assets, Liabilities and Net Assets or Equity (Continued)

10. Use of Estimates (Continued)

others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statement in the period they are determined to be necessary. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

NOTE 2. PROPERTY TAXES

Property taxes (ad valorem taxes) are assessed on January 1 and are billed and payable November 1, with discounts of one to four percent if paid prior to March 1 of the following calendar year. All unpaid taxes on real and personal property become delinquent on April 1 and accrue interest charges from April 1 until a tax sale certificate is sold at auction.

Assessed values are established by the Miami-Dade County Property Appraiser at approximately fair market value. The assessed value of property at January 1, 2003, upon which the 2002-2003 levy was based, was approximately \$6.44 billion. The County bills and collects all property taxes for the City.

Under Florida law, the assessment of all properties and the collection of all county, municipal, school district and special district property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The City is permitted by Article 7, Section 8 of the Florida Constitution to levy taxes up to \$10 (10 mills) per \$1,000 of assessed valuation for general governmental services (other than the payment of principal and interest on general obligation long-term debt). In addition, unlimited amounts may be levied for the payment of principal and interest on general obligation long-term debt, subject to a limitation on the amount of debt outstanding. The millage rate to finance general governmental services for the year ended September 30, 2003 was 7.528 mills per \$1,000 of assessed valuation.

NOTE 3. CASH AND INVESTMENTS

Cash

In addition to insurance provided by the Federal Deposit Insurance Corporation, all deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits are deemed as insured or collateralized with securities held by the entity or its agent in the entity's name.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 3. CASH AND INVESTMENTS (Continued)

Cash (Continued)

The carrying amount of the City's deposits on the statement of net assets (including fiduciary funds) is as follows:

Pooled cash	\$ 107,702,888
Certificate of deposit	2,000,000
Cash held with trustee, fiduciary funds	<u>1,619,865</u>
	<u>\$ 111,322,753</u>

Investments

As required by Florida Statutes, the City has adopted a written investment policy which may, from time to time, be amended by the City.

City administration is authorized to invest in those instruments authorized by the Florida statutes and the City's By Laws.

The investments held in the Retirement Plans may be invested in obligations of the U.S. Government or its agencies, first mortgages or first mortgage bonds, corporate bonds, and common or preferred stock. Investments are reported at fair value.

Investments are required to be categorized to give an indication of the level of credit risk assumed by the City at year end. The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes insured or registered or securities held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the City's name.

Investments consist of the Local Government Surplus Funds Trust Fund administered by State Board of Administration and investments held by the City's retirement funds. The Local Government Surplus Funds Trust Fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the funds have adopted operating procedures consistent with the requirements for a 2a-7 fund.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 3. CASH AND INVESTMENTS (Continued)

Investments (Continued)

At September 30, 2003, the City's investment balances were as follows:

	<u>Category 1</u>
Overnight repurchase agreements	\$ 6,829,296
U.S. Treasury bonds and notes	49,354,591
• Short-term U.S. Government securities	39,527,185
U.S. Government securities	68,005,211
Corporate bonds and notes	92,690,292
Common stocks	<u>230,448,188</u>
	<u>\$ 486,854,763</u>

A reconciliation of cash and investments as shown on the balance sheet and statement of net assets is as follows:

Deposits	\$ 92,335,478
Investments	<u>505,842,038</u>
	<u>\$ 598,177,516</u>
Cash and cash equivalents, primary government	\$ 53,053,739
Investments, primary government	6,829,296
Restricted cash and cash equivalents, primary government	56,649,149
Restricted investments, primary government	<u>17,140,636</u>
Total primary government	<u>133,672,820</u>
Cash and cash equivalents	41,147,050
Investments, fiduciary funds	<u>423,357,646</u>
Total fiduciary funds	<u>464,504,696</u>
Grant total	<u>\$ 598,177,516</u>

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 4. RECEIVABLES

Receivables as of September 30, 2003 for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water & Sewers</u>	<u>Nonmajor Circulator</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Receivables:					
Billed	\$ -	\$ 4,260,827	\$ -	\$ 300,637	\$ 4,561,464
Unbilled	-	3,227,977	-	-	3,227,977
Franchise and utility	3,766,799	-	-	-	3,766,799
Intergovernmental	37,795	-	452,103	188,983	678,881
Grants	-	-	-	1,081,433	1,081,433
Other	1,041,789	78,278	-	-	1,120,067
Interest	-	2,600	-	-	2,600
Sales taxes	<u>2,160,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,160,716</u>
Gross receivables	7,007,099	7,569,682	452,103	1,571,053	16,599,937
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$7,007,099</u>	<u>\$7,569,682</u>	<u>\$452,103</u>	<u>\$1,571,053</u>	<u>\$16,599,937</u>

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, *deferred or unearned revenue* reported in the governmental funds was as follows:

Occupational licenses	\$1,451,052
Grants and other deferred revenues	1,233,042
Hayes program	387,385
Community Development Block Grant (CDBG)	367,369
Law Enforcement Block Grant	315,613
State Housing Initiative Program (SHIP)	<u>1,508,671</u>
	<u>\$5,263,132</u>

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 5. DUE FROM/TO OTHER FUNDS

The amounts due from/to other funds at September 30, 2003 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Adjusted Balance</u>
WIA	General	\$ 387,385
CDBG	General	66,314
Law Enforcement Trust Fund	General	2,459
911	General	202,239
Emergency 911	General	221
Law Enforcement Block Grant	General	315,613
SHIP	General	1,600,441
E-911 Wireless	General	503,492
Building Impact Fees	General	249,474
Solid Waste	General	<u>4,103,141</u>
Subtotal		<u>7,430,779</u>
General	Streets	1,560,496
General	H.D.D.I	84,502
General	E-911	263,567
General	Rescue Transportation	768,450
General	Elected Officials	27,373
General	Storm Water Fund	170,155
General	Emergency Disaster	5,398
General	Home Grant	2,283
General	Safe Neighborhood Park	77,689
General	Hialeah Circulator	418,778
General	Affordable Housing	1,200,123
General	Debt Service Fund	10,173
General	Construction Fund	1,126,229
General	Hialeah Court House	326,368
General	Water Department	<u>969,195</u>
Subtotal		<u>7,010,779</u>
Solid Waste	Water Department	1,509,826
Storm Water Fund	Water Department	<u>527,650</u>
Total		<u>\$16,479,034</u>

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 5. DUE FROM/TO OTHER FUNDS (Continued)

As of September 30, 2003, major fund and nonmajor fund activity was as follows:

	<u>Receivable</u> <u>Fund</u>	<u>Payable</u> <u>Fund</u>
<u>Major Funds</u>		
General Fund	\$ 7,010,779	\$ 7,430,779
Water and Sewer	-	3,006,671
Solid Waste	<u>5,612,967</u>	<u>-</u>
Total major funds	12,623,746	10,437,450
Nonmajor Funds - Governmental	3,855,288	5,595,433
Nonmajor Funds - Enterprise	-	418,778
Fiduciary Fund	-	<u>27,373</u>
Totals	<u>\$16,479,034</u>	<u>\$16,479,034</u>

All balances at September 30, 2003 related to interfund balances.

	<u>Transfers In</u>		<u>Total</u>
	<u>General</u>	<u>Non-Major</u>	
Transfers out:			
Solid waste	\$ 800,000	\$ -	\$ 800,000
General fund	-	257,493	257,493
Nonmajor	<u>796,160</u>	<u>353,961</u>	<u>1,150,121</u>
	<u>\$1,596,160</u>	<u>\$ 611,454</u>	<u>\$2,207,614</u>

The general fund transfers to the major and nonmajor governmental funds were made to provide additional resources for current operations, and the transfer from the solid waste enterprise fund and nonmajor governmental funds to the general fund was made to provide additional resources for current operations.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 6. RESTRICTED ASSETS

Restricted assets consist of the following assets restricted for debt service and customer deposits at September 30, 2003:

Water and Sewer Fund	
Customers' deposit - cash and investments	\$ 4,889,021
Restricted for Miami-Dade County Department of Environmental Resource Management - DERM Fee	3,407,326
Sinking fund and special reserve - 1968 revenue bonds - cash and investments with fiscal agent	985,220
Bond redemption - 1968 revenue bonds - cash and cash equivalents with fiscal agents	2,465
Renewal and replacement - 1968 revenue bonds - cash and investments with fiscal agent	250,414
Renewal and replacement - State of Florida loan - cash and investments with fiscal agent	12,335,582
Debt service - State of Florida loan - cash and investments with fiscal agent	4,270,585
General contingency fund - 1968 revenue bonds	<u>6,293,402</u>
Total restricted cash water and sewer fund	<u>32,434,015</u>
Other restricted assets	
Customer accounts - Solid Waste Fund	1,510,443
Customer accounts - Stormwater Fund	561,652
Customer accounts - City Utility Tax	221,405
Security and group insurance liability deposits	<u>52,100</u>
Total other restricted assets water and sewer fund	<u>2,345,600</u>
	34,779,615
Capital Improvements Construction Fund	
Debt Service - Florida Municipal Loan Council - cash and cash equivalents	<u>41,355,770</u>
Total restricted assets	<u>\$76,135,385</u>

NOTE 7. PURCHASE AND LEASEBACK - HIALEAH PARK

In 1978, the City purchased the land occupied by Hialeah Park Racetrack for \$9,000,000, financed by 6% notes payable to banks requiring monthly payments of \$53,960, including principal and interest, through January 2008. Concurrent with the purchase, the City leased the land to new owners under an agreement providing for monthly rental payments of \$53,960 through January 2008. The notes payable to banks, which are collateralized solely by the land, stipulate that the required monthly payments are to be made from the related lease revenues (see Note 11 for related debt repayment schedule).

Terms of the lease provide that the lessee shall pay all taxes, licenses and occupancy expenses. In addition, the lessee has an option to purchase the land at the end of lease for \$100. Accordingly, the City has accounted for the lease as a direct financing lease and has capitalized future lease payments receivable and the related liability in the government-wide financial statement.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 7. PURCHASE AND LEASEBACK - HIALEAH PARK (Continued)

The net investment in direct financing lease as of September 30, 2003 is summarized as follows:

	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Total</u>
Net minimum lease payments to be received	\$ 647,515	\$ 2,158,381	\$ 2,805,896
Less unearned income	<u>133,954</u>	<u>206,544</u>	<u>340,498</u>
Net investment in direct financing lease	<u>\$ 513,561</u>	<u>\$ 1,951,837</u>	<u>\$ 2,465,398</u>

NOTE 8. CAPITAL ASSETS

A summary of the City's capital fixed assets at September 30, 2003 follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 22,771,684	\$ -	\$ -	\$ 22,771,684
Capital assets being depreciated:				
Buildings	41,436,284	349,995	-	41,786,279
Improvements other than buildings	14,364,711	2,036,565	-	16,401,276
Furniture, fixtures, machinery and equipment	27,478,965	2,529,508	(1,520,277)	28,488,196
Infrastructure	192,078,961	18,358,837	-	210,437,798
Construction-in-progress	-	6,227,915	-	6,227,915
Total capital assets being depreciated	<u>275,358,921</u>	<u>29,502,820</u>	<u>(1,520,277)</u>	<u>303,341,464</u>
Less accumulated depreciation for:				
Buildings	9,921,332	878,215	-	10,799,547
Improvements other than buildings	5,679,073	724,201	(14,462)	6,388,812
Furniture, fixtures, machinery and equipment	14,864,028	1,941,415	(1,268,549)	15,536,894
Infrastructure	96,754,545	5,378,883	-	102,133,428
Total accumulated depreciation, as restated (see Note 15)	<u>127,218,978</u>	<u>8,922,714</u>	<u>(1,283,011)</u>	<u>134,858,681</u>
Total capital assets being depreciated, net	<u>148,139,943</u>	<u>20,580,106</u>	<u>(237,266)</u>	<u>168,482,783</u>
Governmental activities capital assets, net	<u>\$ 170,911,627</u>	<u>\$ 20,580,106</u>	<u>\$ (237,266)</u>	<u>\$ 191,254,467</u>

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 8. CAPITAL ASSETS (Continued)

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 329,356	\$ -	\$ -	\$ 329,356
Construction in progress	117,452	26,774	(21,749)	122,477
Total capital assets not being depreciated	<u>446,808</u>	<u>26,774</u>	<u>(21,749)</u>	<u>451,833</u>
Capital assets being depreciated:				
Buildings and utility plant	2,735,611	111,417	-	2,847,028
Improvements to other than building	318,791	1,742	-	320,533
Machinery and equipment	16,031,606	1,062,096	(105,008)	16,988,694
Infrastructure	<u>117,527,154</u>	<u>3,643,227</u>	<u>(224,867)</u>	<u>120,945,514</u>
Total capital assets being depreciated	<u>136,613,162</u>	<u>4,818,482</u>	<u>(329,875)</u>	<u>141,101,769</u>
Less accumulated depreciation for:				
Buildings and utility plant	1,428,116	17,828	-	1,445,944
Improvements other than buildings	69,770	5,025	-	74,795
Machinery and equipment	9,532,254	980,924	(103,961)	10,409,217
Infrastructure	<u>50,816,868</u>	<u>2,297,938</u>	<u>(224,867)</u>	<u>52,889,939</u>
Total accumulated depreciation	<u>61,847,008</u>	<u>3,301,715</u>	<u>(328,828)</u>	<u>64,819,895</u>
Total capital assets being depreciated, net	<u>74,766,154</u>	<u>1,516,767</u>	<u>(1,047)</u>	<u>76,281,874</u>
Business-type activities capital assets, net	<u>\$ 75,212,962</u>	<u>\$ 1,543,541</u>	<u>\$ (22,796)</u>	<u>\$ 76,733,707</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 695,391
Police	984,661
Fire	640,173
Streets	5,686,821
Recreation	915,668
Total depreciation expense - governmental activities	<u>8,922,714</u>

Business-type activities:

Water and sewer	2,674,704
Solid waste	621,029
Hialeah Circulator	5,982
Total depreciation expense - business-type activities	<u>3,301,715</u>
	<u>\$12,224,429</u>

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 9. CAPITAL LEASES

The City has entered into a lease agreement as lessee for the retrofit installation of energy efficiency equipment in City buildings. Payment on the lease is due quarterly through 2010.

The lease agreement qualifies as capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date in the fixed assets section and the related liability in the governmental-wide financial statements.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2003 were:

	Governmental <u>Activities</u>
Year ending September 30:	
2004	\$ 79,625
2005	79,625
2006	79,625
2007	79,625
2008	79,625
2009-2010	<u>99,531</u>
Total minimum lease payments	497,656
Less amount representing interest	<u>63,610</u>
Present value of minimum lease payments	<u>\$ 434,046</u>

NOTE 10. LONG-TERM DEBT

Revenue Bonds

The City issues bonds where the City pledges revenues derived from the acquired or constructed assets to pay the debt service. Revenue bonds outstanding at year end are as follows:

1968 Revenue Bonds - The 1968 \$14,000,000 revenue bonds are due in varying annual installments through 2007 and bear interest at rates ranging from 5% to 6%, payable semi-annually. Principal is paid annually. The bonds are collateralized by a first lien on the revenues from the Water and Sewers Fund, net of amounts necessary to pay all costs of operations and maintenance. The City has also pledged all revenues, except ad valorem taxes, as collateral for the bonds. The bonds are subject to a call provision whereby they may be redeemed by the Water and Sewers Fund in inverse order of maturity upon payment of a premium of 1/4% for each year between redemption and scheduled maturity, but not exceeding a total of 3% of the face value. At September 30, 2003, \$1,960,000 remained outstanding. These bonds are accounted for in the Water and Sewers Fund.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 10. LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

The Water and Sewers Fund is required to segregate and restrict certain amounts in connection with the ordinance governing the issuance of the revenue bonds. As of September 30, 2003, the Water and Sewers Fund is in compliance with such requirements.

1993 Revenue Bonds - In November 1993, the City issued \$4,400,000 Capital Improvement Revenue Bonds, Series 1993 (the "Series 1993 Bonds"). Proceeds from the Series 1993 Bonds were used to finance construction of a new fire administration building, fund the debt service account and pay certain issuance costs. The Series 1993 bonds mature October 2018 and bear interest ranging from 3.1% to 5.5%. The Series 1993 Bonds are secured by a lien upon revenues derived by rescue transport service fees. The City will budget non-ad valorem revenues if such revenue is not adequate to pay debt service costs. At September 30, 2003, \$3,240,000 remained outstanding. These bonds are accounted for in the general long-term debt account group.

Revenue bond debt service requirements to maturity including interest of \$1,809,761 are as follows:

	1968 Revenue Bonds	1993 Revenue Bonds	<u>Total</u>
Year ending September 30:			
2004	\$ 573,530	\$ 322,295	\$ 895,825
2005	575,801	324,755	900,556
2006	542,390	324,540	866,930
2007	476,625	322,900	799,525
2008	-	323,550	323,550
2009-2013	-	1,611,900	1,611,900
2014-2018	-	1,611,475	1,611,475
Total debt service	<u>2,168,346</u>	<u>4,841,415</u>	<u>7,009,761</u>
Less amounts representing interest	<u>208,346</u>	<u>1,601,415</u>	<u>1,809,761</u>
Total principal outstanding	<u>\$1,960,000</u>	<u>\$3,240,000</u>	<u>\$5,200,000</u>

State of Florida

In fiscal year 1977, the Water and Sewers Fund borrowed \$43,490,000 from the State of Florida toward the construction of the East Side Sewer System. The loan, which bears interest at rates ranging from 5.4% to 5.6%, is payable in varying annual installments of principal and interest through 2008. The loan is collateralized by a secondary lien on net revenues of the water and sewer system after the funding requirements of the 1968 revenue bonds have been met.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 10. LONG-TERM DEBT (Continued)

State of Florida (Continued)

Construction of the East Side Sewer System was completed during 1980. Interest on the loan from the State of Florida, amounting to approximately \$5,602,000, has been capitalized and included in construction costs and will be expensed over the estimated useful life of the system (50 years).

The loan agreement provides that the State will deposit the loan proceeds in a restricted, interest-bearing investment account to be used by the Water and Sewers Fund as debt service reserves and for future construction requirements. In addition, the Department of Water and Sewers is required to make periodic escrow payments for debt service. As of September 30, 2003, \$4,270,585 is restricted for debt service payments and reserves. Interest earned on the construction funds during the time the East Side Sewer was being built, which is credited to the Water and Sewers Fund, has been deferred and is being amortized to income over the same period that the related capitalized interest is being expensed (50 years). At September 30, 2003, the unamortized deferred interest balance was \$178,456.

Annual debt service requirements to maturity for the loan from the State of Florida, including interest of \$1,590,215 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30:			
2004	\$ 2,750,000	\$ 615,720	\$ 3,365,720
2005	2,925,000	462,670	3,387,670
2006	3,110,000	299,875	3,409,875
2007	1,120,000	126,775	1,246,775
2008	1,185,000	85,175	1,270,175
Total debt	<u>\$ 11,090,000</u>	<u>\$ 1,590,215</u>	<u>\$ 12,680,215</u>

Notes Payable

Notes payable recorded in the governmental entity-wide statement relate to a loan from the Florida Municipal Loan Council, the purchase and leaseback of Hialeah Park (see Note 7) which is anticipated to be completely offset by lease income and a Community Development Block Grant Section 108 Loan.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 10. LONG-TERM DEBT (Continued)

Notes Payable (Continued)

1) Florida Municipal Loan Council

On April 28, 1999, the City executed a loan agreement with the Florida Municipal Loan Council to borrow \$30,000,000 from the proceeds of the Florida Municipal Loan Council Revenue Bonds, Series 1999 for major roadway improvements and infrastructure projects. The loan has an outstanding balance of \$25,760,000 and calls for semi-annual payments due on April 1 and October 1, commencing on October 1, 1999 through April 1, 2019 and bears interest at varying rates ranging from 3.2% to 5.1%.

On May 1, 2003, the City executed a loan agreement with the Florida Municipal Loan Council to borrow \$48,135,000 from the proceeds of the Florida Municipal Loan Council Revenue Bonds, Series 2003A, for major roadway improvements and infrastructure projects. The loan has an outstanding balance of \$48,135,000 and calls for semi-annual payments due on May 1, commencing on May 1, 2004 through May 1, 2033 and bears interest at varying rates ranging from 2.0% to 5.25%.

The arbitrage rebate requirement generally requires issuers of tax-exempt debt to rebate to the U.S. Treasury that investment income arising from proceeds of tax-exempt debt to the extent that such income results from investments yields in excess of the bond yield. The arbitrage rebate liability in connection with the Revenue Bonds is \$9,493 at September 30, 2003.

2) Community Development Block Grant Section 108 Loan

On June 14, 2000, the City executed a loan agreement with the U.S. Department of Housing and Urban Development (HUD) under HUD's Community Development Block Grant (CDBG) Section 108 Loan Program. The loan totaled \$4,400,000 and calls for semi-annual principal and interest payments at varying interest rates commencing on August 1, 2000 through August 1, 2019. The loan is payable to a bank as the trustee and registered holder of the note, guaranteed by HUD and collateralized by future CDBG funds granted to the City.

The loan had an outstanding balance of \$3,915,000 at September 30, 2003.

The City granted all of the guaranteed loan funds to a local business to finance economic development activities, including the purchase of machinery and equipment for the local business warehousing and distributing facilities and corporate headquarters. A grant agreement was also executed with the local business and the City obtained a first priority security interest in the local business machinery and equipment as stipulated in the grant agreement. As of September 30, 2003, the City has paid the local business \$4,000,000 of the loan amount and has designated the additional \$400,000 net of transaction fees in the City's CDBG special revenue fund.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

NOTE 10. LONG-TERM DEBT (Continued)

Notes Payable (Continued)

2) Community Development Block Grant Section 108 Loan (Continued)

Annual debt service requirements to maturity for notes payable, including interest of \$59,884,178 are as follows:

	Hialeah Park	Florida Municipal Loan Council 2003A Series	CDBG Section 108	Florida Municipal Loan Council 1999 Series	Total
Year ending September 30:					
2004	\$ 647,515	\$ 3,103,425	\$ 443,530	\$ 2,336,794	\$ 6,531,264
2005	647,515	3,104,425	443,162	2,336,149	6,531,251
2006	647,515	3,102,925	442,095	2,331,926	6,524,461
2007	647,515	3,104,325	440,330	2,333,242	6,525,412
2008	215,836	3,105,887	437,696	2,331,444	6,090,863
2009-2013	-	15,519,837	2,170,104	11,661,163	29,351,104
2014-2018	-	15,517,063	2,117,340	11,667,156	29,301,559
2019-2023	-	15,520,325	415,638	2,335,925	18,271,888
2024-2028	-	15,516,025	-	-	15,516,025
2029-2033	-	15,515,750	-	-	15,515,750
Total debt service	<u>2,805,896</u>	<u>93,109,987</u>	<u>6,909,895</u>	<u>37,333,799</u>	<u>140,159,577</u>
Less amounts representing interest	<u>340,498</u>	<u>44,974,987</u>	<u>2,994,895</u>	<u>11,573,799</u>	<u>59,884,179</u>
Total principal outstanding	<u>\$2,465,398</u>	<u>\$48,135,000</u>	<u>\$ 3,915,000</u>	<u>\$ 25,760,000</u>	<u>\$ 80,275,398</u>

Mortgage Payable

In September 1991, the City executed a mortgage note payable with the Miami-Dade Housing Agency for the purchase of an apartment building to be used for low-income housing. The mortgage calls for monthly principal and interest payments at 3% per annum of \$759 through August 1, 2021 and is secured by the property.

Annual debt service requirements to maturity for notes payable, including interest of \$33,456 are as follows:

Year ending September 30:	
2004	\$ 9,107
2005	9,107
2006	9,107
2007	9,107
2008	9,107
2009-2013	45,535
2014-2018	45,535
2019-2021	<u>25,801</u>
Total debt service	162,406
Less amounts representing interest	<u>41,707</u>
Total principal outstanding	<u>\$ 120,699</u>

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 10. LONG-TERM DEBT (Continued)

Revolving Loan

On May 11, 2001, the City entered into a revolving loan agreement with the State of Florida Department of Environmental Protection for the purpose of providing financial assistance for planning and designing water and sewer system improvements at a projected cost of \$4,476,787 and an expected completion date of November 15, 2003. At the completion of the preconstruction activities, the Department will establish the final cost to be financed by the loan. The loan shall be repaid in 20 semiannual loan payments beginning November 15, 2004. The semiannual loan payment is based on the total amount owed, which consists of the loan principal plus the loan service fee with its capitalization interest. As of September 30, 2003, the repayment amount was estimated at \$261,783. Amount due as of September 30, 2003 was \$838,526 which includes capitalized interest and other costs.

Changes in Long-Term Liabilities

The following is a summary of changes in the long-term debt for the year ended September 30, 2003:

	Balance September 30, <u>2002</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2003</u>	Due Within <u>One Year</u>
Governmental activities:					
Revenue bonds	\$ 3,380,000	\$ -	\$ (140,000)	\$ 3,240,000	\$ 145,000
Notes payable	33,874,122	48,135,000	(1,733,724)	80,275,398	2,613,561
Capital leases	1,606,773	-	(1,172,727)	434,046	57,334
Net pension obligation	27,567,330	17,586,060	(10,299,611)	34,853,779	10,380,256
Mortgage payable	126,097	-	(5,398)	120,699	5,427
Compensated absences	12,894,473	626,018	-	13,520,491	379,454
Claims payable	34,614,481	24,460,537	(24,460,537)	34,614,481	6,960,309
Total	114,063,276	90,807,615	(37,811,997)	167,058,894	20,541,341
Less deferred amounts:					
Discount	(83,322)	-	5,050	(78,272)	5,050
Premium	-	1,861,747	(25,858)	1,835,889	(62,058)
Total bonds and loans payable	<u>\$113,979,954</u>	<u>\$92,669,362</u>	<u>\$ (37,832,805)</u>	<u>\$ 168,816,511</u>	<u>\$20,484,333</u>
Business-type activities:					
Revenue bonds	\$ 2,420,000	\$ -	\$ (460,000)	\$ 1,960,000	\$ 480,000
Notes payable	13,675,000	-	(2,585,000)	11,090,000	2,750,000
Revolving loan	813,471	25,055	-	838,526	-
Total	<u>\$ 16,908,471</u>	<u>\$ 25,055</u>	<u>\$ (3,045,000)</u>	<u>\$ 13,888,526</u>	<u>\$ 3,230,000</u>

Other long-term liabilities such as compensated absences are normally paid from the general fund.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 11. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City is self-insured for general liability, automobile, workers' compensation, and health. For all other coverages, the City carries commercial insurance. The City currently reports all of its risk management activities in its General Fund, except those related to Enterprise Funds, which are reported in those funds. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNR). Claims liabilities are actuarially determined using historical and recent claim settlement trends. There were no significant reductions in insurance coverage from coverage in the prior year, and there were no settlements that exceeded insurance coverage for each of the past three years.

The City records the current portion of claims payable within the General Fund and the long-term portion within the General Long-Term Debt Account Group. Amounts payable from proprietary funds are accounted for within those funds.

