

In the opinion of Bond Counsel, assuming compliance by the Issuer and the Borrowers with certain covenants, under existing statutes, regulations and judicial decisions, the interest on the Bonds will not be included in the gross income for federal income tax purposes of the holders thereof and will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2010B, 2010C and 2010D Bonds is not taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. However, a portion of interest on the Series 2010A Bonds may be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. See "TAX MATTERS" herein for a description of certain other tax consequences to holders of the Bonds.

\$27,730,000

**FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BONDS**

\$7,665,000 SERIES 2010A (City of Palatka Series)

\$14,780,000 SERIES 2010B (Village of Palmetto Bay Series)

\$1,465,000 SERIES 2010C (City of Valparaiso Series)

\$3,820,000 SERIES 2010D (City of West Melbourne Series)

Dated: Date of Delivery

Due: October 1, as shown on the inside cover

The Revenue Bonds, Series 2010A, 2010B, 2010C and 2010D (collectively, 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 April 1 and October 1, commencing April 1, 2011. The principal of, premium, if any, and interest on the Bonds will be paid through the Trustee described herein. 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 four State of Florida municipalities: the City of Palatka, the Village of Palmetto Bay, the City of Valparaiso and the City of West Melbourne (jointly 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, (ii) funding a debt service reserve fund for each series of Bonds and (iii) paying costs and expenses related to the issuance of the Bonds.

Payments made by the Borrowers in repayment of the loans (the "Loan Repayments") will be assigned by the Issuer to the Trustee described herein, pursuant to a Trust Indenture, dated as of August 1, 2010 between the Issuer and the Trustee (the "Indenture").

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under separate insurance policies to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE, INC.)**



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 (as defined herein) (ii) all amounts in certain funds and accounts created pursuant to the Indenture, and (iii) all Revenues, 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.

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 Underwriters, 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 Craig A. Conn, Esq., counsel to the Issuer, as assistant general counsel to the Florida League of Cities, Inc., and for the Underwriters by their counsel, Nabors, Giblin & Nickerson, P.A., Tampa, 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 August 25, 2010.

WELLS FARGO SECURITIES

BofA MERRILL LYNCH

AMOUNTS, MATURITIES. INTEREST RATES AND PRICES

**Series 2010A Bonds
\$7,665,000 Serial Bonds**

<u>Maturity (October 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP No.</u>	<u>Maturity (October 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP No.</u>
2011	\$110,000	3.00%	102.404%	342815XN2	2019	\$180,000	4.00%	106.922%	342815XW2
2012	145,000	2.00	101.737	342815XP7	2020	190,000	4.00	105.880	342815XX0
2013	150,000	2.25	102.538	342815XQ5	2021	195,000	4.00	104.220*	342815XY8
2014	155,000	2.25	102.368	342815XR3	2022	205,000	3.50	98.156	342815XZ5
2015	155,000	3.00	104.379	342815XS1	2023	215,000	3.625	98.103	342815YA9
2016	160,000	4.00	108.612	342815XT9	2024	220,000	3.75	98.169	342815YB7
2017	170,000	4.00	108.077	342815XU6	2025	230,000	4.00	99.659	342815YC5
2018	175,000	4.00	107.813	342815XV4					

\$1,925,000 4.50% Term Bonds due October 1, 2032 - Price 98.209% CUSIP No. 342815YE1

\$3,085,000 4.625% Term Bonds due October 1, 2040 - Price 98.004% CUSIP No. 342815YD3

**Series 2010B Bonds
\$14,780,000 Serial Bonds**

<u>Maturity (October 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP No.</u>	<u>Maturity (October 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP No.</u>
2011	\$225,000	3.00%	102.515%	342815YF8	2019	\$355,000	3.00%	99.840%	342815YP6
2012	290,000	2.00	101.946	342815YG6	2020	370,000	4.00	106.766	342815YQ4
2013	295,000	3.00	104.961	342815YH4	2021	385,000	4.00	105.090*	342815YR2
2014	305,000	2.25	102.769	342815YJ0	2022	400,000	3.50	99.120	342815YS0
2015	310,000	2.25	101.254	342815YK7	2023	410,000	3.50	97.834	342815YT8
2016	320,000	4.00	109.205	342815YL5	2024	425,000	3.625	97.886	342815YU5
2017	330,000	4.00	108.750	342815YM3	2025	445,000	3.75	97.961	342815YV3
2018	345,000	3.00	101.366	342815YN1	2040	855,000	5.00	104.183*	342815YX9

* Price to the call date

\$3,685,000 4.375% Term Bonds due October 1, 2032 - Price 97.982% CUSIP No. 342815YW1

\$5,030,000 4.50% Term Bonds due October 1, 2039 - Price 97.305% CUSIP No. 342815YY7

Series 2010C Bonds
\$1,465,000 Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <u>No.</u>	<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <u>No.</u>
2011	\$25,000	2.00%	101.366%	342815YZ4	2018	\$35,000	2.50%	97.412%	342815ZG5
2012	30,000	2.00	101.841	342815ZA8	2019	35,000	3.00	99.446	342815ZH3
2013	30,000	2.00	101.782	342815ZB6	2020	35,000	3.00	97.775	342815ZJ9
2014	30,000	2.00	101.580	342815ZC4	2021	35,000	3.25	98.166	342815ZL4
2015	30,000	2.00	99.806	342815ZD2	2022	40,000	3.50	98.637	342815ZM2
2016	35,000	2.25	99.040	342815ZE0	2023	40,000	3.50	97.327	342815ZN0
2017	35,000	2.50	98.778	342815ZF7					

\$445,000 4.50% Term Bonds due October 1, 2032 - Price 98.891% CUSIP No. 342815ZP5
\$585,000 4.50% Term Bonds due October 1, 2040 - Price 96.948% CUSIP No. 342815ZK6

Series 2010D Bonds
\$3,820,000 Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <u>No.</u>	<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <u>No.</u>
2011	\$130,000	2.00%	101.366%	342815ZQ3	2018	\$170,000	4.00%	108.188%	342815ZX8
2012	145,000	2.00	101.841	342815ZR1	2019	175,000	4.00	107.332	342815ZY6
2013	150,000	2.00	101.782	342815ZS9	2020	180,000	3.00	97.775	342815ZZ3
2014	155,000	2.00	101.580	342815ZT7	2021	185,000	3.25	98.166	342815A31
2015	155,000	2.00	99.806	342815ZU4	2022	195,000	3.375	97.422	342815A49
2016	160,000	2.25	99.040	342815ZV2	2023	200,000	3.50	97.327	342815A56
2017	165,000	2.50	98.778	342815ZW0					

\$1,655,000 4.25% Term Bonds due October 1, 2030 - Price 97.747% CUSIP No. 342815A23

Florida Municipal Loan Council

c/o Florida League of Cities, Inc. 301 South Bronough Street
Suite 300 Tallahassee, Florida 32302 (850) 222-9684

Directors

Chairman Isaac Salver, Councilman, Town of Bay Harbor Islands
Vice-Chair Lawrence I. Ady, Council Vice-Chair, City of Belle Isle
Frank C. Ortis, Mayor, City of Pembroke Pines
Carmine Priore, Vice-Mayor, Village of Wellington
Julio Robaina, Mayor, City of Hialeah,
Heyward Strong, Jr., Mayor Pro Tem, City of Valparaiso

Attorney

Kraig A. Conn, Esq.
Tallahassee, Florida

Bond Counsel

Bryant Miller Olive P.A.
Tampa, Florida

Financial Advisor

Waters and Company, LLC
Birmingham, Alabama

Program Administrator

Florida League of Cities, Inc.
Tallahassee, Florida

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE ISSUER OR THE UNDERWRITERS 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 UNDERWRITERS. 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 UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE 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 UNDERWRITERS DO NOT GUARANTY THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM") MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, AGM HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND 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 AGM SUPPLIED BY AGM AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX J – SPECIMEN BOND INSURANCE POLICY."

TABLE OF CONTENTS

(The Table of Contents for this Official Statement is for convenience of reference only and is not intended to define, limit or describe the scope or content of any provisions of this Official Statement.)

	<u>Page</u>
INTRODUCTION	1
THE BONDS	3
General Description	3
Redemption Provisions	4
Book-Entry Only System	9
No Assurance Regarding DTC Practices	12
THE ISSUER	12
THE ADMINISTRATOR AND THE ADMINISTRATION AGREEMENT	13
The Administrator	13
The Administration Agreement	14
THE BORROWERS	14
PURPOSE OF THE BONDS	15
General	15
ESTIMATED SOURCES AND USES	17
SECURITY AND SOURCES OF PAYMENT	18
Limited Obligations; Trust Estate	18
Reserve Fund	20
Anti-Dilution Covenant	20
Additional Bonds: Permitted Parity Indebtedness	21
The Covenants to Budget and Appropriate	21
Outstanding Borrower Indebtedness; Calculations of Anti-Dilution Test Compliance; Historical Pro Forma Debt Service Coverage	22
City of Palatka Loan	31
Property Tax Reforms	42
Financial Information Regarding the Borrowers	45
BOND INSURANCE	45
Bond Insurance Policy	45
Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)	45
DEBT SERVICE REQUIREMENTS	48
TAX MATTERS	49
General	49
LITIGATION	51
VALIDATION	52
SEC ORDER; VOLUNTARY CLOSING AGREEMENT	52
LEGAL MATTERS	52
RATINGS	53
UNDERWRITING	53
FINANCIAL ADVISOR TO THE ISSUER	54
CONTINUING DISCLOSURE	54