	<u>2003</u>	<u>2002</u>
Unpaid claims, beginning	\$34,614,481	\$34,614,481
Incurred claims (including IBNR)	24,460,537	25,788,665
Claims payments	<u>(24,460,537)</u>	<u>(25,788,665)</u>
Unpaid claims, ending	<u>\$34,614,481</u>	<u>\$34,614,481</u>

NOTE 12. COMMITMENTS AND CONTINGENCIES

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits incidental to its operations. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City attorney that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Water and Sewers Fund

The Department of Water and Sewers has entered into two agreements with the Miami-Dade Water and Sewer Department (the County), whereby the County will sell treated water and provide wastewater treatment and disposal services through September 2007 and February

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

Water and Sewers Fund (Continued)

2009, respectively, to the extent required by the City. Rates paid by the City of Hialeah vary depending on usage and costs incurred by the County. The charges to operations under these agreements for the year ended September 30, 2003 were \$5,605,516 for water services and \$15,476,561 for wastewater treatment and disposal services.

Department of Transportation Turf and Landscape Maintenance Agreement

On June 16, 2000, the City entered into an agreement with the Florida Department of Transportation (FDOT) for the maintenance of roadside areas and median strips within the City of Hialeah belonging to the State Highway System. The agreement requires quarterly payments of \$41,250 by the FDOT to the City, and is effective through July 31, 2005 at which time it may be renewed by mutual consent.

NOTE 13. EMPLOYEES' AND ELECTED OFFICIALS' RETIREMENT SYSTEMS

EMPLOYEES' RETIREMENT SYSTEM

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the City of Hialeah Employees' Retirement System Plan document for more complete information.

Plan Description

The City is the administrator of a single-employer Public Employee Retirement System (PERS) established to provide pension, annuity, death, and disability benefits through a defined benefit and a defined contribution pension plan, that covers substantially all of the employees of the City and its Department of Water and Sewers. Cost of living adjustments of 2% annually (excluding beneficiaries and those members who are receiving a Deferred Retirement Allowance), are made to members for Basic and Service Pensions. The City of Hialeah Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Hialeah Employees' Retirement System, 501 Palm Avenue, Hialeah, Florida, 33010.

Loans to Members

The Employees' Retirement System Plan permits members to borrow from the Plan assets (subject to the rules of the Internal Revenue Service) at rates determined by the Plan Trustees. Interest charged on loans is 1.5% above the Wall Street Journal prime rate (4.00% as of September 30, 2003). Such loans are limited to and fully secured by the respective member's annuity savings account. Loan payments are deducted directly from the member's bi-weekly payroll.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 13. EMPLOYEES' AND ELECTED OFFICIALS' RETIREMENT SYSTEMS (Continued)

EMPLOYEES' RETIREMENT SYSTEM (Continued)

Administrative Expenses

Administrative expenses incurred by the Plans are absorbed by the City.

Funding Policy

Plan members are required to contribute 7% of their basic compensation to the Annuity Savings Fund. The City is required to contribute at an actuarially determined rate. Plan participants are permitted to purchase a maximum of four years of membership credit service time. The contribution requirements of the plan members and the City are established and may be amended by the Employees' Retirement System Board of Trustees.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation for the current year are as follows:

Annual required contribution	\$15,511,234
Interest on net pension obligation	2,074,826
Adjustment to annual required contribution	<u>(2,301,663)</u>
Annual pension cost	15,284,397
Contributions made	<u>(7,997,948)</u>
Increase in net pension obligation	7,286,449
Net pension obligation, beginning of year	<u>27,567,330</u>
Net pension obligation, end of year	<u>\$34,853,779</u>

The annual required contribution for the current year was determined as part of the October 1, 2001 actuarial valuation using the entry age normal method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increases ranging from 5.5% to 9.1% per year. Both (a) and (b) included an inflation component of 3.5%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using 4-year smoothed market method.

<u>Fiscal Year Ending</u>	<u>Three-Year Trend Information</u>		<u>Net Pension Obligation</u>
	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	
9/30/2001	\$ 7,914,164	72%	\$19,206,239
9/30/2002	11,383,313	27%	27,567,330
9/30/2003	15,284,397	52%	34,853,779

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 13. EMPLOYEES' AND ELECTED OFFICIALS' RETIREMENT SYSTEMS (Continued)

ELECTED OFFICIALS' RETIREMENT SYSTEM

Plan Description

The City of Hialeah Elected Officials' Retirement System (EORS) is a single employer defined benefit pension plan administered by the City of Hialeah. EORS provides pension benefits to qualified elected officials.

Funding Policy

The City is required to contribute at an actuarially determined rate.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation for the current year are as follows:

Annual required contribution	\$ 136,116
Interest on net pension obligation	(67,963)
Adjustment to annual required contribution	87,785
Annual pension cost	155,938
Contributions made	(250,000)
Decrease in net pension obligation	(94,062)
Net pension obligation, beginning of year	(970,902)
Net pension obligation, end of year	\$(1,064,964)

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2001	\$ 141,138	100%	\$ (844,954)
9/30/2002	124,052	100%	(970,902)
9/30/2003	155,938	100%	(1,064,964)

The annual required contribution for the current year was determined as part of the September 30, 2002 actuarial valuation, using the individual entry age method. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 6% per year compounded annually, (b) projected salary increases of 5% per year compounded annually, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques, which express it as a percentage of the actuarial accrued liability. The unfunded actuarial accrued liability is being expressed as a percentage of covered payroll which approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. The remaining amortization period at September 30, 2003 was 24 years.

CITY OF HIALEAH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 14. DEFINED CONTRIBUTION PLANS

The City of Hialeah has two defined contribution plans; the City of Hialeah Police Pension Fund and the City of Hialeah Firemen's Relief and Pension Fund. The Plans were created on March 27, 1984 by Ordinance 1781 as amended by Ordinance 84-43 and on May 26, 1981 by Ordinance 631 as amended by Ordinance 81-62, respectively. The purpose of these Plans is to provide a means whereby police officers and firefighters of the City may receive benefits from funds provided for that purpose by contributions of the City through state contributions provided by Chapter 175/185 of the Florida Statutes. The participants do not contribute to the Plans. These Funds are a supplement to and in no way affect police officer and firefighter benefits under the City of Hialeah Employees' Retirement System. The City no longer receives passed-through State contributions for the police officers or firefighters. The City under Chapter 185 of the Florida Statutes has provided authorization to the State for the direct contribution of benefits to the Police Pension Fund.

NOTE 15. PRIOR PERIOD ADJUSTMENTS

Fund balance, as of October 1, 2002, of the general fund was restated to correct an error in prior periods for the overstatement of the current portion of compensated absences in the amount of \$1,935,021. In the fund financial statements, this overstatement was reclassified from a short-term obligation to a long-term obligation.

Fund balance, as of October 1, 2002, of the entity-wide statement of net assets was restated to correct the adjustments noted below:

Beginning equity	\$94,876,498
Correction of accumulated depreciation	(3,751,897)
Correction of bond issuance costs, unamortized bond discount/premium	(60,350)
Beginning equity, as restated	<u>\$91,064,251</u>

APPENDIX J

FINANCIAL INFORMATION REGARDING THE TOWN OF INDIAN SHORES

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TOWN OF INDIAN SHORES, FLORIDA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
For the Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:			
Taxes:	\$ --	\$ 844,568	\$731,796
Ad Valorem	758,689	--	--
Franchise fees	237,311	--	--
Licenses and permits	153,266	170,978	282,812
Intergovernmental	115,621	117,298	100,595
Charges for services	333,408	340,872	338,934
Fines and forfeits	57,284	43,268	53,685
Interest	14,305	20,220	53,685
Miscellaneous	<u>35,091</u>	<u>22,631</u>	<u>57,325</u>
Total Revenues	1,704,975	1,559,835	1,606,708
Expenditures:			
Current:			
General Government:		398,712	392,050
Legislative	37,112	--	--
Financial and administrative	351,185	--	--
Facilities maintenance	<u>29,602</u>	--	--
	417,899	--	--
Public Safety:		938,137	934,069
Police	873,238	--	--
Protective inspections	<u>135,264</u>	--	--
	1,008,502	--	--
Physical Environment:		189,130	204,636
Public Works	<u>234,307</u>	--	--
	234,307	--	--
Culture and Recreation:		4,173	4,398
Library	<u>4,580</u>	--	--
	4,580	--	--
Total Expenditures	<u>\$1,665,288</u>	<u>\$1,530,152</u>	<u>\$1,535,153</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(39,687)</u>	<u>29,683</u>	<u>71,555</u>
Other Financing Sources (Uses):			
Transfer in - Parking Fee Fund	12,948	14,086	13,368
Transfer (out) - Capital Improvement Fund	(17,072)	(171,929)	--
Other		780	9,325
Sale of equipment	<u>1,291</u>	--	--
Total Other Financing Sources (Uses)	<u>2,833</u>	<u>(157,063)</u>	<u>22,693</u>
Net Change in Fund Balance	36,854	--	--
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	--	(127,380)	94,248
Fund Balance, Beginning of Year	<u>797,605</u>	<u>924,985</u>	<u>830,737</u>
Fund Balance, End of Year	<u>\$ 834,459</u>	<u>\$ 797,605</u>	<u>\$ 924,985</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

Davidson, Jamieson & Cristini, P.L.

Certified Public Accountants

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Member
American Institute of
Certified Public Accountants
Florida Institute of
Certified Public Accountants

*Regulated by the
State of Florida

The Honorable Mayor
and Town Council
Town of Indian Shores, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Indian Shores, Florida, as of and for the year ended September 30, 2003, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Indian Shores, Florida, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the Town of Indian Shores adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; and Omnibus*, Statement No. 38, *Certain Financial Statement and Note Disclosures*, as of October 1, 2002. This results in a change in the format and content of the basic financial statements.

The Honorable Mayor
and Town Council

In accordance with *Government Auditing Standards*, we have also issued a report dated January 23, 2004 on our consideration of the Town of Indian Shores, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The *accompanying management's discussion and analysis* on pages 5 through 14 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The *accompanying introductory section, combining and individual nonmajor fund financial statements, and statistical tables* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *combining and individual nonmajor fund financial statements* have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The *introductory section and statistical tables* have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on them.

Davidson, Janice & Cristine, B.L.

January 23, 2004

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TOWN OF INDIAN SHORES, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2003

ASSETS	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 66,561	\$ 352	\$ 66,913
Investments	629,656	-	629,656
Receivables (net of allowance for uncollectibles)	90,143	-	90,143
Prepaid items	9,104	-	9,104
Capital Assets:			830,068
Land	830,068	-	1,011,793
Buildings	1,011,793	-	1,543,175
Improvements other than buildings	1,543,175	-	547,847
Equipment	533,203	14,644	(1,067,501)
Accumulated depreciation	(1,055,057)	(12,444)	
Total Assets	<u>3,658,646</u>	<u>2,552</u>	<u>3,661,198</u>
LIABILITIES			
Accounts payable	72,020	3,528	75,548
Accrued payroll	23,429	-	23,429
Compensated absences	81,973	-	81,973
Total Liabilities	<u>177,422</u>	<u>3,528</u>	<u>180,950</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	2,863,182	2,200	2,865,382
Restricted for:	165,361	-	165,361
Advance to other funds	5,473	-	5,473
Hazard mitigation	8,937	-	8,937
Police education	9,104	-	9,104
Prepaid items	98	-	98
Town Square	918	-	918
Fiftieth anniversary	428,151	(3,176)	424,975
Unrestricted			
Total Net Assets	<u>\$ 3,481,224</u>	<u>\$ (976)</u>	<u>\$ 3,480,248</u>

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u> <u>Capital Grants and Contributions</u>
Function/Program Activities			
Primary Government:			
Governmental Activities:			
General government	\$ 249,190	\$ 29,026	\$ -
Public Safety	1,011,283	501,460	-
Physical environment	529,792	20,405	18,287
Culture and recreation	4,799	-	-
Total governmental activities	<u>1,795,064</u>	<u>550,891</u>	<u>18,287</u>
Business-Type Activities:			
Parking	<u>11,720</u>	<u>23,204</u>	-
Total business-type activities	<u>11,720</u>	<u>23,204</u>	-
Total primary government	\$ <u>1,806,784</u>	\$ <u>574,095</u>	\$ <u>18,287</u>

GENERAL REVENUES:

Taxes:

Property taxes

Franchise fees

State revenue sharing

Half-cent sales tax

Local option gas tax

Local option sales tax

Other taxes

Investment income

Miscellaneous

(Loss) on sale of capital assets

Transfers

Total General Revenues
and transfers

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, Ending of Year

See Notes to Financial Statements.

Changes in Net Assets

Primary Government

<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
<u>Activities</u>	<u>Activities</u>	
\$ (220,164)	\$ -	\$ (220,164)
(509,823)	-	(509,823)
(491,100)	-	(491,100)
(4,799)	-	(4,799)
<u>(1,225,886)</u>	<u>-</u>	<u>(1,225,886)</u>
-	11,484	11,484
-	<u>11,484</u>	<u>11,484</u>
(1,225,886)	11,484	(1,214,402)
758,689	-	758,689
237,311	-	237,311
24,549	-	24,549
91,182	-	91,182
13,338	-	13,338
124,027	-	124,027
11,725	-	11,725
14,305	-	14,305
35,091	-	35,091
(5,641)	-	(5,641)
<u>12,948</u>	<u>(12,948)</u>	<u>-</u>
<u>1,317,524</u>	<u>(12,948)</u>	<u>1,304,576</u>
91,638	(1,464)	90,174
<u>3,389,586</u>	<u>488</u>	<u>3,390,074</u>
\$ <u>3,481,224</u>	\$ <u>(976)</u>	\$ <u>3,480,248</u>

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2003

ASSETS

	<u>General Fund</u>	<u>Capital Improvements Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 100	\$ 66,361	\$ 100	\$ 66,561
Investments	629,656	-	-	629,656
Receivables (net of allowance for uncollectible accounts):				
Taxes:				
Franchise fees	16,100	-	-	16,100
Accounts	5,908	-	-	5,908
Intergovernmental:				
State	17,648	18,287	-	35,935
County	32,200	-	-	32,200
Advance to other funds	165,361	-	-	165,361
Prepaid items	9,104	-	-	9,104
TOTAL ASSETS	\$ 876,077	\$ 84,648	\$ 100	\$ 960,825

LIABILITIES AND FUND BALANCE

LIABILITIES:				
Accounts payable	\$ 18,189	\$ 45,013	\$ 8,818	\$ 72,020
Accrued payroll	23,429	-	-	23,429
Advance from other funds	-	165,361	-	165,361
TOTAL LIABILITIES	41,618	210,374	8,818	260,810
FUND BALANCE:				
Reserved for:				
Advance to other funds	165,361	-	-	165,361
Hazard mitigation	5,473	-	-	5,473
Police education	8,937	-	-	8,937
Prepaid items	9,104	-	-	9,104
Town square	98	-	-	98
Fiftieth anniversary	918	-	-	918
Total reserves	189,891	-	-	189,891
Unreserved:				
Designated for:				
Insurance costs	14,500	-	-	14,500
Public Works equipment	22,924	-	-	22,924
Beautification	15,423	-	-	15,423
Boat parade	2,739	-	-	2,739
Undesignated	588,982	(125,726)	(8,718)	454,538
TOTAL FUND BALANCE	834,459	(125,726)	(8,718)	700,015
TOTAL LIABILITIES AND FUND BALANCE	\$ 876,077	\$ 84,648	\$ 100	\$ 960,825

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2003

Fund balances - total governmental funds		\$	700,015
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	\$	3,918,239	
Less accumulated depreciation		<u>(1,055,057)</u>	
			2,863,182
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Compensated absences			<u>81,973</u>
Net assets of governmental activities	\$	<u>3,481,224</u>	

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	General Fund	Capital Improvements Fund	Other Governmental Fund	Total
REVENUES:				
Taxes:				
Ad valorem	\$ 758,689	\$ -	\$ -	\$ 758,689
Franchise fees	237,311	-	-	237,311
Licenses	153,266	-	-	153,266
Intergovernmental	115,621	142,314	32,106	290,041
Charges for services	333,408	-	-	333,408
Fines	57,284	-	-	57,284
Interest	14,305	-	-	14,305
Miscellaneous	35,091	-	-	35,091
TOTAL REVENUES	1,704,975	142,314	32,106	1,879,395
EXPENDITURES:				
Current:				
General government	417,899	-	-	417,899
Public safety	1,008,502	-	-	1,008,502
Physical environment	234,307	95,873	58,225	388,405
Culture and recreation	4,580	-	-	4,580
TOTAL EXPENDITURES	1,665,288	95,873	58,225	1,819,386
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	39,687	46,441	(26,119)	60,009
OTHER FINANCING SOURCES (USES):				
Transfers in	12,948	17,072	-	30,020
Transfers (out)	(17,072)	-	-	(17,072)
Sale of equipment	1,291	-	-	1,291
TOTAL OTHER FINANCING SOURCES (USES)	(2,833)	17,072	-	14,239
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	36,854	63,513	(26,119)	74,248
FUND BALANCE, OCTOBER 1	797,605	(189,239)	17,401	625,767
FUND BALANCE, SEPTEMBER 30	\$ 834,459	\$ (125,726)	\$ (8,718)	\$ 700,015

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Net change in fund balances - total governmental funds		\$	74,248
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.			
Expenditures for capital assets	\$	235,971	
Less current year depreciation		<u>(213,277)</u>	
			22,694
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Change in long-term compensated absences			<u>(5,304)</u>
Change in net assets of governmental activities	\$		<u>91,638</u>

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	Budgeted Amounts		Actual Amounts	Variance With Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Ad valorem	\$ 762,587	\$ 762,587	\$ 758,689	\$ (3,898)
Franchise fees	243,000	240,700	237,311	(3,389)
Licenses	80,400	145,200	153,266	8,066
Intergovernmental	105,468	109,368	115,621	6,253
Charges for services	327,821	338,642	333,408	(5,234)
Fines	57,000	57,000	57,284	284
Interest	23,000	13,000	14,305	1,305
Miscellaneous	40,525	41,615	35,091	(6,524)
Total Revenues	<u>1,639,801</u>	<u>1,708,112</u>	<u>1,704,975</u>	<u>(3,137)</u>
Expenditures:				
Current:				
General Government:				
Legislative	43,000	43,000	37,112	5,888
Financial and administrative	348,848	360,698	351,185	9,513
Facilities maintenance	24,350	30,750	29,602	1,148
	<u>416,198</u>	<u>434,448</u>	<u>417,899</u>	<u>16,549</u>
Public Safety:				
Police	861,515	865,515	873,238	(7,723)
Protective inspections	132,541	136,441	135,264	1,177
	<u>994,056</u>	<u>1,001,956</u>	<u>1,008,502</u>	<u>(6,546)</u>
Physical Environment:				
Public Works	398,718	243,544	234,307	9,237
	<u>398,718</u>	<u>243,544</u>	<u>234,307</u>	<u>9,237</u>
Culture and Recreation:				
Library	4,550	4,550	4,580	(30)
	<u>4,550</u>	<u>4,550</u>	<u>4,580</u>	<u>(30)</u>
Total Expenditures	<u>1,813,522</u>	<u>1,684,498</u>	<u>1,665,288</u>	<u>19,210</u>
Excess of Revenues Over (Under) Expenditures	<u>(173,721)</u>	<u>23,614</u>	<u>39,687</u>	<u>(16,073)</u>
Other Financing Sources (Uses):				
Transfer in - Parking Fee Fund	10,000	12,000	12,948	948
Transfer in - Capital Improvements Fund	30,000		(17,072)	32,928
Transfer (out) - Capital Improvements Fund		(50,000)		291
Sale of equipment	1,000	1,000	1,291	(14,833)
Total Other Financing Sources (Uses)	<u>41,000</u>	<u>12,000</u>	<u>(2,833)</u>	
Net Change in Fund Balance	(132,721)	35,614	36,854	1,240
Fund Balance, Beginning of Year	797,605	797,605	797,605	-
Fund Balance, End of Year	\$ <u>664,884</u>	\$ <u>833,219</u>	\$ <u>834,459</u>	\$ <u>1,240</u>

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA

STATEMENT OF NET ASSETS

PROPRIETARY FUND

SEPTEMBER 30, 2003

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND

ASSETS

	<u>Parking Fee</u>
CURRENT ASSETS:	
Cash and cash equivalents	\$ 352
TOTAL CURRENT ASSETS	<u>352</u>
NONCURRENT ASSETS:	
Capital Assets:	
Equipment	<u>14,644</u>
Less accumulated depreciation	<u>14,644</u>
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>12,444</u>
TOTAL ASSETS	<u>\$ 2,552</u>

LIABILITIES AND NET ASSETS

	<u>Parking Fee</u>
CURRENT LIABILITIES:	
Accounts payable	\$ 559
Due to other governments	<u>2,969</u>
TOTAL LIABILITIES	3,528
NET ASSETS:	
Invested in capital assets net of related debt	2,200
Unrestricted	<u>(3,176)</u>
TOTAL NET ASSETS	<u>\$ (976)</u>

See Notes to Financial Statements

TOWN OF INDIAN SHORES, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND

		<u>Parking Fee</u>
OPERATING REVENUES:	\$	23,204
Service charges		
OPERATING EXPENSES:		10,256
Materials and supplies		<u>1,464</u>
Depreciation		
Total operating expenses		<u>11,720</u>
OPERATING INCOME		11,484
OPERATING TRANSFERS		
Operating transfers out:		
General Fund		<u>(12,948)</u>
CHANGE IN NET ASSETS		(1,464)
TOTAL NET ASSETS, OCTOBER 1		<u>488</u>
TOTAL NET ASSETS, SEPTEMBER 30	\$	<u><u>(976)</u></u>

See Notes to Financial Statements

TOWN OF INDIAN SHORES, FLORIDA

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	Business-Type Activities -
	<u>Enterprise Fund</u>
	<u>Parking</u>
	<u>Fee</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 23,204
Cash payments to suppliers for goods and services	<u>(10,471)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,733
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers out	<u>(12,948)</u>
NET CASH (USED) FOR NON-CAPITAL FINANCING ACTIVITIES	(12,948)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(215)
CASH AND CASH EQUIVALENTS, OCTOBER 1	<u>567</u>
CASH AND CASH EQUIVALENTS, SEPTEMBER 30	<u>\$ 352</u>

See Notes to Financial Statements

TOWN OF INDIAN SHORES, FLORIDA

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	Business-Type Activities -
	<u>Enterprise Fund</u>
	Parking
	<u>Fee</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u> <u>PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Operating income:	\$ 11,484
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,464
Other revenue	
Change in assets and liabilities:	
Increase (decrease) in accounts payable	(34)
Increase (decrease) in due to other governments	<u>(181)</u>
Total adjustments	<u>1,249</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>12,733</u></u>

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

SEPTEMBER 30, 2003

Assets

		<u>Public Safety and Employees' Pension Funds</u>
Receivables:	\$	-
Plan members		-
Employer		22
Interest		<u>22</u>
Total receivables		22
Investment at fair value:		385,149
Domestic stocks		304,945
Corporate obligations		36,459
Temporary investments		680,181
ICMA Investment Fund		<u>1,406,734</u>
Total investments		1,406,756
Total assets		1,406,756

Liabilities

Accounts payable		<u>1,792</u>
Plan net assets held in trust for pension benefits	\$	<u>1,404,964</u>

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Public Safety and Employees' Pension Funds</u>
ADDITIONS:	
Contributions:	
Employer	\$ 121,742
Plan members	<u>48,559</u>
Total Contributions	170,301
Intergovernmental revenue:	
State excise tax rebate	12,775
Investment earnings:	
Interest/dividends	25,814
Net appreciation in fair value of in fair value of investments	<u>98,876</u>
Investment earnings	124,690
Less investment expenses	<u>12,610</u>
Net investment earnings	<u>112,080</u>
Total Additions	295,156
DEDUCTIONS:	
Benefits	49,006
Refund of contributions	13,656
Administrative expenses	<u>597</u>
Total deductions	<u>63,259</u>
Change in Net Assets	231,897
Plan net assets held in trust for pension benefits, October 1	<u>1,173,067</u>
Plan net assets held in trust for pension benefits, September 30	\$ <u><u>1,404,964</u></u>

See Notes to Financial Statements.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies

The Town of Indian Shores (Town) maintains its accounting records in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below:

Reporting Entity - The Town is a political subdivision of the State of Florida, located in Pinellas County in the southwest central portion of the State. The Town was incorporated in 1949. In accordance with the Florida Statutes of 1941, the Town was established pursuant to a special election held on September 16, 1949. The Town's Charter was revised in 1985 and is the same Charter under which the Town currently operates. The Town is approximately 385 square miles in land area. The Town is a full service municipality providing its citizens with a full complement of municipal services except for fire protection.

In evaluating how to define the Town of Indian Shores, Florida (the primary government), for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14.

This governmental accounting standard requires that this financial statement present the Town of Indian Shores (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The following component units have been presented in the Town's reporting entity as blended component units because of the significance of their operational or financial relationships with the Town.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

Blended Component Units -

Policemen's Pension Fund - The Town's police officers participate in the Policemen's Pension Plan. The Plan functions for the benefit of these employees and is governed by a five-member pension board. Two police officers, two Town residents and a fifth member elected by the other four members constitute the pension board. The Town and the Plan participants are obligated to fund all Plan costs based upon actuarial valuations. The Town is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels.

Employees' Pension Fund - The Town's full-time general employees participate in the Money Purchase Pension Plan. The Plan is governed by the Town Council representing the Town which is the Plan Trustee. The Plan provides that the Town will contribute thirteen percent of each employee's budgeted base salary. All participating employees are required to contribute a minimum of seven percent of their base salaries.

Complete financial statements of the above individual component units can be obtained from:

Town of Indian Shores
Director of Finance and Personnel
19305 Gulf Boulevard
Indian Shores, Florida 33785

The Pinellas Suncoast Fire Control District (PSFCD) provides services within the Town of Indian Shores, but has not been included in the reporting entity because it does not meet the criteria necessary to be a component unit. The PSFCD elects its own governing Board, sets its own fee for services schedule and is completely independent of the Town of Indian Shores.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements - As discussed more fully in Note 20 the Town has adopted the provisions of GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the same page or the page following each statement, which briefly explains the adjustments necessary to reconcile the fund based financial statements to the governmental activities column of the government-wide presentation.

The Town's fiduciary funds are presented in the fund financial statements by type (pension). Since by definition these assets are being held for the benefit of a third-party (pension participants) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation -
The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

Franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary funds:

The *Parking Fee Fund* accounts for the assets, operations and maintenance of the Town-owned parking devices used for the collection of vehicular parking fees in the parking areas constructed by Pinellas County within the Town's limits.

Additionally, the Town reports the following fund types:

The *Pension Trust Funds* account for the activities of the Public Safety and Employees Retirement Systems, which accumulates resources for pension benefit payments to qualified public safety and general employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's administrative function and various other functions of the government. Elimination of these charges would distort the direct cost and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenue of the Parking Fee Fund is charges to customers for beach parking. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets or Equity:

Deposits and investments - The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

The Town's investment policy is to maintain funds in investments which yield the highest possible efficiency and return within the limitations established by Florida Statutes, Chapter 166.261. Provisions of those statutes authorize the Town to invest in:

- a) Florida State Board of Administration Local Government Pooled Investment Fund.
- b) Bonds, notes or other obligations of the United States or for which the credit of the United States is pledged for the payment thereof.
- c) Interest-bearing time deposits, savings accounts or collective investment funds in banks or savings and loan associations organized under the laws of the United States.
- d) Obligations of the federal farm credit banks and the Federal Home Loan Mortgage Corporation.
- e) Obligations of the Federal National Mortgage Association and the Government National Mortgage Association.