ENFORCEABILITY OF REMEDIES	54
MISCELLANEOUS	55

APPENDIX A -	Form of Continuing Disclosure Agreement for Borrowers
APPENDIX B -	Form of Continuing Disclosure Agreement for Issuer
APPENDIX C -	Form of the Indenture
APPENDIX D -	Form of the Loan Agreement
APPENDIX E -	Form of Opinion of Bond Counsel
APPENDIX F -	Financial Information Regarding City of Palatka
APPENDIX G -	Financial Information Regarding Village of Palmetto Bay
APPENDIX H -	Financial Information Regarding City of Valparaiso
APPENDIX I -	Financial Information Regarding City of West Melbourne
APPENDIX J -	Specimen Bond Insurance Policy

OFFICIAL STATEMENT

Relating To

\$27,730,000

**FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BONDS**

\$7,665,000 Series 2010A (City of Palatka Series)
\$14,780,000 Series 2010B (Village of Palmetto Bay Series)
\$1,465,000 Series 2010C (City of Valparaiso Series)
\$3,820,000 Series 2010D (City of West Melbourne Series)

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 \$27,730,000 Florida Municipal Loan Council Revenue Bonds, Series 2010A, 2010B, 2010C and 2010D (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. Subsequent to that date, other municipalities and counties have joined in the Interlocal Agreement, including Gadsden County, Florida, Jackson County, Florida and Leon County, Florida.

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 March 25, 2010, as amended and supplemented on June 3, 2010, and a Trust Indenture (the "Indenture"), dated as of August 1, 2010, between the Issuer and Deutsche Bank Trust Company Americas, as trustee (the "Trustee").

The Bonds are being issued to provide funds to make loans to four 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 Palatka, Palmetto Bay, Valparaiso and West Melbourne (jointly, the "Borrowers," and individually, a "Borrower") pursuant to Loan Agreements, each dated as of August 1, 2010, 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 or reimburse itself for the cost of a governmental undertaking approved by the governing body of that Borrower for a public purpose (a "Project"),

to fund a debt service reserve fund for the applicable series of Bonds and to pay a proportionate share of the costs of issuance of the Bonds. Proceeds of the Series 2010A Bonds (the "2010A Bonds") are being used to make the Loan to the City of Palatka, proceeds of the Series 2010B Bonds (the "2010B Bonds") are being used to make the Loan to the Village of Palmetto Bay, proceeds of the Series 2010C Bonds to make the Loan to the City of Valparaiso and proceeds of the Series 2010D Bonds to make the loan to the City of West Melbourne. 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 Palatka Loan secures the Series 2010A Bonds, the Palmetto Bay Loan secures the Series 2010B Bonds, the Valparaiso Loan secures the Series 2010C Bonds and the West Melbourne Loan secures the Series 2010D Bonds. 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 that has entered into a Covenant Loan Agreement (see "SECURITY AND SOURCES OF PAYMENT," herein) has agreed to appropriate in its annual budget, by amendment, if required, and to pay when due under its respective Loan Agreement, 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. The remaining Borrower has pledged specific revenues to secure repayment of its Loan. "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.

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 (as defined herein) (ii) all amounts in certain funds and accounts created pursuant to the Indenture, and (iii) all Revenues, 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.

There follows in this Official Statement descriptions of the Bonds, the Issuer, 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 Managing Underwriter at 2363 Gulf-to-Bay Boulevard, Suite 200, Clearwater, Florida 33765 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 April 1 and October 1 (each, an "Interest Payment Date,"), commencing April 1, 2011.

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 of 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 Series 2010A Bonds maturing on or before October 1, 2020 are not subject to optional redemption prior to maturity. The Series 2010A Bonds maturing after October 1, 2020 are subject to redemption at the option of the Issuer on or after October 1, 2020 as a whole or in part at any time, in any manner as determined by the Trustee taking into consideration the maturity of the Palatka Loan, at the redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2010B Bonds maturing on or before October 1, 2020 are not subject to optional redemption prior to maturity. The Series 2010B Bonds maturing after October 1, 2020 are subject to redemption at the option of the Issuer on or after October 1, 2020 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 Palmetto Bay Loan, at the redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2010C Bonds maturing on or before October 1, 2020, are not subject to optional redemption prior to maturity. The Series 2010C Bonds maturing after October 1, 2020 are subject to redemption at the option of the Issuer on or after October 1, 2020, 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 Valparaiso Loan, at the redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2010D Bonds maturing on or before October 1, 2020, are not subject to optional redemption prior to maturity. The Series 2010D Bonds maturing after October 1, 2020 are subject to redemption at the option of the Issuer on or after October 1, 2020, 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 West Melbourne Loan, 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 Series 2010A Bonds maturing on October 1, 2032 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 October 1, 2026 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2026	\$240,000
2027	250,000
2028	260,000
2029	275,000
2030	285,000
2031	300,000
2032	315,000*

*Maturity, not a redemption.

The Series 2010A Bonds maturing on October 1, 2040 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 October 1, 2033 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2033	\$325,000
2034	340,000
2035	360,000
2036	375,000
2037	395,000
2038	410,000
2039	430,000
2040	450,000*

*Maturity, not a redemption.

The Series 2010B Bonds maturing on October 1, 2032 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 October 1, 2026 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2026	\$460,000
2027	480,000
2028	500,000
2029	525,000
2030	550,000
2031	570,000
2032	600,000*

*Maturity, not a redemption.

The Series 2010B Term Bonds maturing on October 1, 2039 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 October 1, 2033 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2033	\$625,000
2034	655,000
2035	685,000
2036	715,000
2037	750,000
2038	780,000
2039	820,000*

*Maturity, not a redemption.

The Series 2010C Term Bonds maturing on October 1, 2032 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 October 1, 2024 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2024	\$40,000
2025	45,000
2026	45,000
2027	45,000
2028	50,000
2029	50,000
2030	55,000
2031	55,000
2032	60,000*

*Maturity, not a redemption.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

The Series 2010C Term Bonds maturing on October 1, 2040 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 October 1, 2033 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2033	\$60,000
2034	65,000
2035	70,000
2036	70,000
2037	75,000
2038	80,000
2039	80,000
2040	85,000*

*Maturity, not a redemption.

The Series 2010D Term Bonds maturing on October 1, 2030 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 October 1, 2024 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2024	\$210,000
2025	215,000
2026	225,000
2027	235,000
2028	245,000
2029	255,000
2030	270,000*

*Maturity, not a redemption.

Extraordinary Mandatory Redemption. Each series of Bonds is also subject to extraordinary mandatory redemption as a result of acceleration of a corresponding Loan pursuant to a Loan Agreement which secures that particular series of Bonds, 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 Bond Insurer, from all Liquidation Proceeds or Insurance Proceeds received by the Trustee as a result of an acceleration of such Loan or Loans securing that particular series of Bonds. Upon the occurrence of an extraordinary mandatory redemption in part, the selection of the Bonds to be redeemed shall be

subject to the approval of the Bond Insurer. "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 Bond Insurer with the Trustee pursuant to the Indenture as a condition of the direction or acceleration of all or a portion of the Bonds by the Bond Insurer.

Whenever any Event of Default shall have occurred with respect to any Loan Agreement, the Issuer or the Trustee have the right to accelerate the Loan, under certain circumstances, 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, Bond Insurer consent, 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 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 of the corresponding series shall be redeemed.

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 described above or as 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 series of 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.

In the case of an optional redemption, any notice of redemption may state that (1) it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Registrar, Paying Agent or a fiduciary institution acting as escrow agent no later than the redemption date or (2) the Issuer retains the right to rescind such notice on or prior to the scheduled redemption date (in either case, a "Conditional Redemption"), and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described in this section. Any such notice of Conditional Redemption shall be captioned "Conditional Notice of Redemption." Any Conditional Redemption may be rescinded at any time prior to the redemption date if the Program Administrator delivers a written direction to the Registrar directing the Registrar to rescind the redemption notice. The Registrar shall give prompt notice of such rescission to the affected Bondholders. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and neither the rescission nor the failure by the Issuer to make such funds available shall constitute an Event of Default under the Indenture. The Registrar shall give immediate notice to the securities information repositories and the affected Bondholders that the redemption did not occur and that the affected Bonds called for redemption and not so paid remain Outstanding.

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 Underwriters, the Issuer, the Trustee or the Borrowers.

Unless the book-entry system described herein is terminated, DTC will act as securities depository for the Bonds. Each series of 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 or more fully-registered bond certificates will be issued for each series of Bonds, and will be deposited with the Trustee on behalf of DTC. Individual purchases of beneficial interests in the Bonds will be made in increments of \$5,000 or integral multiples thereof.

DTC and its Participants. DTC, the world's largest securities 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 a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct and Indirect 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. The contents of such websites do not constitute a part of this Official Statement.

Purchases. 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 ("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 purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants 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.

Transfers. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any 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.

Notices. 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, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. 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).

NONE OF THE ISSUER, THE BORROWERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS 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. NEITHER THE ISSUER NOR THE BORROWERS CAN PROVIDE ANY ASSURANCE 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.

Payments. Payments 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 upon DTC's receipt of funds and corresponding detail information from the Trustee on the relevant payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry-Only System. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificated Bonds are required to be printed and delivered to the holders of record.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository) with respect to the Bonds. Under current industry practices, however, DTC would notify its Direct or Indirect Participants of the Issuer's decision but will only withdraw beneficial interests from a Bond at the request of any Direct or Indirect Participant. In that event, certificates for the Bonds will be printed and delivered.