Investments in fixed income securities are stated at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Florida State Board of Administration Local Government Pooled Investment Fund has met the criteria to be considered a "2A-7 like" Investment Fund as defined by GASB Statement No. 31. Therefore, amortized cost may be used for valuation. The fair value of the Town's investment in this pool is determined by the pool's share price (account balance).

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

Investments held by the Town's pension trust funds are reported at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

The Domestic Stocks, Corporate Bonds, and Temporary Investment Funds are assets of the Policemen's Pension Trust Fund (Plan) and are reported at fair value. These securities are held by the Plan's agent in the Plan's name. The Temporary Investment funds are open end funds and are not subject to categorization.

The ICMA Investment Fund is an asset of the Employees' Pension Trust Fund and is reported at fair value. The ICMA Investment Fund is an open-end fund and provides management of commingled retirement plan funds for the defined contribution plan administered by the ICMA Retirement Corporation. The Retirement Corporation administers qualified money purchase pension plans for state and local governments and instrumentalities.

Receivables and payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All tax, accounts and intergovernmental receivables are shown net of an allowance for uncollectibles. Trade accounts receivables in excess of 180 days compromise the trade accounts receivable allowance for uncollectible including those for the Parking Fee Enterprise Funds.

Property Taxes - Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

The tax levy of the Town is established by the Town Council prior to October 1 of each year and the Pinellas County Property Appraiser incorporates the Town's millages into the total tax levy, which includes the Pinellas County School Board tax requirements. The Town is permitted by state law to levy taxes up to ten mills of assessed valuation, exclusive of taxes levied for the payment of bonds. The 2003 millage rate assessed by the Town was 1.7129.

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

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

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

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

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

Because of the Pinellas County Tax Collector's Office efficient system for selling tax certificates and remitting the proceeds to the Town any delinquent or uncollected property taxes at year end are immaterial. The Town's tax calendar is as follows:

Valuation Date:	January 1
Levy Date:	November 1
Due Date:	March 31, succeeding year
Lien Date:	April 1, succeeding year

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$750 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Town has elected to delay implementing the retroactive addition of infrastructure assets acquired prior to October 1, 2002. The implementation of that part of GASB Statement No. 34 may be deferred until fiscal year 2009.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred, if any, during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45-55
Building improvements	20-30
Public domain infrastructure	45-55
Machinery and equipment	5-15

Long-term obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets - Net assets of the Governmental and Business-Type Activities, in the government-wide financial statements, are categorized as invested in capital assets net of related debt or unrestricted. The first category represents net assets related to capital assets.

Accrued Leave - Regular, full-time, permanent employees (general employees) earn vacation, sick leave, holidays and, prior to October 1, 1988 and after June 13, 1991, compensatory time, starting with the first day of employment. Part-time and temporary employees do not earn or accrue any vacation, sick leave or any other leave, except as may be approved by the Town Council.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

Vacation Leave:

Vacation leave is earned based on years of fully completed service as follows:

<u>Leave Earned</u> <u>Years of Completed Service</u>	<u>Per Biweekly Pay Period</u>
Less than 5	4 hours
At least 5 but less than 10	5 hours
At least 10 but less than 15	6 hours
At least 15 but less than 20	7 hours
20 years and over	8 hours

The Town Clerk, Director of Finance and Personnel, and all other Department Heads earn vacation leave at the rate of six (6) hours per bi-weekly period, or in accordance with the appropriate rate based on length of service, whichever is greater.

A maximum of two hundred forty hours or thirty working days may be carried over from one fiscal year to the next. An employee who has served six months or more may take vacation leave. Every eligible full-time employee is required to take at least sixty-four hours of vacation leave within each fiscal year. At the end of the fiscal year or when an employee is to be terminated without prejudice, the employee may (contingent upon the approval of the Department Head, Town Clerk, and Director of Finance and Personnel), take all, or any portion, of his accrued vacation leave subject to the following limitations. Leaves by Department Heads must be approved by the Director of Finance and Personnel. Any vacation leave by a Department Head which will contribute to exceeding one hundred twenty hours taken within a period of ninety consecutive calendar days requires the approval of the appropriate Town committee responsible to the Town Council for that department (responsible committee). However, if an employee is being terminated without prejudice, the one hundred twenty hour limitation does not apply.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

An employee who terminates employment "without prejudice" is paid for any unused vacation leave accumulated to the time of termination. An employee who does not perform satisfactorily in accordance with the Town's standards will be terminated "with prejudice." Any employees terminated with prejudice may lose all accrued vacation leave. Each case will be reviewed by the responsible committee.

Sick Leave:

Sick leave is earned based on length of completed, fully compensated service as follows:

<u>Years of Completed Service</u>	<u>Leave Earned Per Biweekly Pay Period</u>
Less than 15	4 hours = 13 Working Days/Year
15 years and over	6 hours = 18 Working Days/Year

The Town Clerk, Director of Finance and Personnel and all other Administrators shall earn sick leave at the rate of six (6) hours per bi-weekly period.

Unused sick leave accumulated at the end of the twenty-sixth bi-weekly pay period in any fiscal year may be carried forward to the next fiscal year. However, no more than eight hundred (800) hours of accrued sick leave may be carried forward from one fiscal year to the next. Any accumulated sick leave over eight hundred (800) hours shall be forfeited without compensation. Any employee who maintains eight hundred hours of sick time will be paid for one hundred-twenty hours upon separation from the Town for any reason (other than for cause).

Holiday Hours:

Holiday hours are accrued when full-time employees are unable to take a holiday on its designated calendar date or an alternate date within the calendar year. An alternate date is granted to observe the holiday which occurred either on regularly scheduled days off or on scheduled duty days. Since the alternate holiday date is compensated, employees who work on holidays are paid their regular compensation for

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

1. Summary of Significant Accounting Policies (Continued)

the holiday, not overtime. If one or more alternate holidays are earned but not taken due to scheduling exigencies in the year earned, holiday hours can be carried forward from one calendar year to the next. An employee who terminates employment with the Town will be paid for each unused holiday.

Bargaining unit employees shall receive eight hours of pay for all official paid holidays. Those employees who are required to work on holidays will be compensated at a shift premium rate of two times their regular rate of pay for each hour worked.

Compensatory Time:

Compensatory time (comp time) is earned at a maximum rate of one and one-half hours of comp time for each hour of overtime and for general employees may be carried forward from one calendar year to the next. The maximum amount of comp time that can be accrued by a general employee is two hundred and forty hours. In accordance with their union agreement, police officers are paid overtime for any hours worked over eighty hours biweekly and do not earn comp time. The Town Clerk, Director of Finance and Personnel, and all Department Heads are not eligible to earn comp time.

Accrued comp time can be converted to a monetary payment only when an employee terminates, and only if the Department Head is unable to give said employee an adequate number of paid hours off.

Vested or accumulated accrued leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated accrued leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds and net assets - governmental activities* as reported in the government-wide statement of net assets. The detail of this \$2,781,209 difference is as follows:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	\$ 3,918,240	
Less accumulated depreciation	<u>(1,055,057)</u>	
		\$ <u>2,863,183</u>

Long-term liabilities are not due and payable in the current period therefore are not reported in the governmental funds.

Compensated absences	<u>81,974</u>	
		<u>(81,974)</u>

Net adjustment to increase *fund balance - total Governmental funds* to arrive at *net assets - Governmental activities*

\$ 2,781,209

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

2. Reconciliation of Government-wide and Fund Financial Statements

B. **Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses." The details of this \$22,694 difference are as follows:

Capital outlay	\$ 235,971
Depreciation expense	<u>213,277</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at changes in net assets of governmental activities	\$ <u>22,694</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this (\$5,304) difference are as follows:

Compensated absences	\$ <u>5,304</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at changes in net assets of governmental activities	\$ <u>5,304</u>

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

3. Stewardship, Compliance, and Accountability

Budget Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and the enterprise funds and are controlled on a fund and department level. On or before May 31 of each year, all departments of the Town submit requests for appropriation to the Finance Officer so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. All annual appropriations lapse at fiscal year end.

The proposed budget is presented by the Mayor to the Town Council for review on or before July 1. The Town Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the Finance Officer or the revenue estimates must be changed by an affirmative vote of a majority of the Town Council.

The proposed budget is presented by the Mayor to the Town Council for review on or before July 1. The Town Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the Finance Officer or the revenue estimates must be changed by an affirmative vote of a majority of the Town Council.

Expenditures may not legally exceed budgeted appropriations at the departmental level. During the year two supplementary appropriations were necessary.

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

4. Cash and Cash Equivalents

The Town maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is displayed as "Cash and Cash Equivalents". In addition, investments are separately held by several of the Town's funds.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

5. Deposits

At year-end the carrying amount of the Town's deposits was \$66,913 and the bank balance was \$47,457. The bank balance was covered by federal depository insurance and, for the amount in excess of such federal depository insurance, by the State of Florida's Security for Public Deposits Act. Provisions of the Act require that public deposits may only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository, are assessed against the other qualified public depositories of the same type as the depository in default.

6. Investments

The Town's investments are categorized as either (1) insured or registered or for which the securities are held by the Town or its agent in the Town's name, (2) uninsured and unregistered for which the securities are held by the counterparty's (Bank's) trust department or agent in the Town's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by their Bank's trust department or agent but not in the Town's name. Investments that are not evidenced by securities that exist in physical or book-entry form include investments in open-ended mutual funds and pools managed by other governments.

	<u>Fair Value</u>	<u>Risk</u> <u>Category</u>
Investments held by Town:		
Florida State Board of Administration Local Government Pooled Investment Fund	\$ 502,540	N/A
Certificate of Deposit	109,203	N/A
Investment held in Banks' Brokerage Asset Management Account	17,913	N/A
Investments held by Pension Trust Funds:		
ICMA Retirement Trust	680,181	N/A
Domestic Stocks	385,149	1
Corporate Obligations	304,945	1
Temporary Investments	<u>36,459</u>	N/A
Total investments	<u>\$ 2,036,390</u>	

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

6. Investments (Continued)

The Town's available cash funds are swept into its Bank's Brokerage Asset Management Account each evening. At September 30, 2003 the investment held by this account, in the Town's name, was the Bank's open end collective investment fund entitled Evergreen Money Market Fund. This fund was paying .05% at September 30, 2003.

The ICMA Retirement Trust is an open end investment fund in the Town's Employees' Pension fund. The Retirement Trust provides management of retirement plan funds for the retirement plans administered by ICMA Retirement Corporation. The Retirement Corporation administers deferred compensation and qualified money purchase pension plans for state and local governments and instrumentalities.

The Domestic Stocks, Corporate Obligations, and Temporary Investment Funds are assets of the Policemen's Pension Fund held by the Fund's agent in the Funds name. Accrued interest is not shown under a separate balance sheet account for the investment in the Florida Local Government Pooled Investment Fund as it is carried at fair value.

The State Board of Administration (Board) was established on June 21, 1928, pursuant to Chapter 14486, 1929, laws of Florida. The Board was subsequently created as a constitutional body corporate on January 1, 1943, under the provisions of Senate Joint Resolution No. 324, 1941; approved by the electorate in November 1942. The Board is composed of the Governor, as Chairman, the State Treasurer, as Treasurer, and the State Comptroller, as Secretary, and provides the following services by law: (1) investment of funds of the Florida Retirement System (FRS); (2) administration of debt service funds; (3) investment of trust and agency funds; and (4) distribution of the "Second Gas Tax."

The Local Government Pooled Investment Fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Pooled Investment Fund. Additionally, the office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

6. Investments (Continued)

Since the Florida State Board of Administration (SBA) Local Government Pooled Investment Fund (Fund) typically owns a substantial amount of treasury bills and notes, the Fund has utilized security lending programs to generate supplemental income. This income is used to pay a significant portion of the fees associated with the Fund which otherwise would have to be paid from regular Fund earnings. Any residual is used to build the Fund's reserve on behalf of participants. Both of these goals have been accomplished without impacting the regular earnings in the Fund with no change in the Fund's investment strategy. The investment in the Florida SBA pool is carried at the pool's share price at September 30, 2003.

7. Receivables

Receivables at September 30, 2003, consist of the following:

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Trust Funds</u>	<u>Total</u>
Receivables:				
Taxes	\$ 16,100	\$ -	\$ -	\$ 16,100
Accounts	5,908	-	22	5,930
Intergovernmental	<u>49,848</u>	<u>18,287</u>	-	<u>68,135</u>
Gross receivables	71,856	18,287	22	90,165
Less: Allowance for uncollectibles	-	-	-	-
Net total receivables	<u>\$ 71,856</u>	<u>18,287</u>	<u>\$ 22</u>	<u>\$ 90,165</u>

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

8. Capital Assets

Capital assets activity for the year ended September 30, 2003 was as follows:

	Balance October 1, 2002	Increases	Decreases	Balance September 30, 2003
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 705,068	\$ 125,000	\$ -	\$ 830,068
Total capital assets, not being depreciated	705,068	125,000	-	830,068
Capital assets, being depreciated:				
Buildings	1,011,793	-	-	1,011,793
Improvements other than buildings	1,482,900	60,275	-	1,543,175
Equipment	534,266	57,628	58,690	533,204
Total capital assets, being depreciated	3,028,959	117,903	58,690	3,088,172
Less accumulated depreciation for:				
Buildings	209,400	41,179	-	250,579
Improvements other than buildings	456,861	13,462	-	470,323
Equipment	227,277	158,636	51,758	334,155
Total accumulated depreciation	893,538	213,277	51,758	1,055,057
Total capital assets, being depreciated, net	2,135,421	(95,374)	6,932	2,033,115
Governmental activities				
Capital assets, net	<u>\$ 2,840,489</u>	<u>\$ 29,626</u>	<u>\$ 6,932</u>	<u>\$ 2,863,183</u>

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

8. Capital Assets (Continued)

	Balance October 1, 2002	Increases	Decreases	Balance September 30, 2003
<u>Business-type activities:</u>				
Capital assets, being depreciated:				
Equipment	\$ 14,644	\$ -	\$ -	\$ 14,644
Total capital assets, being depreciated	14,644	-	-	14,644
Less accumulated depreciation for:				
Equipment	10,980	1,464	-	12,444
Total accumulated depreciation	10,980	1,464	-	12,444
Total capital assets, being depreciated, net	3,664	1,464	-	2,200
Business-type activities capital assets, net	<u>\$ 3,664</u>	<u>\$ 1,464</u>	<u>\$ -</u>	<u>\$ 2,200</u>

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

8. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 20,269
Public safety	51,402
Physical environment	141,387
Culture and recreation	<u>219</u>
Total depreciation expenses - governmental activities	\$ <u>213,277</u>
Business-type activities:	
Parking Fee	\$ <u>1,464</u>
Total depreciation expense - business-type activities	\$ <u>1,464</u>

9. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees; and natural disasters.

The Town continues to carry commercial insurance for risks of loss including health, building and contents, employee and police bonds, mobile property, flood and employee accident insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Town has not had any significant coverage reductions under these policies from the prior years.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

10. Long-Term Debt

Changes in long-term liabilities

Long-term liability activity for the fiscal year ended September 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 76,670	\$ 104,546	\$ 99,242	\$ 81,974	\$ 8,000
Governmental activity					
long-term liabilities	\$ <u>76,670</u>	\$ <u>104,546</u>	\$ <u>99,242</u>	\$ <u>81,974</u>	\$ <u>8,000</u>

Compensated absences are generally liquidated by the General Fund for Governmental Activities.

11. Intra-Governmental Charges

The costs of certain general and administrative functions of the Town are recorded and controlled in the General Fund. These administrative costs have been allocated to the Town's Special Revenue Funds for the year ended September 30, 2003, as shown in the following table:

<u>Fund</u>	<u>Administrative Costs Allocated</u>
Road and Bridge Fund	\$ 10,541
Capital Improvements Fund	<u>16,599</u>
Total	\$ <u>27,140</u>

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

12. Reserved Fund Balances

Governmental Funds - Reserved fund balances indicate those portions of fund balances that are legally segregated for a specific use or not available for appropriation or expenditure. The nature of these reserves is as follows at September 30, 2003.

General Fund - reserved for:

Advance to other funds	\$	165,361
Hazard mitigation		5,473
Police education		8,937
Prepaid items		9,104
Town Square		98
Fiftieth Anniversary		918
		<hr/>
Total General Fund Reserved Fund Balances	\$	<u>189,891</u>

Pension Trust Funds - Fund Balance in the Pension Trust Funds is reserved to indicate fund equity is restricted for future benefits to members of the pension plans are summarized as follows:

Policemen's Pension Fund	\$	724,783
Employees Pension Fund		680,181
		<hr/>
Total Pension Trust Reserved Fund Balances	\$	<u>1,404,964</u>

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

13. Designated Fund Balance

The Town has established the following designations within the General Fund:

Designation of funds for the payment of the deductible amount required by the Town's current insurance policies	\$	14,500
Designation of funds to purchase public works equipment		22,924
Designation of funds for beautification. These funds are set aside to maintain parks, medians, irrigation systems and replace plants.		15,423
Designation of funds for Christmas boat parade. Three towns jointly sponsor this annual event.		<u>2,739</u>
Total Designated Fund Balance	\$	<u>55,586</u>

14. Budgetary - GAAP Reporting Reconciliation

The accompanying financial statements present comparisons of the legally adopted budget with actual data on a GAAP (generally accepted accounting principles) basis. Accounting principles applied by the Town for purposes of developing data on a budgetary basis did not differ significantly from those used to present financial statements in conformity with generally accepted accounting principles for the year ended September 30, 2003.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

15. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Florida. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

The Town did not receive federal grant funds during the fiscal year ended September 30, 2003, and is not, therefore, subject to the program compliance audit by the grantee under the Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations".

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

The Town has not entered into any operating leases with scheduled rent increases as of September 30, 2003.

16. Postemployment Benefits

The Town does not provide postemployment benefits for police officers or general employees other than pension benefits. Postemployment health care benefits are made available to the Town's terminated employees in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Under COBRA, the Town is required to offer an election to deceased or terminated participants, their spouses or dependents, to continue coverage in the health plan provided by the Town. The cost of coverage which the Town may charge the participant may not exceed 102% of the applicable premium.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems

Florida Retirement System

Plan Description:

The Town's current elected officials (Town Council) participate in the Florida Retirement System (FRS), a non-contributory cost-sharing, multiple-employer public employee retirement system.

The Town of Indian Shores contributes to the FRS which is administered by the Florida Department of Management Services, Division of Retirement. FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Chapter 121 of the Florida Statutes, which may be amended by the Florida Legislature, assigns the authority to establish and amend benefit provisions to the Department of Management Services through the Division of Retirement. The FRS issues a publicly available financial report that includes financial statements and required supplementary information for FRS. That report may be obtained by writing to:

State of Florida
Division of Retirement
3639-C North Monroe Street
Tallahassee, Florida 32399-1560

Funding Policy:

The FRS funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. Future plan benefit changes, assumption changes, and methodology changes are amortized within 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Funding Policy (Continued):

Retirement benefits and the Town's contribution rates are summarized as follows:

<u>Membership Category</u>	<u>Retirement Benefit</u>	<u>Vesting</u>	<u>Employer Contribution Rates through June 30, 2003</u>	<u>Employer Contribution Rates Beginning July 1, 2003</u>
Elected State, County and City Officers'	1.6% times years of service times average compensation (5 highest years) if age 62 or 30 years of service at any age.	After 6 years of creditable service.	11.86% of covered payroll	15.23% of covered payroll

The Town contributions include .94% for a post-retirement health insurance subsidy. FRS also provides disability and survivors benefits. This rate increased to 1.11% as of July 1, 2001. Benefits are established by the Florida State Statute.

Deferred Retirement Option Program:

The FRS Deferred Retirement Option Program (DROP) is available to a member when the member first reaches eligibility for normal retirement. DROP allows a member to retire while continuing employment for up to 60 months. During DROP participation, the member's retirement benefits (increased by a cost-of-living adjustment each July) accumulate in the FRS Trust Fund and earn monthly interest equivalent to an annual rate of 6.5%. The member must cease employment after a maximum of 60 months, must satisfy the termination requirements for retirement, and is subject to reemployment restrictions thereafter. The member's DROP accumulation may be paid out as a lump sum payment, a rollover, or a combination partial lump sum payment and rollover. Employers must pay contributions at a rate of 11.56% of salary for all DROP participants. FRS also provides disability and survivors benefits. Benefits are established by Florida State Statute.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Deferred Retirement Option Program (Continued):

The contribution requirements of employers are established and may be amended by the Division of Retirement. The Town's contributions and its required contributions for the two years ended September 30, 2003 are summarized as follows:

<u>Year Ended</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
September 30, 2002	\$2,528	100.0%
September 30, 2003	\$3,049	100.0

Policemen's Pension Fund

Plan Description:

The following brief description of the Town of Indian Shores Policemen's Retirement Plan (Plan) is provided for general information purposes only. Participants should refer to the Plan Ordinance for more complete information.

The Plan is a single employer defined benefit pension plan covering all full-time sworn police officers (hired after January 1, 1996) of the Town of Indian Shores, Florida (Town). Participation in the Plan is required as a condition of employment. Originally established by Town Ordinance in 1996 and amended in 2001 the Plan provides for pension, death and disability benefits. The Plan is subject to provisions of Chapter 185 of the State of Florida Statutes.

The Plan in accordance with the above statute, is governed by a five member pension board. Two police officers who are elected by a majority of the members of the Plan, two are residents of the Town who are appointed by the Town Council and a fifth member elected by the other four members constitute the pension board. The Town and the Plan participants are obligated to fund all Plan costs based upon actuarial valuations. The Town is authorized to establish benefit levels and the Board of Trustees approve the actuarial assumptions used in the determination of contribution levels.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Policemen's Pension Fund (Continued)

Plan Description (Continued):

Current membership in the Plan is comprised of all full-time sworn Police Officers of the Town of Indian Shores and is summarized as follows:

<u>Group</u>	<u>September 30, 2003</u>
Retirees and beneficiaries currently receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members:	
Fully vested	-
Nonvested	<u>9</u>
Total	<u>9</u>

Officers who retire at the age 55 and the completion of ten years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 3.00 percent of their average final compensation times their years of credited service. Cost of living adjustments are not provided. The Plan permits early retirement at age 50 and the completion of ten years of credited service. Benefits vest upon completing ten years of credited service.

The Plan also provides death and disability benefits. The death benefit is the greater of the officer's accumulated contributions or his accrued benefit. Disability payments will be equal to 3.00 percent of the officer's average annual compensation times his years of credited service but shall not be less than 42 percent of his average monthly compensation as of his early retirement date.

The Plan has not issued a stand-alone financial report for the year ended September 30, 2003.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Policemen's Pension Fund (Continued)

Plan Description (Continued):

Basis of Accounting:

Basis of accounting is the method by which revenues and expenses are recognized in the accounts and are reported in the financial statements. The accrual basis of accounting is used for the Plan. Under the accrual basis of accounting, revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Plan member contributions are recognized in the period in which the contributions are due. Town contributions to the plan, as calculated by the Plan's Actuary, are recognized as revenue when due and the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Funding Policy:

Officer contribution rates are established at 5.0 percent of salary. Accumulated officer contributions are refunded if an officer leaves covered employment before ten years of credited service. Interest is not paid on contributions of terminated officers with less than ten years of credited service. State excise taxes collected from the Town's residents by the State of Florida are restricted to fund the Plan under Florida Statutes, Chapter 185. Contributions are received from the Town in amounts sufficient to fund the Plan at an actuarially determined rate specified by Florida Statute, Chapter 185. The Plan's administrative costs are financed through investment earnings. The Plan has no undue investment concentrations.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Policemen's Pension Fund (Continued)

Funding Policy (Continued):

The Town's Annual Pension Cost and Net Pension Obligation for the year ended September 30, 2003 is as follows:

Annual required contributions	\$ 121,742
Interest on net pension obligation	
Adjustment to annual required contribution	<u>-</u>
Annual pension cost	121,742
Contributions made	<u>121,742</u>
Increase (decrease) in net pension obligation	-
Net Pension obligation, beginning of year	<u>-</u>
Net pension obligation, end of year	<u>\$ -</u>

The annual required contribution for the current year was determined as part of the October 1, 2001 (most recent) actuarial valuation using the frozen entry age aggregate actuarial cost method. The actuarial assumptions included (a) 7.5% reinvestment rate of return (net of administrative expenses) and (b) projected salary increases of 6.7% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Policemen's Pension Fund (Continued)

Funding Policy (Continued)

The remaining amortization period at September 30, 2003 was 30 years. The Plan's six year trend information is summarized as follows:

<u>Six Year Trend Information</u>				
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
9/30/96	\$ 39,354	100.0%	\$	-
9/30/97	43,180	100.0	-	-
9/30/98	47,940	100.0	-	-
9/30/99	53,772	100.0	-	-
9/30/00	55,372	100.0	-	-

The Plan's table of required supplementary information is presented below:

<u>Required Supplementary Information</u>						
<u>Schedule of Funding Progress^(A)</u>						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL)- Frozen Entry age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A)/C)
9/30/96	\$ 128,692	\$ 330,110	\$ 201,418	38.9%	\$ 274,926	73.3%
9/30/98	283,794	467,676	193,882	60.7	297,902	65.1
9/30/99	283,794	467,676	193,882	60.7	297,902	65.1
9/30/00	463,452	583,837	120,385	79.4	333,310	36.1

*Plans that use the Aggregate Actuarial Cost Method in accordance with the parameters should present the required schedule of employer contributions. They are not required to present a schedule of funding progress but should disclose that the Aggregate method is used.

^(A) The Town's plan was established on October 1, 1994.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Policemen's Pension Fund (Continued)

Funding Policy (Continued)

Schedule of Employer Contributions

<u>Year Ended</u> <u>September</u> <u>30</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1997	\$ 43,308	100.0%
1998	45,948	100.0
1999	52,232	100.0
2000	53,772	100.0
2001	55,372	100.0
2002	69,197	100.0
2003	72,337	100.0

Notes to the Required Schedules

The information presented in the required supplementary schedules presented above was determined as part of the actuarial valuations at the dated indicated. Additional information as of the latest (October 1, 2001) actuarial valuation follows:

Valuation date	October 1, 2001
Actuarial cost method	Aggregate Actuarial Cost (Entry Age)
Amortization method	Level Percent, Closed
Remaining amortization period	35 years
Asset valuation method	3 year smoothed market

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Policemen's Pension Fund (Continued)

Funding Policy (Continued)

Actuarial assumptions:

Investments rate of return	8.0%
Post retirement benefit increases	None
Projected salary increases	7.5%
Inflation rate	3.0%

Employees' Pension Fund

The Town provides pension benefits for all of its full-time employees through a Money Purchase Pension 401 Plan (Plan) adopted on October 1, 1986. In a money purchase pension plan benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate on employment. The Plan requires that the Town contribute thirteen percent of their compensation. All participating employees must contribute a minimum of seven percent of their compensation. All full-time employees hired prior to October 1, 1986 are fully vested. The Town's contributions for each employee (and interest allocated to the employee's amount) hired after October 1, 1986, are fully vested after five years of continuous service. Town contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Town's current-period contribution requirement.

The Plan allows participant loans for certain specified purposes. Loans may not exceed the lesser of fifty percent of the participant's vested account balances or \$50,000. Loans must be repaid within five years at rates of prime plus 0.5% or the FHA/VA rate on loans for a principal residence.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

17. Employee Retirement Systems (Continued)

Employees' Pension Fund (Continued)

The Town's total payroll in fiscal year 2003 was \$873,503. The Town's contributions were calculated using the participants' salary amount of \$431,043. The Town made the required 13% contribution offset by any forfeitures during the year ended September 30, 2003. The employees who participate in this Plan must make a minimum contribution of 7% of their total salaries. Both the Town and the covered employees made the required contributions summarized as follows:

		<u>Contribution Amount</u>	<u>Percentage of Current Covered Payroll</u>
Required:			
Town	\$ 56,035		
Less forfeitures	<u>(6,626)</u>	49,409	13.0%
Employees		<u>30,793</u>	<u>7.0 %</u>
Total contributions		<u>\$ 80,202</u>	<u>20.0 %</u>

18. Deferred Compensation Plan

The Town maintains a deferred compensation plan (Plan) under the provisions of Section 457 of the Internal Revenue Code, as amended. This law stipulates that all assets and income of the plan must be held in trust for the exclusive benefit of the Plan participants and their beneficiaries. The Town's plan is administered by the International City Management Association Retirement Corporation (ICMA) and provides the plan participants with the option to invest in eleven different registered investment funds (mutual funds). Although the Town is the Trustee of the plan, the Town has no administrative involvement and performs no investing function for the plan and has not therefore, reported the plan in this financial report.

TOWN OF INDIAN SHORES, FLORIDA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

19. Restatement of Beginning Fund Balance

Effective October 1, 2001, the Town also adopted the provisions of GASB Statement No. 38, "Certain Financial Statement Note Disclosures." The purpose of this statement is to eliminate certain prior disclosures that were no longer relevant or useful, revise certain ongoing disclosures to improve the information they provide and add new disclosures of relevant and useful information not previously required. Adoption of this statement has not resulted in any restatement of beginning balances.

20. Restatement of Beginning Net Assets

Governmental Activities (Government-wide Statements)

Effective October 1, 2002, the Town adopted GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments" and Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis: Omnibus." Due to the provisions of these statements, the beginning net assets of governmental activities were restated to include the governmental long-term debt and the governmental fixed assets as of September 30, 2002. In addition, the cumulative effect of accumulated depreciation was recognized. Further, the contributed capital accounts in the enterprise funds have been closed to the net asset accounts of each enterprise fund. The following is a reconciliation of the fund balance of all governmental funds, and the net assets of all enterprise funds, as previously reported, to the restated beginning net assets as reported in these financial statements:

Fund Balance, governmental funds, as previously reported September 30, 2002	\$ 625,767
General Long-Term Debt	(76,670)
General Fixed Assets	<u>3,734,027</u>
Governmental Activities at September 30, 2002	4,283,124
Cumulative Effect of Restatements:	
Accumulated depreciation	<u>(893,538)</u>
Restated beginning net assets	<u>\$ 3,389,586</u>

COMMENTS ON THE STATISTICAL SECTION
September 30, 2003

The following statistical tables recommended by the National Council on Governmental Accounting are not included for the reasons stated below:

A table on Enterprise Revenue Bonds debt service coverage has been omitted because the Town has no Enterprise Revenue Bonds.

Additional schedules which are felt to be useful to various users, principally investors, underwriters, and rating agencies, have been included in this section.

TOWN OF INDIAN SHORES, FLORIDA
GOVERNMENT-WIDE EXPENSES BY FUNCTION
THIS FISCAL YEAR

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Physical Environment</u>	<u>Culture and Recreation</u>	<u>Parking Fee</u>	<u>Total</u>
2003	\$ 249,190	\$ 1,011,283	\$ 529,792	\$ 4,799	\$ 11,720	\$ 1,806,784

TOWN OF INDIAN SHORES, FLORIDA

GOVERNMENT-WIDE REVENUES

THIS FISCAL YEAR

Fiscal Year	Program Revenues			General Revenues			General Revenues Total	Total
	Charges For Services	Capital Grants and Contributions	Program Revenues Total	Taxes	Investment Income	Miscellaneous		
2003	\$ 574,095	\$ 18,287	\$ 592,382	\$ 1,260,821	\$ 14,305	\$ 29,450	\$ 1,304,576	\$ 1,896,958

TOWN OF INDIAN SHORES, FLORIDA

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION⁽¹⁾

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Physical Environment</u>	<u>Transportation</u>	<u>Culture and Recreation</u>	<u>Total</u>
1994	256,632	651,979	103,726	23,938	2,928	1,039,203
1995	294,502	690,072	120,248	24,608	3,154	1,132,584
1996	308,451	796,512	134,187	59,793	3,326	1,302,269
1997	300,483	773,725	162,395	37,910	4,101	1,278,614
1998	308,203	826,036	298,959	80,997	4,500	1,518,695
1999	330,424	869,193	1,198,498	24,616	3,521	2,426,252
2000	331,366	765,935	707,852	22,341	3,703	1,831,197
2001	392,050	934,069	388,939	23,488	4,398	1,742,944
2002	398,712	938,137	657,515	24,610	4,173	2,023,147
2003	417,899	1,008,502	330,180	58,225	4,580	1,819,386

⁽¹⁾ Includes general, special revenue and expendable trust funds.

TOWN OF INDIAN SHORES, FLORIDA

GENERAL GOVERNMENTAL REVENUES BY SOURCE⁽¹⁾

Fiscal Year	Taxes	Licenses and Permits	Intergovernmental	Charge for Services	Fines and Forfeits	Interest	Miscellaneous	Total
1994	\$ 539,880	\$ 44,199	\$ 203,879	\$ 221,966	\$ 41,250	\$ 36,621	\$ 17,065	\$ 1,104,860
1995	561,014	30,212	202,564	245,093	35,967	55,579	23,809	1,154,238
1996	584,534	51,493	255,028	268,410	63,228	56,395	39,853	1,318,941
1997	590,933	66,777	261,336	273,736	66,225	58,309	29,016	1,346,332
1998	615,401	80,787	422,660	287,579	72,550	64,583	63,154	1,606,714
1999	633,054	69,100	768,375	341,794	57,868	57,872	70,653	1,998,716
2000	666,942	45,257	483,010	329,480	58,976	45,211	68,887	1,697,763
2001	731,796	282,812	367,956	338,934	53,685	41,561	57,325	1,874,069
2002	844,568	170,978	376,002	340,872	43,268	20,220	22,631	1,818,539
2003	996,000	153,266	290,041	333,408	57,284	14,305	35,091	1,879,395

GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE⁽²⁾

Fiscal Year	Property Tax	Franchise Tax	Total
1994	\$ 364,914	\$ 174,966	\$ 539,880
1995	377,909	183,105	561,014
1996	387,589	196,945	584,534
1997	396,747	194,186	590,933
1998	413,767	201,634	615,401
1999	434,692	198,362	633,054
2000	459,590	207,352	666,942
2001	507,153	224,643	731,796
2002	607,181	237,387	844,568
2003	758,689	237,311	996,000

⁽¹⁾ Includes general, special revenue and expendable trust funds.

⁽²⁾ Includes general fund.

TOWN OF INDIAN SHORES, FLORIDA

PROPERTY TAX LEVIES AND COLLECTIONS

<u>Fiscal Year</u>	<u>Total Assessed Valuation</u>	<u>Taxable Assessed Valuation</u>	<u>Levy</u>	<u>Collections</u>	<u>Percent⁽¹⁾</u>
1994	\$ 236,051,280	\$ 218,860,600	\$ 374,886	\$ 364,914	97
1995	243,799,850	227,036,750	388,891	377,909	97
1996	251,004,150	232,985,470	399,081	387,589	97
1997	257,439,140	238,745,160	408,947	396,747	97
1998	269,026,750	249,536,070	427,430	413,767	98
1999	283,226,000	261,489,610	447,906	434,692	97
2000	299,988,870	276,673,290	473,914	459,590	97
2001	332,590,870	305,532,570	523,347	507,153	97
2002	402,238,830	366,314,950	627,461	607,181	97
2003	511,012,330	458,027,850	784,643	758,689	97

⁽¹⁾ Florida Statutes provide for a discount of up to four percent for early payment of ad valorem taxes. All unpaid taxes become delinquent on April 1, and are sold at auction on June 1 of each year as tax certificates. The Town, after all tax certificates are sold, has fully collected all ad valorem tax revenues.

TOWN OF INDIAN SHORES, FLORIDA

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

Fiscal Year	Assessed Valuation					Percentages		
	Real Property	Personal Property	Total	Total	Total	Assessed Values to Estimated Market	Yearly Increases	
			Taxable	Exempt	All		Taxable	Total
1994	\$ 212,242,220	\$ 6,618,380	\$ 218,860,600	\$ 17,190,680	\$ 236,051,280	100	1.36	1.57
1995	220,482,150	6,554,600	227,036,750	16,763,100	243,799,850	100	3.74	3.28
1996	226,069,900	6,915,570	232,985,470	18,018,680	251,004,150	100	2.62	2.96
1997	231,986,800	6,758,360	238,745,160	18,693,980	257,439,140	100	2.47	2.56
1998	242,927,200	6,608,870	249,536,070	19,490,680	269,026,750	100	4.52	4.50
1999	254,560,790	6,928,820	261,489,610	21,736,390	283,226,000	100	4.79	5.28
2000	269,259,300	7,413,990	276,673,290	23,315,580	299,988,870	100	5.81	5.92
2001	298,238,100	7,294,490	305,532,590	27,058,280	332,590,870	100	10.43	10.88
2002	359,224,400	7,090,550	366,314,950	35,923,880	402,238,830	100	19.89	20.94
2003	450,974,300	7,053,550	458,027,850	52,984,480	511,012,330	100	25.03	27.04

Source: Pinellas County Property Appraiser.

TOWN OF INDIAN SHORES, FLORIDA

ASSESSED VALUATIONS, MILLAGE AND TAXES LEVIED AND COLLECTED

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total valuations	\$ 236,051,280	\$ 243,799,850	\$ 251,004,150	\$ 257,439,140	\$ 269,026,750	\$ 283,226,000	\$ 299,988,870	\$ 332,590,870	\$ 402,238,830	\$ 511,012,330
Real estate exemptions:										
Government exemption	6,661,350	6,082,650	6,116,850	6,092,150	6,121,150	6,424,060	6,634,450	6,770,450	6,639,450	7,998,850
Institutional exemption	1,323,600	1,329,800	1,334,130	1,524,030	1,520,730	1,905,430	1,900,530	1,920,230	2,503,230	3,330,430
Assessment differential (F.S.193.155) ⁽¹⁾	-	-	550,500	998,900	1,438,100	2,615,500	3,438,900	6,434,800	14,447,500	29,166,400
Lands available for taxes	-	-	-	-	-	15,900	15,900	-	-	-
Individual or homestead exemptions	9,205,730	9,350,650	10,017,200	10,078,900	10,410,700	10,775,500	11,325,800	11,932,800	12,333,700	12,488,800
Total exemptions and adjustments	17,190,680	16,763,100	18,018,680	18,693,980	19,490,680	21,736,390	23,315,580	27,058,280	35,923,880	52,984,480
Taxable valuation	<u>\$ 218,860,600</u>	<u>\$ 227,036,750</u>	<u>\$ 232,985,470</u>	<u>\$ 238,745,160</u>	<u>\$ 249,536,070</u>	<u>\$ 261,489,610</u>	<u>\$ 276,673,290</u>	<u>\$ 305,532,590</u>	<u>\$ 366,314,950</u>	<u>\$ 458,027,850</u>
Millage levied	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>
Total taxes levied	\$ 374,886	\$ 388,891	\$ 399,081	\$ 408,947	\$ 427,430	\$ 447,906	\$ 473,914	\$ 523,347	\$ 627,461	\$ 784,643
Less: Adjustments and discounts	9,972	10,982	11,492	12,200	13,663	13,214	14,324	16,194	19,280	25,954
Net taxes levied	<u>\$ 364,914</u>	<u>\$ 377,909</u>	<u>\$ 387,589</u>	<u>\$ 396,747</u>	<u>\$ 413,767</u>	<u>\$ 434,692</u>	<u>\$ 459,590</u>	<u>\$ 507,153</u>	<u>\$ 608,181</u>	<u>\$ 758,689</u>
Net collected ^{(1) (2)}	<u>\$ 364,914</u>	<u>\$ 377,909</u>	<u>\$ 387,589</u>	<u>\$ 396,747</u>	<u>\$ 413,767</u>	<u>\$ 434,692</u>	<u>\$ 459,590</u>	<u>\$ 507,153</u>	<u>\$ 608,181</u>	<u>\$ 758,689</u>

Source: Pinellas County Property Appraiser

⁽¹⁾Florida Statutes provide for a discount of up to four percent for early payment of ad valorem taxes. All unpaid taxes become delinquent on April 1, and are sold at auction on June 1 of each year as tax certificates. The Town, after all tax certificates are sold, has fully collected all ad valorem revenues.

⁽²⁾Net collected includes penalties or late payments.

⁽³⁾Florida Statutes provide for a three percent maximum increase in annual taxable property values.

TOWN OF INDIAN SHORES, FLORIDA

PROPERTY TAX RATES - DIRECT AND ALL OVERLAPPING GOVERNMENTS (PER \$1,000)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Town of Indian Shores:										
Operating	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>
Total Town millage	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>	<u>1.7129</u>
Pinellas County School Board:										
Operating	<u>9.0820</u>	<u>9.3590</u>	<u>9.1760</u>	<u>9.133</u>	<u>9.1100</u>	<u>9.1100</u>	<u>8.6666</u>	<u>8.4330</u>	<u>8.4870</u>	<u>8.4490</u>
Pinellas County:										
Operating	<u>6.3010</u>	<u>6.3010</u>	<u>5.5100</u>	<u>5.5100</u>	<u>5.5380</u>	<u>5.5380</u>	<u>5.8542</u>	<u>6.7510</u>	<u>6.1410</u>	<u>6.1410</u>
EMS	<u>-</u>	<u>-</u>	<u>.7410</u>	<u>.7410</u>	<u>.7130</u>	<u>.7130</u>	<u>.6470</u>	<u>-</u>	<u>.6600</u>	<u>.6600</u>
Debt services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total County millage	<u>6.3010</u>	<u>6.3010</u>	<u>6.2510</u>	<u>6.2510</u>	<u>6.251</u>	<u>6.251</u>	<u>6.5012</u>	<u>6.7510</u>	<u>6.8010</u>	<u>6.8010</u>
County-wide millage set by other taxing authorities:										
-Pinellas Suncoast Transit Authority	<u>.6697</u>	<u>.6697</u>	<u>.6697</u>	<u>.6697</u>	<u>.6501</u>	<u>.6501</u>	<u>.6501</u>	<u>.6501</u>	<u>.6501</u>	<u>.6319</u>
-Pinellas County Planning Council	<u>.0256</u>	<u>.0256</u>	<u>.0214</u>	<u>.0214</u>	<u>.0214</u>	<u>.0214</u>	<u>.0225</u>	<u>.0025</u>	<u>.0225</u>	<u>.0225</u>
-Juvenile Welfare Board	<u>.7095</u>	<u>.7822</u>	<u>.8117</u>	<u>.8117</u>	<u>.8117</u>	<u>.8117</u>	<u>.8117</u>	<u>.8117</u>	<u>.8117</u>	<u>.8117</u>
-South West Florida Water Management District	<u>.4220</u>	<u>.4220</u>	<u>.4220</u>	<u>.4220</u>	<u>.4220</u>	<u>.4220</u>	<u>.4220</u>	<u>.4220</u>	<u>.4220</u>	<u>.4220</u>
-Pinellas County Anclote River Basin	<u>.2650</u>	<u>.4010</u>	<u>.4010</u>	<u>.4010</u>	<u>.4010</u>	<u>.4010</u>	<u>.4010</u>	<u>.4000</u>	<u>.4000</u>	<u>.4000</u>
Total County-wide millage	<u>2.0918</u>	<u>2.3005</u>	<u>2.3258</u>	<u>2.3258</u>	<u>2.3062</u>	<u>2.3062</u>	<u>2.3073</u>	<u>2.2863</u>	<u>2.3063</u>	<u>2.2881</u>
TOTAL	<u><u>19.1877</u></u>	<u><u>19.6734</u></u>	<u><u>19.4657</u></u>	<u><u>19.4227</u></u>	<u><u>19.3801</u></u>	<u><u>19.3801</u></u>	<u><u>19.1880</u></u>	<u><u>19.1832</u></u>	<u><u>19.3072</u></u>	<u><u>19.2510</u></u>

Sourcc: Pinellas County Tax Collector.

TOWN OF INDIAN SHORES, FLORIDA

COMPUTATION OF LEGAL DEBT MARGIN

September 30, 2003

The Constitution of the State of Florida, Florida Statute 200.181
and the Charter of the Town of Indian Shores, Florida
set no legal debt margin.

TOWN OF INDIAN SHORES, FLORIDA

COMPUTATION OF DIRECT AND OVERLAPPING DEBT
GENERAL OBLIGATION BONDS
SEPTEMBER 30, 2003
(in thousands)

	Net General Obligation Bonded Debt Outstanding	Net General Nonself- Supporting Revenue Debt	Total	Percentage Applicable to Town of Indian Shores	Amount Applicable to Town of Indian Shores
	<u> </u>	<u> </u>	<u> </u>		<u> </u>
Direct Debt:					
Town of Indian Shores	\$ -	\$ -	\$ -	100%	\$ -
Overlapping Debt:					
Pinellas County			-		-
Pinellas County School Board ⁽¹⁾	68,808,986	-	68,808,986	0.108%	<u>743,137</u>
Total Town Direct and Overlapping Debt					<u>\$ 743,137</u>

RATIO:

Overall debt to 2003 taxable value	<u>.167%</u>
Overall debt per capita	<u>\$ 340</u>

⁽¹⁾ The Town's share is calculated based on the ratio of the 2003 County Taxable Value of \$42,410,832,981 to the Town's Taxable Value of \$458,027,850.

TOWN OF INDIAN SHORES, FLORIDA

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS

Fiscal Year	Commercial Construction		Residential Construction		Miscellaneous Construction ⁽¹⁾		Bank Deposits (In Thousands)
	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	
1994	18	31,032	237	6,213,652	82	954,620	13,334,
1995	11	35,650	225	2,877,590	64	190,955	11,279,
1996	30	1,271,196	268	3,347,333	30	185,969	12,739,
1997	64	919,542	283	4,715,513	45	157,234	12,522,
1998	65	362,157	332	12,442,594	50	726,214	13,293,
1999	24	95,932	348	7,708,497	39	1,131,395	13,137,
2000	43	517,223	360	5,433,328	25	146,280	13,442,
2001	31	280,678	336	44,494,200	8	99,732	13,565,
2002	36	85,648	316	26,328,807	3	238,000	14,124,
2003	44	347,652	355	34,603,043	2	200	15,006,

⁽¹⁾ Includes institutional, sea walls, pools, fences and non-valued building permits.

⁽²⁾ Includes balances in commercial, savings, savings and loan, and building and loan banking institutions in Pinellas County. Data from the St. Petersburg Times Research Bureau and the Florida Bankers' Association.

TOWN OF INDIAN SHORES, FLORIDA

PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2003

	Assessed Valuation			Percentage of Total Assessed Valuation
	Real Property	Tangible Personal Property	Total	
Preferred Equities Corporation	\$ 9,511,900	\$ -	\$ 9,511,900	1.86%
Regency Monterey, Inc.	5,482,600	-	5,482,600	1.07
Sage Company	5,275,000	-	5,275,000	1.03
Pate Family Partnership	2,044,200	-	2,044,200	.40
Rief, Frank Jr. III Tre	1,857,500	-	1,857,500	.36
Bella Player Joint Venture	1,785,000	-	1,785,000	.34
JAGM	1,770,100	-	1,770,100	.34
Park Place of Indian Shores	1,741,100	-	1,741,100	.34
Cate, Donald N. Tre	1,575,000	-	1,575,000	.30
Gulf Shores Holdings I Inc.	1,531,200	-	1,531,200	.29
	<u>\$ 32,573,600</u>	<u>\$ -</u>	<u>\$ 32,573,600</u>	<u>6.33%</u>

Source: Pinellas County Property Appraiser.

TOWN OF INDIAN SHORES, FLORIDA

TEN MAJOR EMPLOYERS, NUMBER OF EMPLOYEES
AND TYPE OF BUSINESS

SEPTEMBER 30, 2003

<u>Employer</u>	<u>Number of Employees</u>	<u>Type of Business</u>
Salt Rock Grill	125	Restaurant
Hungry Fisherman Restaurant	65	Restaurant
The Pub	35	Restaurant
Town of Indian Shores	24	Municipality
Jack Collins Realty	22	Real Estate Brokerage
Sun Vista Realty	16	Real Estate Brokerage
Chateau Madrid	10	Restaurant
7-11 Store	8	Convenience Store
Mickey Quinn's Pub	6	Restaurant
First National Bank of Florida	5	Bank

Source: Town Clerk's Office, Town of Indian Shores, Florida

TOWN OF INDIAN SHORES, FLORIDA

**SCHEDULE OF INSURANCE IN FORCE
SEPTEMBER 30, 2003**

Type of Coverage	Policy Number	Company	Co-insurance	Amount	Term		Original Premium
					From	To	
Employee Bond	Bond #79-0170-905-78	United States Fidelity and Guaranty Agent: Mitchell	-	\$ 26,000	12/01/02	12/01/03	\$ 12
Comprehensive General Liability:	FMIT 279	Florida Municipal Liability Self Insurance Program	-				
Bodily injury			-	100,000	10/01/02	9/30/03	9.30
Property Damage			-	200,000			
Personal Injury			-	1,000			
Police Bond	Bond #79-0170-905-78	United States Fidelity and Guaranty Agent: Mitchell	-	10,000	09/15/02	09/15/03	10
Law Enforcement Officers Professional Liability	#97-030-88	Florida Police Chiefs Self Insurance Program Agent: Mitchell	\$ 1,000 deductible	2,100,000 2,200,000 2,300,000	10/01/02	09/30/03	16.20
Public Officials and Employees Legal Liability with EPL endorsement	FML-279	Florida Municipal Self-insurance Fund	\$ 2,500 deductible	1,000,000 1,000,000 500,000	10/01/02	10/01/03	Included with General Liability Policy
Special Event	FML-279	Florida Municipal Self-insurance Fund	-		05/13/02	05/13/03	70
Specific Excess Endorsement	FMIT 279	Florida Municipal Liability Self Insurance Program	-	1,500,000	10/01/02	09/30/03	Included with Comp. Gen. Liab.
Automobile Physical Damage and Liability	FMIT 279	Florida Municipal Liability Self Insurance Program	\$ 250 deductible	Property		w/General Liability	13.61
Real Property Personal Property	FMIT 279	Florida Municipal Liability Self Insurance Program	\$ 500 deductible	1080060 137,566	Real Personal		380
Inland Marine	FMIT 279	Florida Municipal Liability Self Insurance Program	\$ 250 deductible				

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APPENDIX K

FINANCIAL INFORMATION REGARDING THE CITY OF INVERNESS

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CITY OF INVERNESS, FLORIDA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 GENERAL FUND
 For the Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:			
Taxes and special assessments	\$3,057,015	\$2,983,660	\$ 2,928,065
Licenses and permits	84,605	143,607	141,272
Intergovernmental revenue	673,504	670,987	671,292
Charges for services	4,720	2,083	4,912
Fines and forfeitures	94,835	79,694	91,805
Miscellaneous	<u>125,571</u>	<u>17,854</u>	<u>400,164</u>
Total revenues	\$4,040,251	\$3,897,885	\$4,237,510
Expenditures:			
General government	878,122	789,245	796,325
Physical environment	264,233	295,055	309,866
Public Safety	1,003,443	974,191	1,010,158
Highway and streets	391,171	359,939	336,563
Economic environment	--	--	--
Cultural and recreation	<u>133,849</u>	<u>109,153</u>	<u>103,743</u>
Total expenditures	<u>\$ 2,670,818</u>	<u>\$2,527,583</u>	<u>\$2,556,655</u>
Excess of Revenues (Under) Over Expenditures	1,369,433	1,370,302	1,680,855
Other Financing Sources (Uses):			
Sale of assets	--	--	--
Capital lease proceeds	--	--	--
Operating transfers in	163,173	132,025	120,025
Operating transfers out	<u>(3,048,505)</u>	<u>(1,096,884)</u>	<u>(1,649,737)</u>
Total Other Financing Sources (Uses)	<u>(2,885,332)</u>	<u>(964,859)</u>	<u>(1,529,712)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(1,515,899)	405,443	151,143
Fund Balance - October 1	<u>5,819,566</u>	<u>5,414,123</u>	<u>5,147,499</u>
Residual equity transfer from other fund			115,481
Fund Balance - September 30	<u>\$ 4,303,667</u>	<u>\$ 5,819,566</u>	<u>\$ 5,414,123</u>

The obligation of the City of Inverness to pay the Loan Payments is limited to the Pledged Revenues of the City, as described in the Official Statement. Certain of the above revenues are not legally available to make, nor are any of the above revenues (except for the Pledged Revenues) pledged to, the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

INDEPENDENT AUDITOR'S REPORT ON THE GENERAL PURPOSE
FINANCIAL STATEMENTS AND OTHER
FINANCIAL INFORMATION

Honorable City Council
City of Inverness
Inverness, Florida

We have audited the accompanying general purpose financial statements of the City of Inverness, Florida, as of and for the year ended September 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Inverness's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

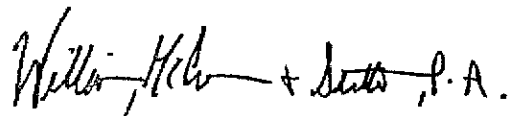
We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Inverness, Florida, as of September 30, 2003, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Honorable City Council
City of Inverness
Inverness, Florida

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Inverness, Florida taken as a whole. The accompanying financial information listed as supplementary information in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the City of Inverness, Florida. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, as listed in the table of contents is presented for the purpose of additional analysis, and is not a required part of the general purpose financial statements. These financial statements and schedules are the responsibility of the City's management. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated April 30, 2004 on our consideration of the City of Inverness, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



Williams, McCranie & Sutton, P.A.