No Assurance Regarding DTC Practices

The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer, the Borrowers, the Underwriters, and the Trustee take no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

None of the Issuer, the Trustee or the Underwriters will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to the Direct Participants, the Indirect Participants or the Beneficial Owners, (iii) the selection by DTC or by any Direct or Indirect Participant of any Beneficial Owner to receive payment in the event of a partial redemption of the Bonds or (iv) any other action taken by DTC or its partnership nominee as owner of the Bonds.

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. Subsequent to that date, other municipalities and counties have joined in the Interlocal Agreement, including Gadsden County, Florida, Jackson County, Florida and Leon County, Florida.

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 nineteenth series of bonds to be issued by the Issuer.

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

Chairman Isaac Salver, Councilman, Town of Bay Harbor Islands
Vice-Chair Lawrence I. Ady, Council Vice-Chair, City of Belle Isle
Frank C. Ortis, Mayor, City of Pembroke Pines
Carmine Priore, Vice-Mayor, Village of Wellington
Julio Robaina, Mayor, City of Hialeah
Heyward Strong, Jr., Mayor Pro Tem, City of Valparaiso

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 eighteen 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 \$26.0 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 four 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 F, G, H and I hereof.

City of Palatka - The City of Palatka is located in Putnam County in the northeast part of Florida, approximately fifty miles southwest of the City of Jacksonville, and fronts the St. Johns River. Its 2009 estimated population is 11,133.

Village of Palmetto Bay - The Village of Palmetto Bay is located in Miami-Dade County, Florida and was incorporated in 2002. The Village of Palmetto Bay was the 33rd incorporated municipality in Miami-Dade County, Florida, and encompasses a geographic area of approximately eight square miles, comprised primarily of residential properties, with its business district concentrated along the U.S. 1 corridor. It has an estimated population of approximately 25,000 people.

City of Valparaiso - The City of Valparaiso is located in Okaloosa County in the northwest part of Florida, and was incorporated in 1921. The City of Valparaiso has an estimated population of approximately 6,500 people.

City of West Melbourne - The City of West Melbourne is located in the southern portion of Brevard County, west of the City of Melbourne. The City has an area of approximately 8.2 square miles, of which approximately 50% is developed. The City's estimated population is approximately 10,000 people.

PURPOSE OF THE BONDS

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, (ii) fund a debt service reserve fund for each series of Bonds, and (iii) pay costs and expenses related to the issuance of the Bonds.

Under the terms of the Indenture, an amount sufficient to pay the costs of issuance of the Bonds will be deposited into separate Costs of Issuance Funds applicable to each series of Bonds and the balance of the proceeds of the Bonds will be deposited into accounts in the respective Project Loan Funds, 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.

City of Palatka – The City of Palatka is borrowing the proceeds of \$7,665,000 principal amount of the Series 2010A Bonds for the purposes of refinancing certain outstanding indebtedness of the City. The City of Palatka Loan is expected to be repaid over a period of 30 years. The City of Palatka, through its Loan Agreement with the Issuer, has pledged certain Pledged Revenues, including its Public Services Tax Revenues, Half-Cent Sales Tax Revenues and Communications Services Tax Revenues to pay amounts due under the Loan. See

"Appendix F – Financial Information Regarding the City of Palatka," for certain financial information with respect to the City of Palatka.

Village of Palmetto Bay - The Village of Palmetto Bay is borrowing the proceeds of \$14,780,000 principal amount of the Series 2010B Bonds for the purpose of refunding certain outstanding indebtedness of the Village totaling \$7,838,987.21 in aggregate principal amount and for the purpose of financing the costs of various capital expenditures, including the construction of a Village Hall. The Village of Palmetto Bay Loan is expected to be repaid over a period of 30 years. The Village of Palmetto Bay, through its Loan Agreement with the Issuer, covenanted to budget and appropriate an amount of Non-Ad Valorem Revenues sufficient to pay amounts due under the Village of Palmetto Bay Loan. See "Appendix G – Financial Information Regarding the Village of Palmetto Bay," for certain financial information with respect to the Village of Palmetto Bay.

City of Valparaiso – The City of Valparaiso is borrowing the proceeds of \$1,465,000 principal amount of the Series 2010C Bonds for the purposes of financing the costs of various capital expenditures, including improvements to its wastewater system. The City of Valparaiso Loan is expected to be repaid over a period of 30 years. The City of Valparaiso, through its Loan Agreement with the Issuer, covenanted to budget and appropriate an amount of Non-Ad Valorem Revenues sufficient to pay amounts due under its Loan. See "Appendix H – Financial Information Regarding the City of Valparaiso," for certain financial information with respect to the City of Valparaiso.