Inverness, Florida
April 30, 2004

CITY OF INVERNESS, FLORIDA
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND
 DISCRETELY PRESENTED COMPONENT UNIT
 SEPTEMBER 30, 2003

<u>ASSETS AND OTHER DEBITS</u>	<u>GOVERNMENTAL FUND TYPES</u>			<u>PROPRIETARY</u>	<u>FIDUCIARY</u>
	<u>GENERAL</u>	<u>SPECIAL</u>	<u>CAPITAL</u>	<u>FUND TYPE</u>	<u>FUND TYPES</u>
		<u>REVENUE</u>	<u>PROJECTS</u>	<u>ENTERPRISE</u>	<u>AGENCY</u>
Cash	\$ 1,690,396	\$ 219,195	\$ 1,344,120	\$ 554,697	\$ -
Investments	2,691,557	1,047,750	2,959,639	3,627,906	-
Receivables:					
Accounts receivable	8,615	11,691	-	253,039	-
Assessments receivable	-	12,080	-	14,082	-
Connection fees receivable	-	-	-	23,488	-
Inventory, at cost	-	-	-	98,016	-
Due from other funds	-	34,808	5,668	27,664	12,582
Due from other governments	181,800	-	103,076	-	-
Prepaid expenses	36,262	-	-	-	-
Unamortized loan costs	-	-	-	40,297	-
Restricted Assets:					
Cash	-	-	-	164,411	-
Investments	-	-	-	1,970,335	-
Fixed assets, net of accumulated depreciation	-	-	-	6,926,558	-
Other Debits:					
Resources to be provided in future years	-	-	-	-	-
Total Assets and Other Debits	\$ 4,608,630	\$ 1,325,524	\$ 4,412,503	\$ 13,700,493	\$ 12,582

The notes to the financial statements are an integral part of this statement.

ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY) PRIMARY GOVERNMENT	COMPONENT UNIT DOWNTOWN REDEVELOPMENT TRUST FUND	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
GENERAL FIXED ASSETS	GENERAL LONG TERM DEBT			2003	2002
\$ -	\$ -	\$ 3,808,408	\$ 60,613	\$ 3,869,021	\$ 3,353,113
-	-	10,326,852	69,326	10,396,178	10,300,009
-	-	273,345	-	273,345	295,056
-	-	26,162	-	26,162	27,674
-	-	23,488	-	23,488	18,916
-	-	98,016	-	98,016	98,685
-	-	80,722	-	80,722	3,105
-	-	284,876	-	284,876	240,696
-	-	36,262	-	36,262	48,945
-	-	40,297	-	40,297	40,297
-	-	164,411	-	164,411	377,281
-	-	1,970,335	-	1,970,335	1,894,004
9,745,425	-	16,671,983	-	16,671,983	14,883,527
-	274,347	274,347	-	274,347	139,234
<u>\$ 9,745,425</u>	<u>\$ 274,347</u>	<u>\$ 34,079,504</u>	<u>\$ 129,939</u>	<u>\$ 34,209,443</u>	<u>\$ 31,720,542</u>

CITY OF INVERNESS, FLORIDA
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS,
 AND DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)
 SEPTEMBER 30, 2003

LIABILITIES & FUND EQUITY	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPES
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	ENTERPRISE	AGENCY
LIABILITIES:					
Accounts payable	\$ 65,188	\$ 37,568	\$ 56,224	\$ 73,270	\$ -
Accrued liabilities and compensated absences	159,053	23,672	-	37,576	-
Payable from Restricted Assets:					
Accrued interest	-	-	-	14,955	-
Revenue bonds - current	-	-	-	200,000	-
Deposits	-	-	-	160,136	-
Note payable - current portion	-	-	-	94,701	-
Capital lease	-	-	-	-	-
Due to other funds	80,722	-	-	-	-
Due to other governments	-	-	-	-	12,582
Revenue bonds payable - long-term	-	-	-	802,144	-
Notes payable - long-term	-	-	-	643,230	-
Total Liabilities	304,963	61,240	56,224	2,026,012	12,582
FUND EQUITY:					
Contributed capital	-	-	-	8,801,998	-
Investment in general fixed assets	-	-	-	-	-
Retained Earnings:					
Reserved	-	-	-	1,759,655	-
Unreserved	-	-	-	1,112,828	-
Fund Balance:					
Reserved	36,262	145,555	-	-	-
Unreserved:					
Designated	1,927,177	1,118,729	4,356,279	-	-
Undesignated	2,340,228	-	-	-	-
Total Retained Earnings/ Fund Balance	4,303,667	1,264,284	4,356,279	2,872,483	-
Total Fund Equity	4,303,667	1,264,284	4,356,279	11,674,481	-
Total Liabilities and Fund Equity	\$ 4,608,630	\$ 1,325,524	\$ 4,412,503	\$ 13,700,493	\$ 12,582

The notes to the financial statements are an integral part of this statement.

ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)	COMPONENT UNIT DOWNTOWN REDEVELOPMENT TRUST FUND	TOTALS (MEMORANDUM ONLY) REPORTING ENTITY	
GENERAL FIXED ASSETS	GENERAL LONG TERM DEBT	PRIMARY GOVERNMENT		2003	2002
\$ -	\$ -	\$ 232,250	\$ 3,168	\$ 235,418	\$ 357,378
-	101,613	321,914	-	321,914	304,676
-	-	14,955	-	14,955	18,011
-	-	200,000	-	200,000	190,000
-	-	160,136	-	160,136	156,045
-	-	94,701	-	94,701	185,502
-	172,734	172,734	-	172,734	64,758
-	-	80,722	-	80,722	3,105
-	-	12,582	-	12,582	33,408
-	-	802,144	-	802,144	999,120
-	-	643,230	-	643,230	739,497
-	274,347	2,735,368	3,168	2,738,536	3,051,500
-	-	8,801,998	-	8,801,998	8,801,998
9,745,425	-	9,745,425	-	9,745,425	7,789,488
-	-	1,759,655	-	1,759,655	1,907,229
-	-	1,112,828	-	1,112,828	605,311
-	-	181,817	-	181,817	2,513,684
-	-	7,402,185	-	7,402,185	3,098,073
-	-	2,340,228	126,771	2,466,999	3,953,259
-	-	12,796,713	126,771	12,923,484	12,077,556
9,745,425	-	31,344,136	126,771	31,470,907	28,669,042
\$ 9,745,425	\$ 274,347	\$ 34,079,504	\$ 129,939	\$ 34,209,443	\$ 31,720,542

CITY OF INVERNESS, FLORIDA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES - ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED
 COMPONENT UNIT
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS
REVENUES:			
Taxes and special assessments	\$ 3,057,016	\$ -	\$ -
Licenses and permits	84,605	-	-
Intergovernmental revenue	673,504	930,157	167,297
Charges for services	4,720	116,065	-
Fines and forfeitures	94,835	18,934	-
Miscellaneous revenues	125,571	23,710	50,619
Total Revenues	<u>4,040,251</u>	<u>1,088,866</u>	<u>217,916</u>
EXPENDITURES:			
Current:			
General government	878,122	-	-
Physical environment	264,233	1,042,584	765,292
Public safety	1,003,443	45,812	-
Highways and streets	391,171	-	-
Economic environment	-	-	-
Culture and recreation	133,849	679,100	-
Total Expenditures	<u>2,670,818</u>	<u>1,767,496</u>	<u>765,292</u>
Excess of Revenues Over (Under) Expenditures	1,369,433	(678,630)	(547,376)
Other Financing Sources (Uses)			
Capital lease proceeds	-	-	202,379
Operating transfers in	163,173	826,887	2,820,159
Operating transfers out	(3,048,505)	(138,541)	(500,000)
Total Other Financing Sources (Uses)	<u>(2,885,332)</u>	<u>688,346</u>	<u>2,522,538</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(1,515,899)	9,716	1,975,162
Fund Balance - October 1	<u>5,819,566</u>	<u>1,254,568</u>	<u>2,381,117</u>
Fund Balance - September 30	<u>\$ 4,303,667</u>	<u>\$ 1,264,284</u>	<u>\$ 4,356,279</u>

The notes to the financial statements are an integral part of this statement.

TOTALS (MEMORANDUM ONLY)		COMPONENT UNIT	TOTALS (MEMORANDUM ONLY)	
PRIMARY GOVERNMENT		DOWNTOWN REDEVELOPMENT TRUST FUND	REPORTING ENTITY	
			2003	2002
\$	3,057,016	\$ -	\$ 3,057,016	\$ 2,983,660
	84,605	-	84,605	143,607
	1,770,958	70,525	1,841,483	1,183,502
	120,785	-	120,785	111,861
	113,769	-	113,769	92,244
	199,900	2,037	201,937	101,006
	<u>5,347,033</u>	<u>72,562</u>	<u>5,419,595</u>	<u>4,615,880</u>
	878,122	-	878,122	789,245
	2,072,109	-	2,072,109	734,739
	1,049,255	-	1,049,255	1,010,767
	391,171	-	391,171	359,939
	-	55,556	55,556	58,793
	812,949	-	812,949	729,387
	<u>5,203,606</u>	<u>55,556</u>	<u>5,259,162</u>	<u>3,682,870</u>
	143,427	17,006	160,433	933,010
	202,379	-	202,379	76,998
	3,810,219	-	3,810,219	1,270,409
	<u>(3,687,046)</u>	<u>-</u>	<u>(3,687,046)</u>	<u>(1,235,984)</u>
	<u>325,552</u>	<u>-</u>	<u>325,552</u>	<u>111,423</u>
	468,979	17,006	485,985	1,044,433
	<u>9,455,251</u>	<u>109,765</u>	<u>9,565,016</u>	<u>8,520,583</u>
\$	<u>9,924,230</u>	\$ <u>126,771</u>	<u>\$ 10,051,001</u>	<u>\$ 9,565,016</u>

CITY OF INVERNESS, FLORIDA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:						
Taxes and special assessments	\$ 2,971,898	\$3,057,016	\$ 85,118	\$ -	\$ -	\$ -
Licenses and permits	117,500	84,605	(32,895)	-	-	-
Intergovernmental revenue	667,691	673,504	5,813	930,157	930,157	-
Charges for services	2,950	4,720	1,770	114,826	116,065	1,239
Fines and forfeitures	111,100	94,835	(16,265)	12,799	18,934	6,135
Miscellaneous	120,626	125,571	4,945	35,963	23,710	(12,253)
Total Revenues	<u>3,991,765</u>	<u>4,040,251</u>	<u>48,486</u>	<u>1,093,745</u>	<u>1,088,866</u>	<u>(4,879)</u>
EXPENDITURES:						
Current:						
General government	1,614,516	878,122	736,394	-	-	-
Physical environment	322,373	264,233	58,140	1,161,484	1,042,584	118,900
Public safety	1,194,967	1,003,443	191,524	69,925	45,812	24,113
Highway and streets	454,194	391,171	63,023	-	-	-
Economic environment	-	-	-	-	-	-
Culture and recreation	156,689	133,849	22,840	830,968	679,100	151,868
Total Expenditures	<u>3,742,739</u>	<u>2,670,818</u>	<u>1,071,921</u>	<u>2,062,377</u>	<u>1,767,496</u>	<u>294,881</u>
Excess of Revenues Over (Under) Expenditures	249,026	1,369,433	1,120,407	(968,632)	(678,630)	290,002
Other Financing Sources (Uses)						
Sale of assets	-	-	-	-	-	-
Operating transfers in	163,173	163,173	-	826,887	826,887	-
Operating transfers out	(3,048,505)	(3,048,505)	-	(138,541)	(138,541)	-
Total Other Financing Sources (Uses)	<u>(2,885,332)</u>	<u>(2,885,332)</u>	<u>-</u>	<u>688,346</u>	<u>688,346</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(2,636,306)	(1,515,899)	1,120,407	(280,286)	9,716	290,002
Fund Balance - October 1	<u>5,819,566</u>	<u>5,819,566</u>	<u>-</u>	<u>1,254,568</u>	<u>1,254,568</u>	<u>-</u>
Fund Balance - September 30	<u>\$ 3,183,260</u>	<u>\$ 4,303,667</u>	<u>\$ 1,120,407</u>	<u>\$ 974,282</u>	<u>\$ 1,264,284</u>	<u>\$ 290,002</u>

The notes to the financial statements are an integral part of this statement.

CAPITAL PROJECTS FUND			TOTALS (MEMORANDUM ONLY)		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ -	\$ -	\$ -	\$ 2,971,898	\$ 3,057,016	\$ 85,118
-	-	-	117,500	84,605	(32,895)
1,659,454	167,297	(1,492,157)	3,257,302	1,770,958	(1,486,344)
-	-	-	117,776	120,785	3,009
-	-	-	123,899	113,769	(10,130)
33,000	50,619	17,619	189,589	199,900	10,311
<u>1,692,454</u>	<u>217,916</u>	<u>(1,474,538)</u>	<u>6,777,964</u>	<u>5,347,033</u>	<u>(1,430,931)</u>
-	-	-	1,614,516	878,122	736,394
6,242,840	765,292	5,477,548	7,726,697	2,072,109	5,654,588
-	-	-	1,264,892	1,049,255	215,637
-	-	-	454,194	391,171	63,023
-	-	-	-	-	-
-	-	-	987,657	812,949	174,708
<u>6,242,840</u>	<u>765,292</u>	<u>5,477,548</u>	<u>12,047,956</u>	<u>5,203,606</u>	<u>6,844,350</u>
(4,550,386)	(547,376)	4,003,010	(5,269,992)	143,427	5,413,419
226,000	202,379	(23,621)	226,000	226,000	(23,621)
2,820,159	2,820,159	-	3,810,219	3,810,219	-
(500,000)	(500,000)	-	(3,687,046)	(3,687,046)	-
<u>2,546,159</u>	<u>2,522,538</u>	<u>(23,621)</u>	<u>349,173</u>	<u>325,552</u>	<u>(23,621)</u>
(2,004,227)	1,975,162	3,979,389	(4,920,819)	468,979	5,389,798
2,381,117	2,381,117	-	9,455,251	9,455,251	-
<u>\$ 376,890</u>	<u>\$ 4,356,279</u>	<u>\$ 3,979,389</u>	<u>\$ 4,534,432</u>	<u>\$ 9,924,230</u>	<u>\$ 5,389,798</u>

CITY OF INVERNESS, FLORIDA
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
 RETAINED EARNINGS - ALL ENTERPRISE FUNDS

	For The Year Ended September 30,	
	2003	2002
OPERATING REVENUES:		
Charges for services	\$ 1,784,906	\$ 1,835,475
Total Operating Revenues	<u>1,784,906</u>	<u>1,835,475</u>
OPERATING EXPENSES:		
Personal services	453,026	359,164
Contractual services	11,963	50,131
Other operating expenses	310,419	181,064
Materials and supplies	113,526	97,923
Utilities	131,763	134,417
Depreciation	410,604	381,910
Total Operating Expenses	<u>1,431,301</u>	<u>1,204,609</u>
Operating Income	353,605	630,866
Nonoperating Revenues (Expense):		
Other charges	136,019	162,533
Grant proceeds	-	831
Interest income	94,655	158,820
Interest expenses and fiscal charges	<u>(101,163)</u>	<u>(132,033)</u>
Total Nonoperating Revenues (Expenses)	<u>129,511</u>	<u>190,151</u>
Income before operating transfers	483,116	821,017
Operating transfers out	<u>(123,173)</u>	<u>(34,425)</u>
Net Income	359,943	786,592
Retained Earnings:		
Beginning balance	2,512,540	1,725,948
Balance at end of year	<u>\$ 2,872,483</u>	<u>\$ 2,512,540</u>

The notes to the financial statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA
 COMBINED STATEMENT OF CASH FLOWS - ALL ENTERPRISE FUNDS

	For The Year Ended September 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$1,812,691	\$1,807,004
Cash payments to suppliers for goods and services	(653,821)	(458,287)
Cash payments to employees for services	(449,083)	(371,845)
Net cash provided by operating activities	<u>709,787</u>	<u>976,872</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers out	(123,173)	(34,425)
Other nonoperating receipts	6,006	24,995
Customer deposits	4,091	4,023
Net cash used in noncapital financing activities	<u>(113,076)</u>	<u>(5,407)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributions collected	133,075	147,000
Proceeds from note payable	-	700,000
Grant proceeds	-	831
Principal paid on revenue bonds	(190,000)	(180,000)
Principal paid on notes payable	(187,068)	(83,850)
Interest paid on revenue bonds	(60,175)	(69,520)
Interest paid on notes payable	(40,386)	(37,741)
Acquisition and construction of capital assets	<u>(249,880)</u>	<u>(662,306)</u>
Net cash used in capital and related financing activities	<u>(594,434)</u>	<u>(185,586)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	94,655	158,820
Net cash provided by investing activities	<u>94,655</u>	<u>158,820</u>
NET INCREASE IN CASH/INVESTMENTS		
Beginning of Year - Cash/Investments	96,932	944,699
End of Year - Cash/Investments	<u>6,220,417</u>	<u>5,275,718</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 353,605	\$ 630,866
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	410,604	381,910
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	27,785	(28,471)
Increase (decrease) in accounts payable	(60,403)	4,728
Increase (decrease) in accrued liabilities	3,943	(12,681)
Decrease in due to other funds	-	(3,276)
Increase in due from other funds	(26,416)	4,656
(Increase) decrease in inventory	669	(860)
Decrease in due from other governments	-	-
Total adjustments	<u>356,182</u>	<u>346,006</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 709,787</u>	<u>\$ 976,872</u>
Reconciliation of Cash to Balance Sheet:		
Balance Sheet Totals		
Cash	\$ 554,697	
Investments	3,627,906	
Restricted cash	164,411	
Restricted investments	<u>1,970,335</u>	
	<u>\$6,317,349</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA
 COMBINED STATEMENT OF REVENUES AND EXPENSES - BUDGET AND
 ACTUAL - ALL ENTERPRISE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

	NON-GAAP - BASIS		VARIANCE
	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)
OPERATING REVENUES:			
Charges for services	\$ 1,670,475	\$ 1,784,906	\$ 114,431
Total Operating Revenues	<u>1,670,475</u>	<u>1,784,906</u>	<u>114,431</u>
OPERATING EXPENSES:			
Personal services	538,012	453,026	84,986
Contractual services	15,130	11,963	3,167
Other operating expenses	359,816	310,419	49,397
Materials and supplies	124,001	113,526	10,475
Utilities	146,611	131,763	14,848
Depreciation	272,000	410,604	(138,604)
Total Operating Expenses	<u>1,455,570</u>	<u>1,431,301</u>	<u>24,269</u>
Operating Income			
Budgetary Basis	214,905	353,605	138,700
Nonoperating Revenues			
(Expenses)			
Other charges	137,350	136,019	(1,331)
Interest income	123,479	94,655	(28,824)
Interest expense	(230,057)	(101,163)	128,894
Principal payments on debt	(279,110)	(377,068)	(97,958)
Fixed asset additions	(1,361,706)	(249,880)	1,111,826
Loan proceeds	145,000	-	(145,000)
Total Nonoperating Revenues			
(Expenses)	<u>(1,465,044)</u>	<u>(497,437)</u>	<u>967,607</u>
Income (Loss) - Before			
Operating Transfers	(1,250,139)	(143,832)	1,106,307
Operating transfers out	<u>(123,173)</u>	<u>(123,173)</u>	<u>-</u>
Net Income (Loss) Budgetary Basis	<u>\$ (1,373,312)</u>	<u>\$ (267,005)</u>	<u>\$ 1,106,307</u>

The notes to the financial statements are an integral part of this statement.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Inverness was incorporated in 1919 under a special act of the State of Florida Chapter 8274 Act 492.

The financial report of the City of Inverness has been prepared in accordance with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board. The following is a summary of the more significant policies.

A. Financial Reporting Entity

The general purpose financial statements of the reporting entity include those of the City of Inverness, the primary government, and its component unit.

Blended component units are legally separate entities that are in substance part of the City's government operation, as they either have governing bodies that are substantively the same as the City or they provide their services exclusively or almost exclusively to the City government. The financial transactions of these component units are merged with similar transactions of the City as part of the primary government. Discretely-presented component units are legally separate entities which do not meet the criteria for blending. They are reported in separate columns to emphasize that they are legally separate from the City.

The City, in determining what potential component entities should be included for financial reporting purposes, considered accountability for fiscal matters, other manifestations of oversight responsibility, scope of public service, and special financing relationships. Fiscal accountability, the most significant of all the criteria, refers to conditions of financial interdependency between two entities including budgetary adoption, taxing authority, responsibility for debt, and control over or responsibility for financial management. Other manifestations of oversight responsibility encompass the ability to select governing authority, designate management or significantly influence operations. The scope of public service evaluates the benefits derived in terms of the citizenry served or the geographic boundaries included.

Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A. Financial Reporting Entity (Continued)

Discretely presented component unit – The City of Inverness Downtown Redevelopment Agency was created by Resolution No. 90-07 as authorized by Part III of Chapter 163, Florida State Statutes. The Agency is fiscally dependent on the City and the City Council approves the Agency's annual budget.

The component unit's columns in the combined financial statements include the financial data of the City's component unit. This unit is reported in a separate column to emphasize that it is legally separate from the City. Complete financial statements of the Agency can be obtained from the City of Inverness.

There are no blended component units included in the City's reporting entity.

B. Nature and Purpose of Funds and Account Groups

The financial statements of the City of Inverness, Florida, presented herein are divided into various categories designated as funds and account groups. The financial statements of these units are presented separately in recognition of the divergent purpose of each and in compliance with legal requirements and accounting principles generally accepted in the United States of America. A listing of these funds and account groups and a brief description of the nature of each are as follows:

GOVERNMENTAL FUNDS

General Fund -- To account for all revenues and expenditures applicable to the general operations of the City that are not accounted for in another fund. All general operating revenues which are not restricted or designated as to use by outside sources are recorded in the General Fund. The governmental fund measurement focus is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources rather than upon net income determination).

Special Revenue Funds – To account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes. The following special revenue funds are used by the City:

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Nature and Purpose of Funds and Account Groups (Continued)

GOVERNMENTAL FUNDS (CONTINUED)

Special Revenue Funds (Continued)

Road Improvement Fund - accounts for road system repairs and maintenance financed principally through transfers from the General Fund and the building of new roads financed mainly through the levying of special assessments against the benefited properties.

Whispering Pines Park - accounts for the operations of the Whispering Pines Park, financed principally by contributions from Citrus County, the School Board of Citrus County and transfers from the General Fund.

Police Crossing Guard - accounts for the expense of furnishing school crossing guards, financed through charges to the School System.

Police Education Trust Fund - accounts for that portion of fines specifically limited to educational expenditures for law enforcement personnel.

Law Enforcement Trust Fund - accounts for proceeds from contraband and forfeited projects to be used for special equipment and education for law enforcement.

Community Development Block Grant Fund - accounts for grant funds administered under the Community Development Block Grant program.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Nature and Purpose of Funds and Account Groups (Continued)

PROPRIETARY FUNDS

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Application of Accounting Standards – As allowed by Governmental Accounting Standards Board Statement Number 20 “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting”, the City has elected not to apply Financial Accounting Standard Board’s statements and interpretations issued after November 30, 1989 in accounting for its proprietary funds.

The City maintains the following enterprise funds:

Water and Sewer Utility Fund – accounts for the operations of the water and wastewater facilities.

Cemetery Fund – accounts for the sale of lots and maintenance of the Oak Ridge Cemetery.

FIDUCIARY FUNDS

Trust and Agency Funds – Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individual, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City maintains the following agency fund:

Impact Fees – accounts for impact fees collected by the City and remitted to the County.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Nature and Purpose of Funds and Account Groups (Continued)

ACCOUNT GROUPS

General Fixed Assets Account Group – Fixed assets related to specific Enterprise Funds are accounted for through those funds. All other fixed assets are accounted for through the General Fixed Assets Account Group.

General Long-Term Debt Account Group – Long-term liabilities of the Enterprise Funds are accounted for in those funds. All other general long-term liabilities are accounted for through the General Long-Term Debt Account Group.

C. Basis of Accounting

All governmental and special revenue funds record revenues and expenses on the modified accrual basis. Under the modified accrual basis, revenue is recorded when measurable and available, except for revenues susceptible to accrual and revenues of a material amount that have not been received at the normal time of receipt. Expenditures are recorded when incurred. Revenues susceptible to accrual include state revenue distributions and local franchise fees.

The enterprise funds record revenues and expenses on the full accrual basis. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

The general fixed asset and long-term debt group of accounts reflect the measurement of financial position and not results of operations.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation as an extension of formal budgetary integration, is used in the General Fund and Special Revenue Funds.

Encumbrances at year-end do not constitute expenditures or liabilities and the unfulfilled obligations of the current year are re-appropriated in the succeeding year.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

E. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments, (including restricted assets) are considered to be cash equivalents. The City's investments consist of deposits with the State Board of Administration and the Florida Municipal Investment Trust, which are readily convertible into cash.

F. Due from Other Governments

Amounts receivable from other governments include amounts due principally from the State of Florida for the City's allocation of various taxes.

G. Accounts Receivables

Utility service charges are recognized when earned. Due to the billing cut-off dates, the City does have unbilled utility service charges as of year-end that have been recorded as receivable as of September 30, 2003.

H. Allowance for Doubtful Accounts

The City has not established an allowance for doubtful accounts in regard to accounts receivable at September 30, 2003, because substantially all the accounts are considered collectible, or where applicable, secured by utility deposits held by the City.

I. Inventories

The Water and Sewer Fund inventories consist of repair parts and supplies. Since the total inventory is immaterial in amount, the City has followed the practice of charging such items to expense at the time they are purchased. Cemetery lot inventory is valued at specific cost or market, whichever is lower.

J. Compensated Absences

The City incurs liability for employees' rights to receive compensation for future absences when certain conditions are met. It is the policy of the City to record the current portion of this liability in the general fund and special revenue funds. The long-term portion of this liability is recorded in the long-term debt group of accounts. Enterprise funds record both the current and long-term portion of compensated absences liability on their balance sheet.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

K. General Fixed Assets

General fixed assets purchased are recorded as expenditures in the general and special revenue funds at the time of purchase. Such assets are then capitalized at cost in the general fixed asset group of accounts except for certain improvements other than buildings, which include roads, curbs and gutters, streets and sidewalks. Gifts are recorded in general fixed assets at fair market value at the time received. No depreciation is recorded on general fixed assets.

L. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 and are levied on November 1, of each year. Taxes are collectible from November 1 to March 31 of the following year. Discounts, ranging from 4% to 1%, are given for payments prior to March 1 of the following calendar year. Taxes become delinquent April 1. Taxes are collected by the County Tax Collector and remitted to the City. The Tax Collector sells tax certificates on all delinquent property on or before June 1 each year and such proceeds are remitted to the City. Under this system there remains no uncollectible delinquent taxes at year-end.

M. Property, Plant and Equipment -- Proprietary Funds

Property, plant and equipment recorded in the proprietary funds are stated at cost (estimated fair value for assets contributed).

Maintenance and repairs are charged to operations as incurred whereas improvements and betterments which extend the useful lives of fixed assets are capitalized.

Depreciation of plant and equipment components is provided by the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Buildings	15-40
Improvements other than buildings	20-40
Equipment	5-20

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

M. Property, Plant and Equipment – Proprietary Funds (Continued)

Contributions of funds from federal, state or local grants for the purpose of purchasing property, plant and equipment are recorded as revenue when they are earned and become measurable. Depreciation on contributed assets is recorded as an expense in the statement of operations.

N. Budgets and Budgetary Accounting

The City adopts budgets for all governmental fund types on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The budgets prepared for the enterprise funds are prepared on an accrual basis consistent with the budgetary basis used for governmental fund types, which is not in conformity with accounting principles generally accepted in the United States of America as more fully explained in Note 16.

The level of control for appropriations is exercised by the City on an individual fund basis.

Supplemental appropriations which increase total budgeted appropriations over those originally anticipated for a fund must be approved by the City Council.

The City follows the following budgetary adoption procedures:

- a. Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means to finance them.
- b. A public hearing is conducted at City Hall to obtain taxpayer comments.
- c. Prior to October 1, the budget is legally enacted through passage of a resolution.
- d. Formal budgetary integration is employed as a management control device during the year for all funds.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

O. Capitalization of Interest

In accordance with the Financial Accounting Standards Board Statement No. 62, the City capitalizes net interest cost on funds borrowed to finance construction of fixed assets.

P. Connection Fees – Enterprise Fund

The City charges connection fees for hooking up to the City water and sewer systems. In accordance with accounting principles generally accepted in the United States of America, these fees are recorded as non-operating revenue in the accompanying statement of revenues, expenses and changes in retained earnings.

Q. Post-Retirement Health Plan

The City has a policy of providing hospitalization health coverage for retired employees, which is essentially equal in benefits to that provided active employees. The City does not pay for the cost of such coverage, which is borne completely by the retired employees electing such coverage.

R. Total Columns on Combined Statements

Total columns are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

S. Fund Equity Reserves and Designations

1. General Fund and Special Revenue Funds

Reserves in the governmental funds represent portions of fund balance that are not appropriable for expenditures or have been segregated for specific future uses, while designations of fund balances represent tentative plans for financial resource utilization in a future period. Such designations are subject to change and may never be authorized or result in expenditures.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

S. Fund Equity Reserves and Designations (Continued)

2. Enterprise Funds

Reserves in the enterprise funds are created by increases in assets restricted for debt service, renewal and replacement and new construction. These increases result from earnings on restricted assets and other transfers to restricted accounts. Earnings on restricted assets are included in net income on the enterprise fund. These increases in restricted assets decrease unreserved retained earnings. The use of the restricted assets generates a restoration of unreserved retained earnings as debt payments are made and as newly constructed or replaced assets are placed into operation.

NOTE 2: CASH AND INVESTMENTS

Cash - Cash consists of money market and savings accounts with the carrying value equal to the market value. Such amounts are entirely insured by federal depository insurance or by a multiple financial institution collateral pool administered by the State of Florida under Chapter 280. The Public Deposit Security Trust Fund has a procedure to allocate and recover losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof.

	<u>2003</u>
Amount insured by FDIC	\$ 229,151
Amount collateralized under Chapter 280 of the Florida Statutes	<u>3,804,281</u>
	<u>\$ 4,033,432</u>

The above amounts are reported in the financial statements as follows:

Cash	\$ 3,869,021
Restricted cash	<u>164,411</u>
	<u>\$ 4,033,432</u>

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Investments -- Statute 218.415 of the State of Florida allows municipalities to invest in the following:

- (a) The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in s. 163.01.
- (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- (c) Savings accounts in state-certified qualified public depositories, as defined in s. 280.02.
- (d) Certificates of deposit in state-certified qualified public depositories, as defined in s. 280.02.
- (e) Direct obligations of the U.S. Treasury.
- (f) Federal agencies and instrumentalities.
- (g) Other investments authorized by a written policy adopted under Section 218.415, Florida Statutes.

Investments made by the City that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 -- Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

No investments made by the City during the year ended September 30, 2003 were required to be classified as to credit risk.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

	Category			Carrying Amount	Market Value
	1	2	3		
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	\$ -	\$ -
Investment in the Local Government Surplus Funds Trust Funds				10,687,886	10,687,886
Investment in the Florida Municipal Investment Trust				<u>1,678,626</u>	<u>1,678,027</u>
Total Investments				<u>\$12,366,513</u>	<u>\$12,366,513</u>

The above amounts are reported in the financial statements as follows:

Investments	\$ 10,396,178
Restricted investments	<u>1,970,335</u>
	<u>\$ 12,366,513</u>

Investments with the Local Government Surplus Funds Trust Fund represent funds on deposit with the Florida State Board of Administration. These investments are stated at amortized cost, as described below.

The Local Government Surplus Funds Trust Fund is an external investment pool that is not registered with the Securities Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 (17 code of Federal Regulations §270.2a7). Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than market value to report net assets to compute share prices if certain conditions are met. Those conditions include restrictions on the types of investments held, restrictions on the term-to-maturity of individual investments and the dollar-weighted average of the portfolio, requirements for divestiture considerations in the event of security downgrades and defaults, and required actions if the market value of the portfolio deviates from amortized cost by a specified amount.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

The Local Government Surplus Funds Trust Fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration.

There is no requirement under the Florida Statutes for any local government or state agency to participate in the trust fund.

The City has indirectly held derivatives by virtue of its investment in the "State Pool". The "State Pool" guidelines authorize investment only in floating rate and adjustable rate securities. Since the "State Pool" is managed as a 2a-7 pool, the interest rate risk is considered negligible by the State Board. These derivative investments are used as a part of the investment strategy to hedge against interest rate risk and to provide diversification to the portfolio. At year-end the "State Pool" held investments in corporate bonds and funding agreements with adjustable interest rates.

Investments with the Florida Municipal Investment Trust represent funds on deposit with the Florida League of Cities. The Florida Municipal Investment Trust is an external investment pool that is not registered with the Securities Exchange Commission as an investment company.

The Florida Municipal Investment Trust (the "Trust") is an interlocal governmental entity created under the laws of the State of Florida to provide eligible units of local government with an investment vehicle to pool their surplus funds and to invest such funds into one or more investment portfolios under the direction and daily supervision of an investment advisor. These portfolios are actively traded and have been structured to meet a variety of investment horizons using those investments permitted under the Trust's investment policy. Investment compliance monitoring is provided by an international rating agency. An independent auditing firm conducts the Trust's annual audit in accordance with auditing standards generally accepted in the United States of America. A copy of the annual audit is provided to each of the Trust's Members and can be obtained from the City of Inverness.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

The operation and administration of the Trust is the responsibility of a board of trustees selected from the ranks of elected officials of governmental entities participating in the Trust. In addition, an investment advisory committee, comprised of six finance directors from throughout the State of Florida, assists the administrator with developing and maintaining the investment guidelines and policies of the Trust. No regulatory agency has oversight responsibilities with respect to the Trust.

Securities of the Trust are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Fair values were provided by the custodian of the Trust's portfolios, utilizing an independent pricing service. Pricing services typically consider such factors as security prices, yields, maturities, call features, prepayment rates, ratings and other information as it relates in determining a specific security's market price.

Fair value of a participant's position in the Trust is the same as the value of the Trust shares. Investment income, including both realized and unrealized gains, is allocated pro-rata to each participant based on their prior month ending position.

There is no requirement under Florida Statutes for any local government or state agency to participate in the Trust.

NOTE 3: ACCOUNTS RECEIVABLE

At September 30, 2003, the City of Inverness had the following receivables:

	General Fund	Water and Sewer Utility Fund	Whispering Pines Park Fund	Police Crossing Guard Fund	Police Education Trust Fund	Totals
Billed	\$ 8,615	\$ 178,976	\$ 2,549	\$ 8,683	\$ 459	\$ 199,282
Unbilled	-	74,063	-	-	-	74,063
	<u>\$ 8,615</u>	<u>\$ 253,039</u>	<u>\$ 2,549</u>	<u>\$ 8,683</u>	<u>\$ 459</u>	<u>\$ 273,345</u>

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 4: INDIVIDUAL FUND INTERFUND RECEIVABLES AND PAYABLES

Such balances at September 30, 2003, were as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$80,722
Special Revenue:		
Police Crossing Guard Fund	730	
Whispering Pines Park Fund	4,623	-
CDBG Block Grant Fund	29,455	-
Capital Projects Fund	5,668	-
Enterprise:		
Water and Sewer Utility Fund	26,414	-
Cemetery Fund	1,250	-
Fiduciary Fund	12,582	-
	<u>\$ 80,722</u>	<u>\$ 80,722</u>

NOTE 5: FIXED ASSETS – PROPRIETARY FUND TYPES

A summary of proprietary fund type fixed assets at September 30, 2003 and 2002 is as follows:

	September 30,	
	2003	2002
Land	\$ 783,056	\$ 783,056
Buildings	588,519	588,519
Improvements other than buildings	5,302,436	5,099,402
Equipment	7,044,490	6,924,746
Construction in progress	173,545	253,200
	<u>13,892,046</u>	<u>13,648,923</u>
Less: Accumulated depreciation	(6,965,488)	(6,554,884)
	<u>\$ 6,926,558</u>	<u>\$ 7,094,039</u>

Depreciation expense recorded for the years ended September 30, 2003 and 2002 was \$410,604 and \$381,910, respectively.

For the year ended September 30, 2003, there were no fixed asset additions that required estimation as to cost.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 6: GENERAL FIXED ASSETS

Changes in general fixed assets for the year ended September 30, 2003, are summarized as follows:

	Balance 9/30/2002	Additions	Deletions	Balance 9/30/2003
Land	\$ 1,337,522	\$ -	\$ -	\$ 1,337,522
Buildings	1,175,040	-	-	1,175,040
Improvements	2,002,317	1,875,676	-	3,877,993
Equipment	2,829,197	329,272	-	3,158,469
Work-in-progress	445,412	26,050	275,061	196,401
	<u>\$ 7,789,488</u>	<u>\$ 2,230,998</u>	<u>\$ 275,061</u>	<u>\$ 9,745,425</u>

For the year ended September 30, 2003, there were no general fixed asset additions that required estimation as to cost.

NOTE 7: ACCRUED LIABILITIES AND COMPENSATED ABSENCES

	General Fund	Special Revenue Funds	Enterprise Funds	General Long-Term Debt	Total
Accrued vacation and sick leave	\$ 61,385	\$ 12,716	\$ 29,559	\$ 101,613	\$ 205,273
Accrual wages and benefits	92,649	10,781	8,017	-	111,447
Other	5,019	175	-	-	5,194
	<u>\$ 159,053</u>	<u>\$ 23,672</u>	<u>\$ 37,576</u>	<u>\$ 101,613</u>	<u>\$ 321,914</u>

NOTE 8: STATE OF FLORIDA RETIREMENT SYSTEM

All the City's full-time employees, except for those participants in the separate general employees and police officers pension funds (see Notes 9 and 10), participate in the State of Florida Retirement System (the "System"), a multiple-employer public employee retirement system. The System is controlled by the State Legislature and administered by the State of Florida, Department of Administration, Division of Retirement. The payroll for employees covered by the System for the year ended September 30, 2003 was \$838,532; the City's total payroll was \$1,767,525.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 8: STATE OF FLORIDA RETIREMENT SYSTEM (CONTINUED)

All of the City's full-time employees, other than those participating in other plans, are eligible to participate in the System. Employees who retire at or after age 62 with 10 years of credited service, or 30 years of credited service regardless of age, are entitled to a retirement benefit equal to 1.60% to 1.68% per year of service (dependent upon age and years of service) of their average final compensation. The average final compensation is the average of the five highest fiscal years of earnings. Benefits are adjusted annually for a cost of living increase in the Consumer Price Index up to a maximum of 3%.

Benefits are payable monthly under one of four options elected by the participant upon retirement. The options range from a full benefit during life of the member to reduced benefits paid to survivors upon the death of the member. Benefits fully vest on reaching 10 years of service. Vested employees may retire at any time after vesting and receive a 5% benefit reduction for each year prior to normal retirement age or date. The System also provides death and disability benefits.

Contribution rates are established statewide for all participating governmental units by acts of the State Legislature. These acts provide that if the accumulated funds are insufficient to pay the benefits due, future contributions to the plan will be adjusted upward accordingly. During the year ended September 30, 2003, the City contributed 9.87% for regular employees, 11.68% for senior management, 17.52% for council members, and 22.89% for special risk employee salary.

The total contribution for the year ended September 30, 2003 and the preceding two years is as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Total</u> <u>Contribution</u>	<u>Percentage of</u> <u>Required Contribution</u>
2001	\$101,495	100%
2002	\$68,673	100%
2003	\$55,847	100%

The System's comprehensive annual financial report may be obtained from the State of Florida, Department of Administration, Division of Retirement.

As further discussed in Notes 9 and 10, employees hired after January 1, 1996, participate in either a defined benefit or defined contribution plan.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 9: POLICE OFFICERS PENSION PLAN

All of the City's full-time certified police employees hired after January 1, 1996, participate in a single-employer, defined benefit pension plan.

Chapter 185 of the Florida Statutes provides for a system of retirement plans for police officers. Each incorporated municipality with police equipment having a value exceeding \$500 is permitted to establish a police officers retirement fund. Chapter 185 sets forth benefits and administrative arrangements. It also provides that certain casualty premium taxes collected by the State will be remitted to these pension funds to partially finance the benefits. Police officers contribute 1% of their earnings to the fund, and the City is required to make contributions from general revenues based on actuarial studies (see part C).

The assets, liabilities, fund equity and operations of this plan are not presented on the City's financial statements as the plan is independently administered.

A. Plan Descriptions

The City contributes to the plan, which is a single-employer pension employees retirement system. It is the responsibility of the plan to function as an investment and administrative agent for the City with respect to the pension plan. However, the Board of Trustees for the plan may not amend the plan without the approval of the City.

The payroll for employees covered by the plan for the year ended September 30, 2003, was \$287,491; the City's total payroll was \$1,767,525. Membership in the plan, as of the September 30, 2003, is comprised of the following:

<u>Group</u>	<u>Number of Participants</u>
Retirees and beneficiaries receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	1
Active employees	<u>13</u>
Total	<u>14</u>

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 9: POLICE OFFICERS PENSION PLAN (CONTINUED)

A. Plan Descriptions (Continued)

Police officers attaining the age of 52 who have completed 25 or more continuous years of service or age 55 and 10 years of service are entitled to annual benefits of 2.0% of their best 5 of the last 10 years earnings for each year of continuous service. The plans permit early retirement at the completion of 10 years of continuous service and at age 50. Active police officers that become disabled receive their retirement benefits but not less than 42% of average monthly compensation.

Disability benefits are paid for 10 years. If an active police officer dies and had at least 10 years of contributing service, his or her beneficiary receives the benefits otherwise payable to the employee at early or normal retirement.

If a police officer terminates his or her employment with the police department and is not eligible for any other benefits under the plans, the employee is entitled to the following:

- with less than 10 years of continuous service, a refund of member contributions
- with 10 or more years of continuous service, the pension accrued to the date of termination, payable commencing at his or her normal retirement date or, at the option of the employee, a lump sum refund of member contribution.

B. Related-Party Investments

The plan has not invested in any securities of the City.

C. Funding Status and Progress

The City's funding policy for the police officers pension fund is to provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The required contributions are determined using an aggregate actuarial cost funding method.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 9: POLICE OFFICERS PENSION PLAN (CONTINUED)

C. Funding Status and Progress (Continued)

Information as of the latest actuarial valuation at October 1, 2001, is as follows:

Contribution rates:	
City	0%
Plan members	1%
Actuarial valuation date	10/1/2001
Actuarial cost method	Aggregate Actuarial Cost
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	7.1%-short-term; 5.5% long-term
Includes inflation at	3.8%
Cost-of-living adjustments	None

The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

Three-Year Trend Information

Year Ended September 30,	Annual Required Contribution	Contribution		Percentage Contributed
		City	State	
1999	\$18,463	\$1,550	39,978	225.0%
2000	25,489	2,030	59,716	242.2%
2001	36,530	2,277	54,019	154.1%

The pension plan issues a stand alone financial report that may be obtained from the City of Inverness Law Enforcement Pension Trust.

NOTE 10: GENERAL EMPLOYEES PENSION PLAN

All of the City's full-time general employees (all City employees, excluding police officers) hired after January 1, 1996, participate in a single-employer, defined contribution pension plan.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 10: GENERAL EMPLOYEES PENSION PLAN (CONTINUED)

Chapter 112 of the Florida Statutes provides for a system of retirement plans for general employees. Chapter 112 sets forth maximum benefits, administrative arrangements, and fiduciary responsibilities. Non-bargaining unit employees contribute 3% of their earnings to the fund, union employees make voluntary contributions only, not to exceed 7%, and the City is required to make contributions from general revenues at the rate of 10% of covered earnings.

The assets, liabilities, fund equity and operations of this plan are not presented on the City's financial statements as the plan is independently administered.

A. Plan Descriptions

The City contributes to the plan, which is a single-employer pension employees retirement system. It is the responsibility of the plan to function as an investment and administrative agent for the City with respect to the pension plan. However, the plan may not be amended without the City's approval.

The payroll for employees covered by the plan for the year ended September 30, 2003, was \$641,502; the City's total payroll was \$1,767,525. Current membership in the plan is comprised of the following:

<u>Group</u>	<u>Number of Participants</u>
Retirees and beneficiaries receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	14
Active employees	<u>28</u>
Total	<u>42</u>

B. Contributions Required and Contributions Made

The City's funding policy for the general employees pension fund is to provide for periodic employer contributions based on a percentage of the employees' compensation as outlined in the pension agreement. The City's contribution to the plan for the year ended September 30, 2003, was \$58,520.

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 11: CITY RISK POLICY

The City has purchased commercial insurance to cover its risk of loss on the following categories and coverage:

<u>Type of Coverage</u>	<u>Limits</u>
Property	\$17,448,591
General Liability	\$4,000,000
Vehicle Liability	\$2,000,000
Law Enforcement Liability	\$2,000,000
Public Officials and Employee Benefit Liability	\$6,000,000
Flood	\$5,000,000
Business Income	\$250,000
Environmental Liability	\$2,000,000

The City maintains liability coverage on a claims made basis and, as required by this policy, has escrowed sufficient amounts to purchase tail-coverage if the existing policy is allowed to lapse. Therefore, the City does not retain the risk of loss on any of the above coverages.

There has been no significant reductions in insurance coverage for the past three years and the City does not participate in a risk sharing pool.

NOTE 12: LONG-TERM DEBT

Changes in long-term debt during the year ended September 30, 2003 are as follows:

	<u>Enterprise Funds</u>		<u>Long-Term Debt Account Group</u>		<u>Total</u>
	<u>Revenue Bonds</u>	<u>Notes Payable</u>	<u>Compensated Absences</u>	<u>Capital Lease</u>	
October 1, 2002	\$1,189,120	\$924,999	\$74,476	\$64,758	\$2,253,353
Additions	-	-	27,137	202,379	229,516
Debt payments	(186,976)	(187,068)	-	(94,403)	(468,447)
Long-term debt payable September 30, 2003	<u>\$1,002,144</u>	<u>\$737,931</u>	<u>\$101,613</u>	<u>\$172,734</u>	<u>\$2,014,422</u>

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 12: LONG-TERM DEBT (CONTINUED)

The debt service requirements for the City (excluding compensated absences) as of September 30, 2003 is as follows:

<u>Year Ending</u> <u>September 30,</u>	
2004	\$ 602,090
2005	529,113
2006	407,659
2007	404,891
2008	<u>175,048</u>
	2,118,801
Less interest	<u>(205,992)</u>
	<u>\$ 1,912,809</u>

For the year ended September 30, 2003, the City incurred total interest expense of \$105,303 of which none was capitalized.

Enterprise Fund

September 30,
2003

Revenue Bond

In April of 1993, the City authorized and issued \$2,485,000 in Water and Sewer Refunding Revenue Bonds dated April 6, 1993. The Series 1993 Bonds were issued to refund the City's Sewer 1982 and 1975 Bonds, fund the reserve fund and pay certain issue costs and expenses. During the 1994-95 fiscal year the 1982 bonds were retired in full (See Note 12 as to the 1975 issue). The 1993 bonds are described as follows: \$2,485,000 in Serial Bonds maturing through January 1, 2008, and bearing interest from 3.0% to 5.7%.

\$1,002,144

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 12: LONG-TERM DEBT (CONTINUED)

Enterprise Fund (Continued)

Revenue Bond (Continued)

Security for Series 1993 Bonds is 1) net operating revenues of the water and sewer system, and 2) certain utility electric franchise fees. The lien on and pledge of the franchise revenue may be released pursuant to certain terms and conditions provided in the ordinance.

The mandatory and optional redemption privileges provide for annual debt service requirements, including principal and interest in amounts ranging from \$149,132 to \$252,612.

The proceeds of the bond issue, along with certain City monies, were deposited with an escrow agent in the amount of \$2,414,237. An Escrow Deposit Agreement between the City and the escrow agent provides for the purchase of federal securities sufficient to pay the principal, interest and redemption premiums, if any, of the refunded obligations (Series 1982 and 1975 Bonds), as they become due and payable, whether at maturity or redemption prior to maturity. Such a transaction represents an in-substance defeasance and the 1982 and 1975 bonds were removed from the Water and Sewer Utility Fund (See Note 13).

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 12: LONG-TERM DEBT (CONTINUED)

Enterprise Fund (Continued)

Revenue Bond (Continued)

Bond provisions require monthly sinking fund contributions for current debt service of 1/12 and 1/6 of the next maturing principal and interest, respectively. Additionally, certain reserves for future debt service requirements must be maintained, and renewal and replacement reserves are required to be established and maintained. Also, the City must maintain utility rates at a level sufficient to produce net operating revenue in each fiscal year which, together with certain pledged franchise fees, in an amount at least equal to the sum of:

- a. 110% of bond debt service requirements becoming due during such fiscal year that the bonds are outstanding.
- b. 100% of all other deposits required pursuant to the bond resolution.

The City was in compliance with the above-described covenants at September 30, 2003.

Notes Payable

September 30,
2003

6.10% - \$750,000 note payable to a bank in monthly installments of \$8,364, including principal and interest; secured by a junior lien on water and sewer revenue; note matures on February 15, 2005.

\$135,889

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 12: LONG-TERM DEBT (CONTINUED)

Enterprise Fund (Continued)

Notes Payable (Continued)

3.97% - \$700,000 note payable to a bank. The note calls for interest only payments until March 2003, then monthly installments of \$38,761, including principal and interest; secured by a third lien on water and sewer revenue; note matures on December 15, 2007.

602,042
\$737,931

NOTE 13: REFUNDED BONDS

The City issued bonds and placed sufficient proceeds of such issue with an escrow agent. The proceeds were used to purchase U.S. treasury securities, which, with the principal and interest, will be sufficient to pay the 1975 bond issue as the obligations come due. The bond issue is considered refunded or defeased. Pursuant to the Governmental Accounting Standards Board Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," the City does not report defeased/refunded bonds on its balance sheet.

As of September 30, 2003, the City has one outstanding refunded bond issue which was originally reported as a liability of the Water and Sewer Utility Fund (See Note 12). The payment of principal and interest on this bond issue is the responsibility of the escrow agent. Following is the schedule of the refunded bonds outstanding as of September 30, 2003:

<u>Description</u>	<u>Date of Issue</u>	<u>Amount Outstanding</u>	<u>Refunding Issue</u>
Water and Sewer Refunding Revenue Bonds	1975	<u>\$313,000</u>	Water and Sewer Refunding Revenue Bonds, Series 1993

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 14: CAPITAL LEASES

The City is obligated under certain leases accounted for as capital leases. The leased assets, with a cost of \$279,377 and related obligations, are accounted for in the General Fixed Assets Account Group and the General Long-Term Debt Account Group, respectively. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 2003:

Year Ended <u>September 30,</u>	General Long-Term Debt <u>Account Group</u>
2004	\$ 96,543
2005	82,884
Minimum lease payments for all capital leases	<u>179,427</u>
Less: Amount representing interest at the City's incremental borrowing rate of interest	(6,693)
Present value of minimum lease payment	<u>\$ 172,734</u>

NOTE 15: SEGMENT INFORMATION

The City maintains two enterprise funds, one providing water and sewer service and the other accounts for operations of a cemetery. Segment information for the year ended September 30, 2003 is as follows:

	Water and Sewer <u>Utility Fund</u>	Cemetery <u>Fund</u>	<u>Total</u>
Operating Revenues	\$1,773,717	\$11,189	\$1,784,906
Operating expenses before depreciation and amortization	984,997	35,700	1,020,697
Depreciation and amortization	407,985	2,619	410,604
Operating income (loss)	380,735	(27,130)	353,605
Net income	336,445	23,498	359,943
Operating transfers in (out)	(161,148)	37,975	(123,173)
Current capital contributions	133,075	-	133,075

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 15: SEGMENT INFORMATION (CONTINUED)

	Water and Sewer Utility Fund	Cemetery Fund	Total
Property, plant and equipment:			
Additions	241,598	8,282	249,880
Total Assets	12,832,751	867,742	13,700,493
Net working capital	4,157,155	212,620	4,369,775
Bonds and other long-term liabilities payable from operating revenues	1,740,075	-	1,740,075
Total Equity	10,809,858	864,623	11,674,481

NOTE 16: RECONCILIATION OF GAAP BASIS RESULTS TO BUDGET BASIS RESULTS

As described in Note 1, the enterprise funds are budgeted on a basis different from accounting principles generally accepted in the United States of America (GAAP).

The following adjustments were necessary to present the enterprise funds actual data on a non-GAAP budgetary basis:

Reconciliation of Net Income – GAAP Basis to Net Income – Budgetary Basis

Net Income - GAAP Basis	\$ 359,943
Deduct:	
Principal payments budgeted as expense	(377,068)
Fixed asset purchases budgeted as an expense	<u>(249,880)</u>
Net Income - Budgetary Basis	<u>\$ (267,005)</u>

CITY OF INVERNESS, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 17: FUND BALANCE/RETAINED EARNINGS RESERVES AND DESIGNATIONS

As of September 30, 2003, the City has fund balance/retained earnings reserves and designations as follows:

	General Fund	Combined Special Reserve Funds	Capital Projects Fund
Designations:			
Designated for road improvement	\$ -	\$ 274,245	\$ -
Designated for parks and recreation	-	802,827	-
Designated for school crossing guards	-	41,657	-
Designated for land purchase	399,947	-	-
Designated for capital improvements	825,000	-	4,356,279
Designated for disaster preparedness	500,000	-	-
Designated for police investigations	2,230	-	-
Designated for potential litigation	200,000	-	-
Total Designations	<u>\$1,927,177</u>	<u>\$1,118,729</u>	<u>\$ 4,356,279</u>

	General Fund	Combined Special Revenue Funds	Combined Enterprise Funds
Reserves:			
Reserve for prepaid items and inventory	\$ 36,262	\$ -	\$ -
Reserve for police education	-	25,253	-
Reserve for capital improvement	-	120,302	-
Reserve for replacement and renewal	-	-	539,750
Reserve for debt retirement	-	-	196,145
Reserve for perpetual care	-	-	629,469
Reserve for special assessment costs	-	-	394,291
Total Reserves	<u>\$ 36,262</u>	<u>\$ 145,555</u>	<u>\$ 1,759,655</u>

Reserved amounts of retained earnings/fund balances represent total restricted assets/or special revenue fund assets less current liabilities payable from those assets.

CITY OF INVERNESS, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 18: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan assets are held in trust for the employees by a third party administrator and investments are directed by the participating employees. Therefore, the assets, liabilities, fund equity and operations of this plan are not presented on the City's financial statements.

NOTE 19: IMPENDING CHANGE IN ACCOUNTING PRINCIPLE

Statement No. 34 of the Governmental Accounting Standards Board, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, is required to be implemented for the year beginning October 1, 2003, and the City has not elected early adoption. The future implementation of this standard will require the restatement of the financial statements because of the retroactive application of the new standard. The future effects of the implementation of this standard cannot be determined at this time.