City of West Melbourne – The City of West Melbourne is borrowing the proceeds of \$3,820,000 principal amount of the Series 2010D Bonds for the purposes of financing the costs of various capital expenditures, including the construction of water line improvements in and for the City. The City of West Melbourne Loan is expected to be repaid over a period of 20 years. The City of West Melbourne, through its Loan Agreement with the Issuer, covenanted to budget and appropriate an amount of Non-Ad Valorem Revenues sufficient to pay amounts due under its Loan. See "Appendix I – Financial Information Regarding the City of West Melbourne," for certain financial information with respect to the City of West Melbourne.

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

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

ESTIMATED SOURCES AND USES

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

Series 2010A Bonds

SOURCES OF FUNDS:

Par Amount	\$7,665,000.00
Net Original Issue Discount.....	(16,253.25)
Other Sources of Funds.....	\$1,153,050.15
TOTAL SOURCES	<u>\$8,801,796.90</u>

USES OF FUNDS:

Project Loan Fund.....	\$2,834,757.77
Deposit to Escrow Fund.....	\$5,290,232.78
Deposit to Debt Service Reserve Fund	\$ 472,931.26
Costs of Issuance ⁽¹⁾	\$ 203,875.09
TOTAL USES:	<u>\$8,801,796.90</u>

⁽¹⁾ This includes legal fees, underwriters' discount bond insurance premium, costs of printing and other incidental expenses.

Series 2010B Bonds

SOURCES OF FUNDS:

Par Amount	\$14,780,000.00
Net Original Issue Discount.....	(59,239.45)
TOTAL SOURCES	<u>\$14,720,760.55</u>

USES OF FUNDS:

Deposit to Project Loan Fund	\$13,449,975.10
Deposit to Debt Service Reserve Fund	\$ 899,650.00
Costs of Issuance ⁽¹⁾	\$ 371,135.45
TOTAL USES:	<u>\$14,720,760.55</u>

⁽¹⁾ This includes legal fees, underwriters' discount, bond insurance premium, costs of printing and other incidental expenses.

Series 2010C Bonds

SOURCES OF FUNDS:

Par Amount	\$1,465,000.00
Net Original Issue Discount.....	(25,843.50)
TOTAL SOURCES	<u>\$1,439,156.50</u>

USES OF FUNDS:

Deposit to Project Loan Fund	\$1,301,975.72
Deposit to Debt Service Reserve Fund	\$ 91,025.00
Costs of Issuance ⁽¹⁾	\$ 46,155.78
TOTAL USES:.....	<u>\$1,439,156.50</u>

⁽¹⁾ This includes legal fees, underwriters' discount, bond insurance premium, costs of printing and other incidental expenses.

Series 2010D Bonds

SOURCES OF FUNDS:

Par Amount	\$3,820,000.00
Net Original Issue Discount.....	\$ (22,593.30)
TOTAL SOURCES	<u>\$3,797,406.70</u>

USES OF FUNDS:

Deposit to Project Loan Fund	\$3,425,464.06
Deposit to Debt Service Reserve Fund	\$ 281,475.00
Costs of Issuance ⁽¹⁾	\$ 90,467.64
TOTAL USES:.....	<u>\$3,797,406.70</u>

⁽¹⁾ This includes legal fees, underwriters' discount, bond insurance premium, 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 respective Loan Agreements, (ii) all amounts in certain funds and accounts created pursuant to the Indenture, and (iii) all Revenues, 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 applicable 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 debt service on the Series of Bonds which funded its Loan.** 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 as a whole.

The following Borrowers, the Village of Palmetto Bay, the City of Valparaiso and the City of West Melbourne, have entered into Covenant Loan Agreements (each a "Covenant Loan Agreement") under which each has agreed to appropriate in its annual budget, by amendment, if required, and to pay when due under its respective Loan Agreement, 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 City of Palatka, through its Loan Agreement, has granted a lien on and pledge of its Half-Cent Sales Tax Revenues, Public Service Tax Revenues and Communication Services Tax Revenues to secure repayment of its Loan. See " – City of Palatka Loan," below and "APPENDIX F – Financial Information Regarding City of Palatka" attached hereto.

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 respective Loan Agreements, including the Issuer's right to receive Loan Repayments, as the source of payment of and security for the respective Series of Bonds.

Reserve Fund

The Indenture establishes separate Reserve Funds for each Series of Bonds, which Reserve Funds are required to be and shall be funded at closing in an amount equal to the Reserve Requirement for each such Reserve Fund. "Reserve Requirement" is defined to be, with respect to each series of Bonds, the lesser of (i) the maximum Debt Service Requirement on the applicable series of Bonds, (ii) 125% of the Average Debt Service Requirement on the applicable Series of Bonds, or (iii) the maximum amount allowed under the Internal Revenue Code of 1986, as amended.