APPENDIX L

FINANCIAL INFORMATION REGARDING THE CITY OF VALPARAISO

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THE CITY OF VALPARAISO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 GENERAL FUND
 For the Years Ended September 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues:			
Taxes:		\$1,124,976	\$1,019,130
Property	\$ 522,850	--	--
Utility	210,379	--	--
Gasoline	0	--	--
Sales	481,012	--	--
Excise	32,600	--	--
Communications	165,855	--	--
Franchise Fees	281,906	--	--
Licenses and Permits	39,576	50,646	48,467
Federal Grants	188,806	138,374	5,209
State Grants	62,551	61,585	103,973
State Shared Revenues	165,144	721,636	678,983
Fines and Forfeits	67,901	51,155	64,189
General Government Charges and Fees	158,386	148,648	113,499
Interest	12,940	28,302	48,286
Rents	10,105	2,819	12,818
Disposition of Fixed Assets	48,235	30,035	11,015
Other Miscellaneous Revenues	5,838	6,237	10,504
Total Revenues	<u>2,454,084</u>	<u>2,364,413</u>	<u>2,364,413</u>
Expenditures:			
Current:			
General Government	\$ 589,519	\$682,202	\$506,220
Public Safety	842,215	823,894	797,885
Transportation	0	108,693	126,600
Health Services	1,073	808	169
Culture and Recreation	358,225	330,525	327,954
Physical Environment	64,817	52,172	57,621
Capital Outlay:		409,703	157,582
General	12,743	--	--
Public Safety	146,137	--	--
Culture and Recreation	6,814	--	--
Physical Environment	18,079	--	--
Debt Service:			\$11,947
Public Safety	116,249	--	--
Grants:			
General	188,324	--	--
Public Safety	6,162	--	--
Total Expenditures	<u>\$2,350,357</u>	<u>\$2,407,997</u>	<u>\$1,985,978</u>
Excess of Revenues Over (Under) Expenditures	\$ 103,727	(43,584)	130,095
Other Financial Services (Uses)			
Proceeds of Capital Leases	45,005	340,036	--
Operating Transfer Out	(48,000)	(48,000)	(68,000)
Total Other Financing Sources (Uses)	(2,995)	<u>292,036</u>	<u>(68,000)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	100,732	248,452	62,095
Fund Balance at Beginning of Year	1,424,369	<u>1,175,917</u>	
As Previously Reported	--	--	1,113,922
Prior Period Adjustment	--	--	<u>(100)</u>
Fund Balance as Restated	--	--	1,113,822
Residual equity transfer	(165,513)	--	--
Fund Balance at End of Year	<u>\$1,359,588</u>	<u>\$ 1,424,369</u>	<u>\$ 1,175,917</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.



McAbee & Scott

Donn G. Scott, CPA
William W. McAbee
(Deceased 1924-2002)

CERTIFIED PUBLIC ACCOUNTANT

January 29, 2004

Honorable Mayor and Members
of the City Commission
City of Valparaiso, Florida

INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

We have audited the accompanying general purpose financial statements of the City of Valparaiso, Florida, as of and for the fiscal year ended September 30, 2003 as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Valparaiso's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

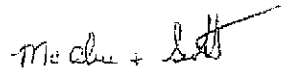
Management has not performed a physical inventory of parts and supplies at the end of the fiscal year, and accordingly, has excluded from current assets on the balance sheet an inventory amount. Accounting principles generally accepted in the United States of America require that items of a consumable nature that are on hand be recorded as an asset and not expensed. The amount by which this departure would affect the assets, expenses, and retained earnings of the proprietary funds is not reasonably determinable.

In our opinion, except for the effects, if any, of not recording inventory in the proprietary funds as described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Valparaiso, Florida, as of September 30, 2003, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated January 29, 2004, on our consideration of the City of Valparaiso's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Page Two
Honorable Mayor, and Members
Of the City Commission
City of Valparaiso, Florida

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Valparaiso. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.



McAbee & Scott
Certified Public Accountant

THE CITY OF VALPARAISO

Exhibit I

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

September 30, 2003

	Governmental Fund Types		Proprietary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Enterprise	General Fixed Assets	General Long-Term Debt	
Assets						
Cash and Cash Equivalents	\$ 852,599	\$ 0	\$ 440,248	\$ 0	\$ 0	\$ 1,292,847
Prepays	0	0	1,000	0	0	1,000
Receivables:						
Accounts (net)	4,627	0	192,300	0	0	196,927
Taxes	3,483	0	0	0	0	3,483
Grants	23,500	0	0	0	0	23,500
Investments	209,549	0	177,693	0	0	387,242
Due from Other Governments	8,877	6,002	0	0	0	14,879
Inventory	0	0	16,184	0	0	16,184
Accrued Interest	1,132	0	792	0	0	1,924
Due from Other Funds	152,389	33,592	0	0	0	185,981
Restricted Assets:						
Cash and Cash Equivalents	219,978	1,130	433,036	0	0	654,144
Investments	0	162,516	95,768	0	0	258,284
Accrued Interest	54	648	2,021	0	0	2,723
Investment in Joint Venture	0	0	189,571	0	0	189,571
Unamortized Bond Issue Cost	0	0	29,660	0	0	29,660
Fixed Assets (Net of Accumulated Depreciation)	0	0	2,406,798	3,461,201	0	5,867,999
Amount to be Provided for Retirement of Long-Term Debt	0		0	0	353,496	353,496
Total Assets	\$ 1,476,188	\$ 203,888	\$ 3,985,071	\$ 3,461,201	\$ 353,496	\$ 9,479,844

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

THE CITY OF VALPARAISO
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

Exhibit I

September 30, 2003

Liabilities	Governmental Fund Types		Proprietary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Enterprise	General Fixed Assets	General Long-Term Debt	
Accounts Payable	\$ 49,350	\$ 6,187	\$ 125,529	\$ 0	\$ 0	\$ 181,066
Accrued Expenses	29,658	990	12,967	0	0	43,615
Accrued Interest	0	0	307	0	0	307
Current Portion of Capital Leases	0	0	22,768	0	0	22,768
Payable from Restricted Assets:						
Current Debt	0	0	54,000	0	0	54,000
Interest	0	0	16,754	0	0	16,754
Deposits	1,250	0	92,943	0	0	94,193
Due to Other Funds						
(\$102,389 current portion)	33,592	0	152,389	0	0	185,981
Deferred Revenues	2,750	0	60,351	0	0	63,101
Compensated Absences Payable	0	0	14,884	0	64,964	79,848
Contingency Payable	0	0	99,781	0	0	99,781
Capital Leases Payable	0	0	35,814		288,532	324,346
Revenue Bonds Payable	0	0	1,207,000	0	0	1,207,000
Discounts on Bonds Payable	0	0	(11,029)	0	0	(11,029)
Total Liabilities	<u>116,600</u>	<u>7,177</u>	<u>1,884,458</u>	<u>0</u>	<u>353,496</u>	<u>2,361,731</u>
Fund Equity						
Contributed Capital	0	0	1,682,364		0	1,682,364
Investment in General Fixed Assets	0	0	0	3,461,201	0	3,461,201
Retained Earnings:						
Reserved for Restricted Assets	0	0	267,347	0	0	267,347
Unreserved	0	0	150,902	0	0	150,902
Fund Balance:						
Reserved for Restricted Assets	218,782	163,119	0	0	0	381,901
Reserved for Advances to Other Funds	118,798	33,592	0	0	0	152,390
Reserved for Prepaids	0	0	0	0	0	0
Unreserved:						
Designated for Specified Fund Purposes	206,293	0	0	0	0	206,293
Undesignated	815,715	0	0	0	0	815,715
Total Fund Equity	<u>1,359,588</u>	<u>196,711</u>	<u>2,100,613</u>	<u>3,461,201</u>	<u>0</u>	<u>7,118,113</u>
Total Liabilities and Fund Equity	<u>\$ 1,476,188</u>	<u>\$ 203,888</u>	<u>\$ 3,985,071</u>	<u>\$ 3,461,201</u>	<u>\$ 353,496</u>	<u>\$ 9,479,844</u>

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

THE CITY OF VALPARAISO

Exhibit II

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

ALL GOVERNMENTAL FUND TYPES

For the Year Ended September 30, 2003

	Governmental Fund Types		Totals (Memorandum Only)
	General Fund	Special Revenue Fund	
Revenues:			
Taxes:			
Property	\$ 522,850	\$ 0	\$ 522,850
Utility	210,379	0	210,379
Gasoline	0	79,868	79,868
Sales	481,012	0	481,012
Excise	32,600	0	32,600
Communications	165,855	0	165,855
Franchise Fees	281,906	0	281,906
Licenses and Permits	39,576	0	39,576
Federal Grants	188,806	0	188,806
State Grants	62,551	0	62,551
State Shared Revenues	165,144	97,619	262,763
Fines and Forfeits	67,901	0	67,901
General Government Charges and Fees	158,386	0	158,386
Interest	12,940	4,375	17,315
Rents	10,105	0	10,105
Disposition of Fixed Assets	48,235	0	48,235
Other Miscellaneous Revenues	5,838	0	5,838
Total Revenues	2,454,084	181,862	2,635,946
Expenditures:			
Current:			
General Government	589,519	0	589,519
Public Safety	842,215	0	842,215
Transportation	0	150,664	150,664
Health Services	1,073	0	1,073
Culture and Recreation	358,225	0	358,225
Physical Environment	64,817	0	64,817
Capital Outlay:			
General	12,743	0	12,743
Public Safety	146,137	0	146,137
Culture & Recreation	6,814	0	6,814
- Physical Environment	18,079	0	18,079
Debt Service:			0
Public Safety	116,249	0	116,249
Grants:			0
General	188,324	0	188,324
Public Safety	6,162	0	6,162
Total Expenditures	2,350,357	150,664	2,501,021
Excess of Revenues Over (Under) Expenditures	103,727	31,198	134,925

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

THE CITY OF VALPARAISO

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

ALL GOVERNMENTAL FUND TYPES

For the Year Ended September 30, 2003

	Governmental Fund Types		Totals (Memorandum Only)
	General Fund	Special Revenue Fund	
Other Financial Sources (Uses)			
Proceeds of Capital Leases	45,005	0	45,005
Operating Transfer Out	(48,000)	0	(48,000)
Total Other Financing Sources (Uses)	(2,995)	0	(2,995)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	100,732	31,198	131,930
Fund Balance at Beginning of Year	1,424,369	0	1,424,369
Residual Equity Transfer	(165,513)	165,513	0
Fund Balance at End of Year	\$ 1,359,588	\$ 196,711	\$ 1,556,299

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

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SPECIAL REVENUE FUND			TOTALS (Memorandum Only)		
Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 522,850	\$ 512,065	\$ 10,785
0	0	0	210,379	191,100	19,279
79,868	76,396	3,472	79,868	76,396	3,472
0	0	0	481,012	479,260	1,752
0	0	0	32,600	0	32,600
0	0	0	165,855	168,149	(2,294)
0	0	0	281,906	250,000	31,906
0	0	0	39,576	48,500	(8,924)
0	0	0	207,625	160,100	47,525
0	0	0	62,551	57,367	5,184
97,619	100,866	(3,247)	262,763	273,202	(10,439)
0	0	0	67,901	50,000	17,901
0	0	0	158,386	149,790	8,596
4,375	0	4,375	17,315	20,000	(2,685)
0	0	0	14,105	7,500	6,605
0	0	0	48,235	32,000	16,235
0	0	0	5,838	2,800	3,038
<u>181,862</u>	<u>177,262</u>	<u>4,600</u>	<u>2,658,765</u>	<u>2,478,229</u>	<u>180,536</u>
0	0	0	589,519	622,888	33,369
0	0	0	842,215	930,245	88,030
150,664	183,350	32,686	150,664	183,350	32,686
0	0	0	1,073	1,000	(73)
0	0	0	358,225	351,771	(6,454)
0	0	0	64,817	63,000	(1,817)
0	0	0	12,743	7,750	(4,993)
0	0	0	66,127	39,100	(27,027)
0	0	0	6,814	9,300	2,486
0	0	0	18,079	18,000	(79)
0	0	0			
0	0	0	116,249	123,485	7,236
0	0	0	188,324	167,100	(21,224)
0	0	0	6,162	0	(6,162)
<u>150,664</u>	<u>183,350</u>	<u>32,686</u>	<u>2,421,011</u>	<u>2,516,989</u>	<u>95,978</u>
31,198	(6,088)	37,286	237,754	(38,760)	276,514

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SPECIAL REVENUE FUND			TOTALS (Memorandum Only)		
Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
0	0	0	1,667	0	1,667
0	0	0	(74,751)	(72,000)	(2,751)
0	0	0	(73,084)	(72,000)	(1,084)
31,198	(6,088)	37,286	164,670	(110,760)	275,431
0	0	0	(4,000)	0	(4,000)
0	0	0	(18,819)	0	(18,819)
0	0	0	(1,667)	0	(1,667)
0	0	0	(45,005)	0	(45,005)
0	0	0	45,005	0	45,005
0	0	0	(35,005)	0	(35,005)
0	0	0	26,751	0	26,751
0	0	0	(32,740)	0	(32,740)
31,198	(6,088)	37,286	131,930	(110,760)	242,691
0	0	0	1,424,369	1,424,369	0
165,513	0	0	0	0	0
<u>\$ 196,711</u>	<u>(\$ 6,088)</u>	<u>\$ 190,623</u>	<u>\$ 1,556,299</u>	<u>\$ 1,313,609</u>	<u>\$ 242,691</u>

THE CITY OF VALPARAISO
 COMBINED STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN RETAINED EARNINGS

ALL PROPRIETARY FUND TYPES

For the Year Ended September 30, 2003

	<u>Proprietary Fund Types</u> <u>Enterprise Funds</u>
Operating Revenues:	
Charges for Services:	
Water Charges	\$ 287,496
Sewer Charges	350,225
Communication Charges	751,056
Sanitation Charges	584,846
Total Charges for Services	1,973,623
Other	22,418
Total Operating Revenues	1,996,041
Operating Expenses:	
Salaries and Employee Benefits	669,968
Administrative	103,519
Office and Utilities	90,557
Education, Travel & Training	14,467
Contractual Services	57,871
Repair and Maintenance	43,151
Materials and Supplies	57,277
Water Plant Operation	28,759
Sewer Plant Operation	16,711
Regional Plant Operation	144,841
Programming Fees	299,373
Telephone & Internet	47,095
Landfill Fees	149,151
Lease	41,622
Depreciation	239,501
Bad Debts	11,805
Total Operating Expenses	2,015,668
Operating Income (Loss)	(19,627)

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

THE CITY OF VALPARAISO

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS

ALL PROPRIETARY FUND TYPES

For the Year Ended September 30, 2003

	Proprietary Fund Types <u>Enterprise Funds</u>
Non-Operating Revenues (Expenses)	
Rents	50,131
Sales Tax	26,751
Investment Interest	14,743
Interest Expense	(69,854)
Equity in Earnings (Loss) of Joint Venture	17,616
Amortization of Bond Costs	<u>(2,454)</u>
Total Non-Operating Revenues (Expenses)	<u>36,933</u>
Income (Loss) Before Operating Transfers	17,306
Operating Transfer In	<u>48,000</u>
Net Income	65,306
Retained Earnings at Beginning of Year	<u>352,943</u>
Retained Earnings at End of Year	<u><u>\$ 418,249</u></u>

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

THE CITY OF VALPARAISO
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES
 For the Year Ended September 30, 2003

	Proprietary Fund Types
	Enterprise Funds
Reconciliation of Operating Income (Loss) to	
Net Cash Provided by Operating Activities:	
Operating Income (Loss)	(\$ 19,627)
Adjustments to Reconcile Operating Income (Loss)	
to Net Cash Provided by Operating Activities:	
Depreciation	239,501
Bad Debts	11,805
Rents	50,131
Sales Tax	26,751
Changes in Asset and Liabilities:	
(Increase) Decrease in Accounts Receivable	11,131
(Increase) Decrease in Prepaids	(176)
(Increase) Decrease in Inventory	(2,939)
Increase (Decrease) in Accounts Payable	44,102
Increase (Decrease) in Accrued Expenses	35,168
Increase (Decrease) in Deferred Income	3,371
Increase (Decrease) in Customer Deposits	2,073
	401,291
Cash Flows from Non-Capital Financing Activities:	
Non-Operating Transfers In (Out)	(12,703)
Operating Transfers In	48,000
	35,297
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(331,000)
Principal Paid on Revenue Bond Maturities and	
Lease Obligations	(78,408)
Interest Paid on Revenue Bonds and Lease Obligations	(71,308)
	(480,716)

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

THE CITY OF VALPARAISO
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES
 For The Year Ended September 30, 2003

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Cash Flows from Investing Activities:	
Interest Received on Short-term Investments	11,117
Net Cash Provided by Investing Activities	11,117
Net Decrease in Cash and Cash Equivalents	(33,011)
Cash and Cash Equivalents - Beginning of Year	906,295
Cash and Cash Equivalents - End of Year	\$ 873,284
 Supplemental Disclosure of NonCash Transactions:	
Equity in Earnings of Joint Venture	\$ 17,616
Amortization of Bond Issue Costs and Discounts	3,366
Retirement of Out-of-Service Fixed Assets	35,453
 Reconciliation of Cash and Cash Equivalents per Statement of Cash Flows to the Balance Sheet:	
Cash and Cash Equivalents - Beginning	
Current Assets	\$ 515,034
Restricted Assets	391,261
Statement of Cash Flows Total	906,295
Net Increase (Decrease) in Cash and Cash Equivalents	(33,011)
Cash and Cash Equivalents - Ending	
Current Assets	440,248
Restricted Assets	433,036
Statement of Cash Flows Total	\$ 873,284

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

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The accounting and reporting policies of the City of Valparaiso conform to generally accepted accounting principles as applicable to governmental units. The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies.

B. Financial Reporting Entity

The City of Valparaiso, Florida (the "City") was incorporated on May 6, 1921, under the provisions of the Laws of Florida, 9-1-01. The City operates under a Commission-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, utilities, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Valparaiso. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying GASB Statement No. 14, "The Financial Reporting Entity", which defines component units as units for which the primary government is financially accountable. The primary government is financially accountable if it appoints a voting majority of the component's board and is able to impose its will on the component unit or, there is potential for the component unit to provide certain financial benefits or burdens on the primary government. If none of those criteria are met, the primary government could still be held financially accountable if the component unit is fiscally dependent on the primary government.

Based on the foregoing criteria, no organizations meet the requirements for inclusion in the City's financial statements as a component unit. However, the City is involved in a joint venture arrangement that is described in Note III.2).

C. Basis of Presentation - Fund Accounting

1) Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Presentation - Fund Accounting - Continued

The various funds are grouped, in the financial statements in this report, into generic fund types under three broad fund categories as follows:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the city. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City established the Streets Fund to account for state revenues restricted for the use of transportation expenditures.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City reports the following major enterprise funds:

Utility Fund - accounts for the operating activities of the City's water and sewer utility services.

Communication Fund - accounts for the operating activities of the City's cable television, internet, and security services.

Sanitation Fund - accounts for the operating activities of the City's sanitation services.

ACCOUNT GROUPS - The account groups are used to account for fixed assets and long-term liabilities which are not reported in the respective governmental funds.

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the City that are not used in proprietary fund operations.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Presentation - Fund Accounting - Continued

ACCOUNT GROUPS - Continued

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City not intended to be financed through proprietary funds and for those long-term liabilities to be liquidated with resources to be provided in future periods.

2) Total Columns (Memorandum Only)

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

D. Measurement Focus

Governmental Fund Types - General and Special Revenue Fund - are accounted for on a "spending" or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the balance sheets. Accordingly, the reported undesignated fund balances (net current assets) are considered a measure of available, spendable or appropriable resources. Governmental Fund Type operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Proprietary Fund Types - Enterprise Funds - are accounted for on an economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. Accordingly, all assets and liabilities are included on their balance sheets and, the reported fund equities provide an indication of economic net worth of the funds. Operating statements for Proprietary Fund Types (on an income determination measurement focus) report increases (revenue) and decreases (expenses) in total economic net worth. Proprietary fund equity is segregated into contributed capital and retained earnings.

Account Groups - The General Fixed Assets Account Group and the General Long-Term Debt Account Group are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Basis of Accounting - Continued

1) Modified Accrual Basis of Accounting

The City uses the modified accrual basis of accounting for governmental fund types. Revenues are recognized when they are susceptible to accrual, i.e., both measurable and available as net current assets. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City has established a 60 day length of time of availability for purposes of revenue recognition in accordance with GASB Statement No. 38. Major revenue sources susceptible to accrual include: property taxes, franchise fees, utility taxes, licenses, intergovernmental revenues, grants, and investment income. See Note I.1 for property tax information.

Cost reimbursement grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due.

2) Accrual Basis of Accounting

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Unbilled utility service receivables are recorded at year end. Billing for cable television service is for services to be provided during the next month and is recorded as deferred income. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

F. 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. Budgets and Budgetary Accounting

1) Budget Policy and Practice

Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Enterprise Funds. Budgets are prepared prior to the beginning of each fiscal year. After acceptance by the City Commission, the budget is legally enacted by adoption of a budget ordinance. Budgets are amended through a resolution passed by a majority vote of the City Commission at a publicized meeting. The total revenue(s) and /or expenditure(s) must exceed \$5,000 before the amendment will be considered. The following budget amendment was approved during the fiscal year.

<u>Fund</u>	<u>Purpose</u>	<u>Revenue</u>	<u>Expenditure</u>
General Fund -	Provide for the receipt & expenditure of grant funds.	\$160,100	\$160,100
Communication Fund -	Provide for the cost of new bucket truck.		\$ 48,000
Utility Fund -	Provide for the cost of a new water well.		\$142,617

2) Budget Basis of Accounting

The General Fund budget is prepared annually using a cash basis (Non-GAAP) of accounting. The City occasionally includes a portion of the unreserved fund balance of prior years as budgeted revenue of the current year. This allocation of fund balances is not recognized for GAAP reporting purposes as it is the result of prior years' operations. The Enterprise Funds are budgeted on a cash (non-GAAP) basis for control purposes.

3) Budgetary Control

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Expenditures are not to exceed appropriations at the fund level. The budget amounts presented in the financial statements are as originally adopted or as amended by the City Commission.

H. Valuation Bases

1) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Proprietary Fund types consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and all certificates of deposits with a maturity of one year or less when purchased to be cash equivalents

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H. Valuation Bases - Continued

2) Accounts Receivable

Governmental Receivables

Amounts due from other governments consist of state shared revenues and county occupational licenses.

Accounts receivable in the General Fund consist of cemetery lot sale receivables and late fees. Taxes receivable are the utility tax assessed on water charges. Grants receivable are from the State government. See Note E.1.

Proprietary Receivable - consists of amounts due from customers for unpaid services and unbilled utility services. See Note I.1.2.

Allowance for Doubtful Accounts

Accounts receivable are presented net of allowance for doubtful accounts. The allowance for doubtful accounts per fund type and fund is as follows:

General Fund	\$ 500
Enterprise Funds:	
Utility Fund	\$ 3,500
Communications Fund	\$ 1,500
Sanitation Fund	\$ <u>1,500</u>
Total	\$ <u>7,000</u>

3) Inventories

Inventories consist of digital set tops and cable modems used in the Communication Fund. They are reported at cost on a first-in, first-out basis using the purchase method. Maintenance and operating supplies are expensed when purchased rather than when consumed.

4) Investments

Non-participating interest-earning investment contracts are reported at cost in accordance with GASB Statement No. 31. Further details of the City's investments can be found at Note III.A.1.

5) Due From/Due To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected as due from and due to other funds in the period in which transactions are executed. Outstanding balances are generally due from the Special Revenue and Proprietary funds since the General Fund pays for all City charges. Proprietary and Special Revenue funds reimburse the General Fund by monthly transfers. Outstanding balances are short-term, except for \$50,000 that is owed by the Sanitation Fund.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H. Valuation Bases - Continued

6) Property, Plant and Equipment

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized. The City capitalizes expenditures of \$500 and greater with a useful life greater than one year. Computer software costs are expensed as incurred.

General fixed assets are recorded as expenditures in the General Fund. These assets are subsequently capitalized in the general fixed asset account group except for expenditures for certain improvements, other than buildings, such as roads, curbs, sidewalks, bridges and lighting systems (infrastructure) that are immovable and of value only to the governmental unit. No depreciation has been provided on assets of the general fixed asset account group. The City's historical fixed asset listing only includes infrastructure costs during the past eight years. The total amount of costs incurred for infrastructure during this time period was \$491,282. An estimate of infrastructure costs before this time period has not been made. No other fixed asset costs have required the use of estimates.

7) Depreciation

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method, with one-half year's depreciation in the year of acquisition. The estimated useful lives are as follows:

Water and Sewer Distribution System	35 - 40 Years
TV Cable System	5 - 15 Years
Building Improvements	10 - 35 Years
Improvements other than Buildings	10 - 20 Years
Major Moveable Equipment	10 Years
Office Equipment	5 - 10 Years
Vehicles	5 - 10 Years

8) Capitalized Interest

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. No construction activities were financed by debt during the current year.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9) Restricted Assets

An explanation of the purpose for restricted assets and a reconciliation of restricted assets to the balance sheet are presented for additional analysis.

General Fund

The City has set aside monies to be restricted for the beautification and perpetual care of the City cemetery. The cemetery account receives monthly transfers of one-half the sale proceeds from burial certificates.

Replacement funds have been established in the utility and communications fund to set aside resources for replacement of assets.

A library reserve fund was established to receive funds from the Okaloosa County Library Cooperative to be used for future expenditures for the library.

A police forfeiture fund was established to receive monies and proceeds from sale of confiscated property. Expenditures are made from this fund according to State Statute.

Special Revenue Fund

A streets special revenue fund has been established to account for funds received from the State that are restricted for the use of transportation expenditures as defined by Florida Statute.

Proprietary Funds

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "sinking fund" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "reserve fund" account is used to report resources set aside to make up potential future deficiencies in the sinking fund account.

Water and sewer meter deposits received from customers of the water and sewer system are placed in the Utility Deposit Account. The money is restricted to use as payment of the final customer bill or returned to the customer upon settlement of final bill. Deposits in the communications fund are also restricted in a likewise manner.

A contingency fund was established to hold funds received from customers billed for pole attachment fees in the event that the Court allows the rate increase proposed by Gulf Power.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

9) Restricted Assets - continued

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
General Fund		
Cemetery	\$ 164,703	
Library	49,823	
Police	<u>5,452</u>	
Total	\$ <u>219,978</u>	
Special Revenue Fund		
Streets	\$ <u>1,130</u>	\$ <u>162,516</u>
Proprietary Funds:		
Utility Fund		
Debt Service	\$ 136,392	\$ 95,768
Meter Deposits	92,811	
Replacement	26,194	
Reserve	32,960	
Communication Fund		
Contingency	99,781	
Replacement	<u>44,898</u>	
Total	\$ <u>433,036</u>	\$ <u>95,768</u>

10) Bond Discount/Issuance Costs

Bond discounts and issuance costs related to the issuance of Arcadia Water and Sewer Refunding Loan Program, Series 1993, in the amount of \$1,210,000 are being amortized over the life of the bonds using the straight line method. The difference between the straight line method and the interest method would not be material to the financial statements. The total amount of interest and amortization charged to expense during the fiscal year are \$912 and \$2,454, respectively. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

I. Revenues, Expenditures and Expenses

1) Ad Valorem Tax

The City's ad valorem taxes are assessed by the Okaloosa County Tax Assessor and collected by the Okaloosa County Tax Collector in accordance with the Laws of Florida.

The City Council retains the right and duty to set millage. The ad valorem tax rate for the City of Valparaiso for fiscal year 2003 was 3.99 mills. No accrual has been made for 2003 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year. The following is the current property tax calendar.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Revenues, Expenditures and Expenses - Continued

1) Ad Valorem Tax - Continued

Lien Date	January 1, 2003
Levy Date	November 1, 2003
Due Date	November 1, 2003
Delinquency Date	April 1, 2004

Discounts of 1% for each month taxes are paid prior to March, 2004, are granted.

Revenue recognition criteria for property taxes under the National Council on Governmental Accounting's Interpretation No. 3 requires that property taxes be expected to be collected within 60 days of the current period in order to be accrued. Current year taxes which are uncollected as of the end of the fiscal year are generally immaterial in amount and highly susceptible to uncollectibility; therefore, they are not recorded as a receivable on the balance sheet date.

2) Unbilled Utility Services

Accounts receivable from utility customers and the related revenues reflect an estimated amount based on 45 days of unbilled services at September 30, 2003. The amount of unbilled service revenues included in the accounts receivable of the proprietary funds are as follows:

Utility Fund	\$ 76,522
Communications Fund	60,351
Sanitation Fund	<u>48,274</u>
Total	<u>\$ 185,147</u>

3) Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and other leave, which will be paid to employees upon separation from City's service. Sick leave benefits accrue in various amounts to a maximum of 30 days depending on tenure and age. Vacation leave benefits accrue to full time employees up to a maximum of 30 days and are paid upon termination. In governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees or when expected to be made in the next fiscal year. The remainder of the liability is reported in the general long-term debt account group. Proprietary funds accrue vacation and sick leave in the period they are earned. As of September 30, 2003 the amount of accumulated vacation and sick pay is as follows:

General Fund	\$ 64,964
Enterprise Funds	
Utility Fund	4,128
Communications Fund	6,223
Sanitation Fund	<u>4,533</u>
Total	<u>\$ 79,848</u>

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Revenues, Expenditures and Expenses - Continued

4) Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. All other interfund transactions except for quasi-external transactions are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. The following summarizes interfund transactions during the year.

<u>Non Quasi-External Transactions</u>	General <u>Fund</u>	Special Revenue <u>Fund</u>	Utility <u>Fund</u>	Communication <u>Fund</u>	Sanitation <u>Fund</u>
Operating Transfers In (Out)	\$ (48,000)	\$	\$ 48,000	\$	\$
Residual Equity Transfers In (Out)	(165,513)	165,513			
 <u>Quasi-External Transactions</u>					
Administrative/Internal Services					
Received (Paid)	103,519		(29,939)	(34,502)	(39,078)
Fire Hydrant Rental	(4,800)		4,800		

5) Benefits Funded by the State of Florida

For 2003, the State of Florida contributed on-behalf payments for City employees as follows:

<u>Plan</u>	<u>Amount</u>
Valparaiso Police Retirement Plan	\$ 19,460
Valparaiso Firefighters Retirement Plan	\$ 13,139

State contributions are funded by allocation of the State's insurance premium tax. The above plans are affiliated with the Florida Municipal Pension Trust Fund.

6) Lease Expense

The City pays rent under a microwave operating lease agreement for the purpose of installing, servicing, maintaining, repairing, and replacing the City's broadcast signal reception and microwave transmission system. The City is contractually obligated for rental payments under this lease through fiscal year 2003 at an annual rate of \$900. The City will have the right to renew the lease agreement for an additional 15 years commencing on September 14, 2003 at an annual rental amount of \$1,800.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Revenues, Expenditures and Expenses -- Continued

6) Lease Expense - Continued

The City leases utility poles from Gulf Power for pole attachment privileges granted in connection with the furnishing of cable television services. Rent is payable in advance semi-annually at the rate of \$40.60 per pole, effective January 1, 2002. Rent paid for the year ended September 30, 2003 was \$6,620 which is \$34,102 less than the amount billed under the new rate. The City has recorded the difference as a contingent rental expense.

Future minimum rental payments due under this lease for the next five years and thereafter are based on the current rates being charged since the current lease rates will remain in effect unless revised by Gulf Power. The rental payments will also vary depending on the number of poles attached to. Based on the current rate, the future annual minimum rental payments for the next five years and thereafter would be \$40,722.

7) Lease Revenue

Governmental Funds

The General Fund receives rents for the lease of property for the operation of radio communications antenna tower and equipment. A second lease was executed whereby the City receives rent for the lease of building space. Both of these leases are non-cancelable operating leases.

Proprietary Funds

The Utility Fund leases its water tanks and surrounding property to telecommunication companies for the installation and operation of radio communications equipment. The Communications Fund leases its communication tower and premises to commercial telecommunication companies. These leases are non-cancelable operating leases.

Minimum rentals on non-cancelable leases for the next five years are as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
Utility Fund	\$ 39,524	\$ 41,105	\$ 42,750	\$ 44,460	\$ 46,238	\$ 214,077
Communications Fund	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 60,000
General Fund	\$ 33,120	\$ 33,482	\$ 33,852	\$ 34,229	\$ 33,364	\$ 168,047

The Utility Fund leases are for five years and can be renewed for 4 successive 5 year periods on similar terms and conditions. The annual rent on these leases will increase by 4% per year.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

I. Revenues, Expenditures and Expenses -- Continued

7) Lease Revenue - Continued

The Communications Fund lease is also for five years with the option of renewing for successive five year periods. The annual rent of \$12,000 will be adjusted by the CPI index starting in year 2006. Because that figure is unknown at this time, minimum future rentals for this lease was determined by the lease rate in effect at fiscal year end.

The General Fund's lease with the telecommunications company is for five years with the option of renewing for four additional terms of five years each on the same terms and conditions. The annual rent of \$18,000 increases by two percent (2%) per year. The General Fund received a total of \$8,500 in rents during the current year.

The General Fund's second lease is for a five year term at an annual rent of \$15,000. A second five year renewal option is available at renegotiated annual rent. Unearned revenue from the general fund leases are reported on the balance sheet in the amount of \$2,750.

Rental income for the current fiscal year received on proprietary fund leases was \$50,131. No contingent rental revenue was earned during fiscal year 2003.

NOTE II STEWARSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal Provisions

GASB Statement No. 38 requires disclosure of any material violations of finance-related legal or contractual provisions. The City is in substantial compliance with all legal provisions except for a violation of grant provisions and competitive bid requirements. Internal policies will be evaluated to address these violations.

B. Excess of Expenditures over Appropriations

None of the City's governmental or proprietary funds had excess expenditures over appropriations.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Assets

1) Cash Deposits and Investments

Deposits: At year end, the carrying amount of the City's demand deposits and certificates of deposits was \$2,496,709 and the bank balance was \$2,517,302, all of which were held by "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. In order for a bank to meet the requirements as a "Qualified Public Depository", the bank must deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral of the depository to be held subject to this order. Each qualified public depository must determine the amount of its required collateral, and pledging level, based upon formulas specified by law. Under this method, all City of Valparaiso deposits and investments are fully insured or collateralized with securities held by the State Treasurer in the City of Valparaiso's name. The City's cash includes cash on hand, checking accounts and interest bearing accounts.

Investments: Florida Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bank trust receipts, interest bearing time deposits on savings accounts in qualified public depositories of the state or national banks organized under the laws of the United States, and savings and loan associations located in the state and organized under federal law, providing all deposits are secured by collateral as prescribed by law. The City adheres strictly to the provisions of the Statutes.

The City's interest earning investments consist of certificate of deposits with maturity dates greater than one year at issue and a pooled guaranteed non-participating investment contract held by a trustee pursuant to a trust indenture authorizing and securing the Arcadia Revenue Bonds. At year end, the balance of the certificate of deposits classified as investments was \$387,252. At September 30, 2003, the City's share of the pooled investment contract was \$95,768 which approximates fair value. The investment contract earns an annual rate of interest of 5.8% with a scheduled maturity date of December 1, 2020. Interest earned from this investment in the amount of \$ 5,767 is recorded in the Utility Fund. The investment pool has not been assigned a risk category since the City is not issued securities, but rather owns an undivided beneficial interest in the assets of the pool. See Note I.H.4 for valuation policy of this investment.

2) Joint Venture

A regional sanitary sewer system designed to provide service to residents of Valparaiso, Niceville, and Okaloosa County was completed and placed in service during the fiscal year ending September 30, 1982. The project was funded 75% by U.S. Environmental Protection Agency (EPA) grants under provision of Public Law 92-500 and 25% by the local government applicants. Valparaiso currently owns 20% of the operating capacity of the expanded system. The City of Niceville is a 44% owner and Okaloosa County is a 36% owner. The in-service cost of the property, plant and equipment paid for through the initial combined funding of the participants and the EPA was recorded prorata on the accounting records of the individual participants. The City's portion of their assets is accounted for in its utility fund.

THE CITY OF VALPARAISO
 NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

2) Joint Venture - continued

The net operating results of the system are accounted for as a joint venture and accounted for under the equity method. The City's prorata share of the total cost of operating the regional sewer facility for the period ended September 30, 2003, was \$144,841. The City's portion of the equity in the joint venture is \$189,571.

The system is managed and operated by a separate governing body (Niceville, Valparaiso, Okaloosa County Regional Sewer Board, Inc.) consisting of six members; two appointed by each of the three participants. The Board is responsible for preparing and approving its own budget. The cost of operations, including additional equipment, inventory purchases, etc. are accounted for, in total, on the books and financial statements of the Board.

The following is a condensed summary of the assets, liabilities and equity, and operating results of the Board's fiscal year ended June 30, 2003. The Regional Sewer Board's audited financial statements can be obtained from the City Clerk's office.

SUMMARY OF ASSETS, LIABILITIES AND MEMBERS' EQUITY

ASSETS

Current Assets	\$ 295,319
Restricted assets	206,675
Fixed assets – net of accumulated depreciation	411,993
Other assets	<u>1,982</u>
Total Assets	\$ <u>915,969</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities	\$ 55,262
Members' Equity	<u>860,707</u>
Total Liabilities and Members' Equity	\$ <u>915,969</u>

SUMMARY OF OPERATING RESULTS

Sewer operating revenues	\$ 1,117,413
Operating expenses	<u>1,046,966</u>
Operating income (loss)	70,447
Non-operating revenues (expenses)	<u>17,633</u>
Net income	\$ <u>88,080</u>

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

3) Property and Equipment

A summary of changes in general fixed assets follows:

	Balance 10/1/02	Additions	Deletions	Balance 9/30/03
Land	\$ 428,411	\$ -0-	\$ 17,000	\$ 411,411
Buildings	790,588	28,570	-0-	819,158
Construction in Progress	-0-	-0-	-0-	-0-
Improvements other than Buildings	643,859	2,781	352	646,288
Property and Equipment	1,131,995	112,039	44,731	1,199,303
Assets under Capital Leases	<u>340,036</u>	<u>45,005</u>	<u>-0-</u>	<u>385,041</u>
Total	<u>\$ 3,354,889</u>	<u>\$ 188,395</u>	<u>\$ 62,083</u>	<u>\$ 3,461,201</u>

A summary of proprietary fund type plant, property and equipment at September 30, 2003 follows:

	Utility Fund	Communication Fund	Sanitation Fund
Land	\$ 40,287	\$ 70,652	\$ -0-
Buildings	66,062	73,914	733
Construction in Progress	-0-	-0-	-0-
Improvements Other than Buildings	4,449,657	690,103	-0-
Assets Under Capital Leases	-0-	-0-	78,990
Property and Equipment	<u>336,467</u>	<u>355,178</u>	<u>369,859</u>
Total	4,892,473	1,189,847	449,582
Less: Accum. Depreciation	<u>(3,080,564)</u>	<u>(771,605)</u>	<u>(272,935)</u>
Net Plant, Property and Equipment	<u>\$ 1,811,909</u>	<u>\$ 418,242</u>	<u>\$ 176,647</u>

Land with a cost of approximately \$100,000 was being leased out as of September 30, 2003. See Note I.1.7.

THE CITY OF VALPARAISO
 NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities

1) Pension Plan Obligations

Florida Retirement System

Plan Description

The City contributes to the Florida Retirement System (FRS), a cost sharing multiple employer defined benefit pension plan administered by the State of Florida, Division of Retirement Services. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. The complete financial report of the FRS may be obtained by writing to Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, Florida 32399-1560 or by calling 1-850-488-5706.

Funding Policy

The FRS funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability reemerges, future plan benefit changes, assumption changes, and methodology changes are amortized within 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount. Active plan members including the City was required to contribute 7.39% of the annual salary of regular class employees and 18.53% of special risk class employees. Required contributions and contribution percentages are presented below:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Required Contributions	\$ 58,248	\$ 71,809	\$ 91,548
Regular Class Contribution %	7.39%	5.76%	7.30%
Special Risk Class Contribution %	18.53%	16.00%	18.44%

Florida Municipal Pension Trust Fund

Plan Description

Effective January 1, 1996, the City established a defined benefit pension plan for the firefighters and police officers of the City of Valparaiso. The plan is affiliated with the Florida Municipal Pension Trust Fund Defined Benefit Plan, an agent multiple-employer pension plan established under Chapters 185 and 175 of the Florida Statutes and administered by the Florida League of Cities.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

1) Pension Plan Obligations- (continued)

Retirement, disability and death benefits are provided to plan members and beneficiaries. Benefit provisions are established under Chapters 175 and 185 of the Florida Statutes and may be amended by the Board of Trustees with the approval of the City. The Florida League of Cities issues a publicly available financial audit report that includes financial statements and required supplementary information for the Florida Municipal Pension Trust Fund Pension Plan. That report may be obtained by writing to the Florida League of Cities, 301 S. Bronough Street, Ste. 300, P. O. Box 1757, Tallahassee, FL 32302-1757 or by calling 1-800-616-1513.

All full-time firefighters and police officers hired after January 1, 1996 participate in the system. Employees who retire with 10 years of service and are age 55 or who retire with 25 years of service and are age 52 are entitled to a monthly retirement benefit equal to the number of years of credited service multiplied by 2% and multiplied by final monthly compensation. Final monthly compensation is one-twelfth of the highest average earnings during the five best successive years out of the last ten years of creditable service prior to separation as an active member. The normal form of benefit is a ten year certain and life annuity. Vested employees may retire before reaching normal retirement age and receive reduced retirement benefits.

Funding Policy

The City's plan is funded by employer contributions in an amount determined by the Actuary, taking into account participant contributions, state contributions from insurance premium taxes and the total cost for the plan year, as represented in the most recent actuarial valuation. The City's police and firefighter employees are required to contribute 2% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 11.70% of annual covered payroll. Contributions may be amended by the Plan's Board of Trustees to meet the minimum contributions determined by the Actuary.

Annual Pension Cost

For 2005, the City contributed a total of \$50,626 to the Plan, which included \$32,599 contributed by the State. The annual pension cost required was \$9,507. The excess contribution was placed in the surplus contribution account.

Actuarial Valuation Method

The required minimum retirement plan payment was determined using the aggregate cost method. The minimum payment includes benefit costs and estimated expenses arising during the plan year. As the actuarial funding method employed does not create an unfunded actuarial liability, there are no amortization costs.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III **DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued**

1) Pension Plan Obligations- (continued)

Supplementary Information

Valuation Date	October 31, 2001
Actuarial Cost Method	Aggregate Cost
Amortization Method	N/A
Actuarial Asset Valuation Method	Fair Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Projected Salary Increases	5.5% - 8.00%
Post Retirement Benefit Increases	None
Inflation	3.75%

Trend Information

City of Valparaiso, Firefighters and Police Officers Retirement Trust Fund

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/00	\$ 7,563	100%	\$ -0-
9/30/01	\$ 8,911	100%	\$ -0-
9/30/02	\$ 9,507	100%	\$ -0-

Trend information showing the progress of the Retirement Systems in accumulating sufficient assets to pay benefits when due is presented in their annual financial reports. Copies of the report can be obtained from the Florida League of Cities.

Deferred Compensation Plan

The City established, and made available to all City employees on May 1, 1982, a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan allows a participant to defer a portion of their salary until future years. The City's only responsibility with regard to the plan is to administer the authorized payroll deductions. All other administrative requirements are the responsibility of the Metropolitan Life Insurance Company.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

1) Pension Plan Obligations - (continued)

Deferred Compensation Plan - (continued)

Furthermore, on January 8, 1996, the City established a Deferred Compensation Plan under Internal Revenue Code Section 457 as part of the Florida Retirement System opt out. Plan provisions are established or amended by City Council Resolution. This plan requires the City to contribute 9% of an employee's compensation and the employee may elect to make voluntary contributions of up to 9% of compensation. Regular class employees who are hired after the plan effective date are eligible to participate in the plan. Vesting rights vary according to years of service. The City contributed \$42,260 and employees contributed \$15,239 to this plan during the fiscal year.

2) Accrued Interest Payable

Accrued interest payable at September 30, 2003 consists of the following amounts.

Utility Fund:

Interest for the period June 1 to September 30 on \$875,000 Water and Sewer Refunding Notes, Series 1993	\$ 15,146
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Interest for the period September 1 to September 30 on \$386,000 Water and Sewer Revenue Bonds, Series 1980	1,608
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Sanitation Fund:

Interest for the period August 11 to September 30 on \$58,582 Capital Lease Payable	307
	<u>\$ 17,061</u>

3) Capital Leases

	<u>General Long- Term Debt</u>	<u>Sanitation Fund</u>
The present value of capital leases are:		
2004	\$ 120,491	\$ 24,796
2005	120,492	24,796
2006	57,490	12,398
2007	<u>5,986</u>	<u>0</u>
Total	304,459	61,990
Less: Amount represent interest (2.7% to 4.8%)	(15,927)	(3,408)
Present value of future minimum lease payments	\$ <u>288,532</u>	\$ <u>58,582</u>
Cost of equipment	\$ 385,041	\$ 78,990
Accumulated depreciation		\$ 11,849

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS – Continued

3) Capital Leases - continued

The City partially financed the purchase of a police computerized dispatching system costing \$90,010 through a capital lease in the amount of \$45,005. The capital lease portion was reported as an expenditure and other financing source in the General Fund and as a fixed asset in the General Fixed Asset Account Group.

4) Long-Term Debt

a) Revenue Bonds

Revenue bonds outstanding consist of debt issued by the Utility Fund. Franchise fees and utility taxes in the General Fund and the utility system revenues are pledged for the payment of revenue bond debt service.

Bond covenants require significant requirements for annual debt service and flow of funds through various restricted accounts. Specifically, the bond covenants require the use of revenue, sinking fund, reserve, and operations and maintenance accounts. The City is in compliance with all significant requirements of the various bond covenants.

b) Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2003:

<u>Description and Terms</u>	<u>Balance</u> <u>10/1/02</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>9/30/03</u>
<u>General Long-Term Debt</u>				
Compensated Absences	\$ 60,272	\$ 9,721	\$ 5,029	\$ 64,964
Lease Obligations Payable; due in semi-annual installments of \$54,260; interest rates 2.7%- 4.8%; maturity dates 8/26/05 – 11/25/06	<u>340,036</u>	<u>45,005</u>	<u>96,509</u>	<u>288,532</u>
Total General Long-Term Debt	\$ <u>400,308</u>	\$ <u>54,726</u>	<u>\$101,538</u>	\$ <u>353,496</u>

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

4) Long-Term Debt - (continued)

b) Changes in Long-Term Debt (continued)

<u>Description and Terms</u>	<u>Balance</u> <u>10/1/02</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>9/30/03</u>
<u>Proprietary Funds</u>				
<u>Utility Fund</u>				
Revenue Bonds:				
\$556,000 Water and Sewer Junior				
Lien; issue date 12/9/81; due in				
annual installments of \$5,000 to				
\$32,000; maturity date 9/1/21;				
interest payable semi-annually				
at 5%				
	\$ 399,000	\$ 0	\$ 13,000	\$ 386,000
\$1,210,000 City of Arcadia				
Water and Sewer, issue date				
8/10/93, due in annual install-				
ments of \$10,000 to \$175,000;				
interest payable semi-annually				
@ 5.375%; maturity date				
12/1/15				
	<u>920,000</u>	<u>0</u>	<u>45,000</u>	<u>875,000</u>
Total Revenue Bonds	1,319,000	0	58,000	1,261,000
Less: Current Portion	(58,000)			(54,000)
Total Long-Term				
Revenue Bonds	<u>1,261,000</u>			<u>1,207,000</u>
Advances from Other Funds:				
Sanitation Fund	<u>40,000</u>	<u>10,000</u>	<u>0</u>	<u>50,000</u>
Lease Obligations Payable:				
Sanitation Fund; due in semi-				
annual installments of \$24,796;				
4.8% interest rate; maturity				
date 2/11/06				
	78,990	0	20,408	58,582
Less: Current Portion	(20,408)			(22,768)
Total Long-Term Lease				
Obligations Payable	<u>58,582</u>			<u>35,814</u>
Compensated Absences:				
Utility Fund	4,638	0	510	4,128
Communication Fund	8,408	0	2,185	6,223
Sanitation Fund	<u>2,725</u>	<u>1,808</u>	<u>0</u>	<u>4,533</u>
Total Long-Term				
Compensation Absences	<u>15,771</u>	<u>1,808</u>	<u>2,695</u>	<u>14,884</u>
Total Proprietary Funds	<u>\$ 1,375,353</u>			<u>\$ 1,307,698</u>

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

4) Long-Term Debt - continued

c) Summary of Debt Service Requirements To Maturity

The total requirements to amortize all bonds and leases outstanding as of September 30, 2003 for each of the next five years and for each subsequent five year period are as follows:

Year Ended	General Long-Term Debt		Proprietary Fund Types		Totals
	Principal	Interest	Principal	Interest	
<u>Sept. 30</u>					
2004	\$ 111,203	\$ 9,289	\$ 76,768	\$ 65,806	\$ 263,066
2005	115,201	5,290	82,649	62,139	265,279
2006	56,225	1,265	77,165	58,151	192,806
2007	5,903	83	66,000	54,668	126,654
2008	-0-	-0-	72,000	51,208	123,208
2009-2013	-0-	-0-	411,000	195,729	606,729
2014-2018	-0-	-0-	443,000	72,563	515,563
2019-2021	-0-	-0-	91,000	9,250	100,250
Total	\$ <u>288,532</u>	\$ <u>15,927</u>	\$ <u>1,319,582</u>	\$ <u>569,514</u>	\$ <u>2,193,555</u>

Specific years for payments of advances and compensated absences are not determinable and are not included in the table above.

5) Interfund Receivables and Payables

Fund	Year Ended September 30, 2003	
	Interfund Receivable	Interfund Payable
General Fund	\$ 152,389	\$ 33,592
Special Revenue Fund	33,592	-0-
Utility Fund	-0-	32,461
Communication Fund	1,000	29,200
Sanitation Fund	-0-	91,728
Total	\$ <u>186,981</u>	\$ <u>186,981</u>

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE III DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

C. Fund Equity

1) Reservation of Retained Earnings

Reserve for Restricted Assets - Utility Fund - An account used to segregate a portion of retained earnings for the excess of restricted assets over liabilities payable from restricted assets. See Note I.H.9. for further details.

2) Reservation of Fund Balance

Reserve for Restricted Assets - General Fund - An account used to segregate a portion of fund balance for the excess of restricted assets over liabilities payable from restricted assets. See Note I.H.9. for further details.

Reserve for Advances to Other Funds - General Fund - An account used to segregate a portion of fund balance to indicate that advances receivable over advances payable to other funds do not represent available, spendable resources.

3) Designation of Fund Balance

Designations of Fund Balance are used to show the amounts within unreserved equity which are intended to be used for specific purposes, but are not legally restricted. The General Fund designation is to provide funding for appropriations in the subsequent fiscal year.

4) Unreserved Fund Balance

Unreserved Fund Balance - An account used to indicate the balance of a fund that represents available, spendable resources.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE IV SEGMENT INFORMATION - ENTERPRISE FUNDS

The City maintains three enterprise funds which provide water and sewer, communications and sanitation services. Segment information for the year ended September 30, 2003, is as follows:

	Utility Fund	Communications Fund	Sanitation Fund
Operating Revenues	\$ 652,263	\$ 758,932	\$ 584,846
Depreciation, Depletion and Amortization Expense	122,943	90,878	28,134
Operating Income or (Loss)	(27,274)	7,336	311
Net Income or (Loss)	18,445	49,448	(2,587)
Operating Transfers In	48,000	-0-	-0-
Tax Revenues	-0-	26,751	-0-
Plant, Property and Equipment:			
Additions	247,920	83,079	-0-
Deletions	3,023	32,430	-0-
Total Assets	2,756,553	919,773	308,745
Net Working Capital	35,375	231,951	58,887
Long-Term Debt:			
Bonds and Other Long-Term Liabilities Payable from Operations	1,211,128	6,223	90,347
Retained Earnings	2,370	369,753	46,126
Total Equity	1,266,558	688,868	145,187

NOTE V RELATED PARTY TRANSACTIONS

As disclosed in Note III A. 2), the City is involved in a joint venture type of operation with the City of Niceville and Okaloosa County.

The City is involved in a legal proceeding in order to determine ownership of shoreline property. One of the City Commissioners is a party against the City in this legal matter. With the exception of legal fees, it is unknown what effect the outcome of this proceeding will have on the City's financial statements.

The City paid \$26,994 in contractual labor related to the construction of the new water well house. The contractor was the son of the Chief of Police. No formal bids were received prior to awarding this contract.

No amounts were due to or from any of the related parties.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE VI CONTINGENT LIABILITIES

Pole Attachment Fees

The City is waiting on the outcome of a Supreme Court appeal that will decide whether fees charged by Gulf Power for pole attachment privileges are fair compensation. The City has escrowed \$99,781 in savings in case of an unfavorable ruling. \$34,102 has been accrued for the current year in accordance with SFAS No. 5.

NOTE VII RISK MANAGEMENT

The City is exposed to various risks of loss related to: damage to and destruction of assets; errors and omissions; worker's compensation claims and natural disasters for which the City carries commercial insurance. Claims incurred are based on actual repair and replacement costs. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE VIII NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years will be affected. The City is required to implement this standard for the fiscal year ending September 30, 2004. At this time, the City does not expect to implement this standard earlier than the required date. The City has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

NOTE IX FEDERAL AND STATE GRANTS

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability, if any, for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE X COMMITMENTS

The City has committed to performing street resurfacing projects estimated to cost \$81,450 in the next fiscal year.

The City has committed to maintain an amount of \$675,000 as unreserved general funds. The City's unreserved fund balances are currently above this amount.

NOTE XI SUBSEQUENT EVENTS

The City was awarded a federal grant estimated in the amount of \$700,000 to be used for improvements to the water system. Grant proceeds are expected to be received in the next fiscal year.

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