Moneys on deposit in each Reserve Fund shall be applied to cure any deficiency in the corresponding Revenue Fund applicable to a Series of Bonds. Thus, amounts on deposit in each Reserve Fund are available to cure a deficiency in the applicable Revenue Fund resulting from the failure of the corresponding Borrower to timely pay debt service on its Loan. Each respective Reserve Fund does not secure any other Series of Bonds other than the Bonds corresponding to its Loan.

Moneys on deposit in a Reserve Fund may be replaced with a Surety Bond upon the consent of the Bond Insurer and the direction by the applicable Borrower. See "APPENDIX C – Form of the Indenture."

Anti-Dilution Covenant

Each of the Borrowers which has entered into a Covenant 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 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," and except as may be established with respect to the City of Palatka under its resolutions governing debt secured by its Half-Cent Sales Tax Revenues, Public Services Tax Revenues and Communications Services Tax Revenues. See "—City of Palatka Loan – Additional Indebtedness," below.

The Covenants to Budget and Appropriate

In each Covenant Loan Agreement, each 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 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 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. The primary sources of Non-Ad Valorem Revenues generally consist of half-cent sales tax revenues distributed to the municipality from the State, state revenue sharing monies, utility and communication tax revenues, franchise fees, license and permit fees.

Under the terms of the Loan Agreements, each Borrower may pledge its Non-Ad Valorem Revenues to obligations that it issues in the future and certain 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 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 Borrower is, in certain circumstances, beyond the control of the Borrower.

Outstanding Borrower Indebtedness; Calculations of Anti-Dilution Test Compliance; Historical Pro Forma Debt Service Coverage

Set forth below for the Borrowers under Covenant Loan Agreements are brief descriptions of other covenant to budget-secured indebtedness, a calculation of each Borrower's compliance with the anti-dilution test described above as of September 30, 2009, and historical pro forma debt service coverage for fiscal years 2005-2009.

Village of Palmetto Bay. After issuance of the Series 2010B Bonds, the Village of Palmetto Bay will also have outstanding a loan relating to the Issuer's Series 2005D Bonds and a 2007 Note secured by a covenant to budget and appropriate Non-Ad Valorem Revenues. Set forth below is the combined debt service schedule:

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

Village of Palmetto Bay Combined Debt Service

<u>Fiscal Year</u>	<u>FMLC 2005D</u>	<u>2007 Note</u>	<u>FMLC 2010</u>	<u>Total</u>
2010	\$91,220.00	\$261,866.00	-	\$ 353,086.00
2011	90,290.00	261,866.00	\$888,520.00	1,240,676.00
2012	94,315.00	261,866.00	886,450.00	1,242,631.00
2013	93,133.75	261,866.00	885,650.00	1,240,649.75
2014	91,943.75	261,866.00	886,800.00	1,240,609.75
2015	90,718.75	261,866.00	884,937.50	1,237,522.25
2016	94,450.00	261,866.00	887,962.50	1,244,278.50
2017	92,850.00	261,866.00	885,162.50	1,239,878.50
2018	91,250.00	261,866.00	886,962.50	1,240,078.50
2019	94,650.00	261,866.00	886,612.50	1,243,128.50
2020	92,850.00		890,962.50	983,812.50
2021	91,050.00		891,162.50	982,212.50
2022	93,800.00		890,762.50	984,562.50
2023	91,300.00		886,762.50	978,062.50
2024	93,800.00		887,412.50	981,212.50
2025	91,050.00		892,006.26	983,056.26
2026	93,300.00		890,318.76	983,618.76
2027	95,600.00		890,193.76	985,793.76
2028	92,675.00		889,193.76	981,868.76
2029	94,750.00		892,318.76	987,068.76
2030	91,600.00		894,350.00	985,950.00
2031	93,450.00		890,287.50	983,737.50
2032	95,075.00		895,350.00	990,425.00
2033	91,475.00		894,100.00	985,575.00
2034	92,875.00		895,975.00	988,850.00
2035	94,050.00		896,500.00	990,550.00
2036			895,675.00	895,675.00
2037			898,500.00	898,500.00
2038			894,750.00	894,750.00
2039			899,650.00	899,650.00
2040			897,750.00	897,750.00
Total	\$2,413,521.25	\$2,618,660.00	\$26,733,038.80	\$31,765,220.05

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

Set forth below is the calculation of anti-dilution test compliance with respect to the Village of Palmetto Bay as of September 30, 2009 (but taking into account the issuance of the Series 2010B Bonds and the refunding of the indebtedness to be refunded thereby):

Village of Palmetto Bay Non-Ad Valorem Revenue Anti-Dilution Test

Revenues	FY 2008	FY 2009	Prior Two-Year Average
Total Governmental Funds	19,836,867	18,215,791	19,026,329
Less: Ad Valorem Revenues	(6,692,181)	(6,574,981)	(6,633,581)
Total Governmental Non-Ad Valorem Revenues	13,144,686	11,640,810	12,392,748
Less: Restricted Funds			
Grants Fund	(2,270,724)	(1,318,195)	(1,794,460)
Transportation Fund	(937,862)	(862,203)	(900,033)
Capital Projects Fund	(190,639)	(77,526)	(134,083)
Other Governmental Funds	(628,986)	(608,666)	(618,826)
Adjusted Non-Ad Valorem Revenues	9,116,475	8,774,220	8,945,348
 Expenditures			
Essential Expenditures			
Public Safety	5,548,280	5,970,437	5,759,359
General Government	2,851,584	3,159,573	3,005,579
Total Essential Expenditures	8,399,864	9,130,010	8,764,937
Less: Ad-Valorem Revenues Available to pay Essential Expenditures	(6,692,181)	(6,574,981)	(6,633,581)
Adjusted Essential Expenditures	1,707,683	2,555,029	2,131,356
 Net Non-Ad Valorem Revenues available for Debt Service	 7,408,792	 6,219,191	 6,813,992
 Ad Valorem Revenues Restricted for Debt Service	 -	 -	 -
Debt Proceeds	-	2,500,000	1,250,000
 Test 1 - Prior Two Year Avg of Non-Ad Valorem Revenues covers projected MADS by 150%			
Net Non-Ad Valorem Revenues available for Debt Service			6,813,992
Maximum Annual Non-Ad Valorem Debt Service			1,244,279
Coverage			547.6%
 Test 2 - Projected MADS does not exceed 20% of Governmental Fund Revenues, less ad valorem revenues restricted for debt service and debt proceeds			
Two -Year Average Net Total Governmental Funds			17,776,329
Maximum Annual Non-Ad Valorem Debt Service			1,244,279
Percentage			7.00%

Source: Village of Palmetto Bay Finance Department.

Set forth below is a table showing historical pro forma debt service coverage of the Village of Palmetto Bay's Loan relating to the Series 2005D Bonds, its 2007 Note and the Series 2010B Bonds:

**Village of Palmetto Bay Historical Non-Ad Valorem Revenues
FY 2005 through 2009**

Revenues	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Total Governmental Funds	14,932,427	20,820,456	19,147,536	19,836,867	18,215,791
Less: Ad Valorem Revenues	(4,883,257)	(5,455,327)	(6,073,012)	(6,692,181)	(6,574,981)
Total Governmental Non-Ad Valorem Revenues	10,049,170	15,365,129	13,074,524	13,144,686	11,640,810
Less: Restricted Funds					
Grants Fund	(872,435)	(5,992,999)	(2,156,368)	(2,270,724)	(1,318,195)
Transportation Fund	(888,805)	(963,085)	(956,827)	(937,862)	(862,203)
Capital Projects Fund	-	(143,942)	(1,016,368)	(190,639)	(77,526)
Other Governmental Funds	(15,500)	(6)	(456,979)	(628,986)	(608,666)
Adjusted Non-Ad Valorem Revenues	8,272,430	8,265,097	8,487,982	9,116,475	8,774,220
Expenditures					
Essential Expenditures					
Public Safety	5,066,538	5,840,026	5,764,160	5,548,280	5,970,437
General Government	3,371,441	3,620,538	2,368,550	2,851,584	3,159,573
Total Essential Expenditures	8,437,979	9,460,564	8,132,710	8,399,864	9,130,010
Less: Ad-Valorem Revenues Available to pay Essential Expenditures	(4,883,257)	(5,455,327)	(6,073,012)	(6,692,181)	(6,574,981)
Adjusted Essential Expenditures	3,554,722	4,005,237	2,059,698	1,707,683	2,555,029
Net Non-Ad Valorem Revenues available for Debt Service	4,717,708	4,259,860	6,428,284	7,408,792	6,219,191
Less: Maximum Annual Debt Service on Existing government fund debt including 2010 issue	(1,244,279)	(1,244,279)	(1,244,279)	(1,244,279)	(1,244,279)
Legally Available Non-Ad Valorem Revenues after MADS	3,473,430	3,015,582	5,184,006	6,164,514	4,974,913
Existing Coverage after 2010 Bonds	3.79	3.42	5.17	5.95	5.00

Source: Village of Palmetto Bay Finance Department, derived from audited financial statements.

City of Valparaiso. After issuance of the Series 2010C Bonds, the City of Valparaiso will also have outstanding loans relating to the Issuer's Series 2005A Bonds and Series 2006 Bonds secured by a covenant to budget and appropriate Non-Ad Valorem Revenues. Set forth below is the combined debt service schedule:

City of Valparaiso Combined Debt Service

<u>Fiscal Year</u>	<u>FMLC 2005A</u>	<u>FMLC 2006</u>	<u>FMLC 2010</u>	<u>Total</u>
2010	\$139,095.00	\$232,588	-	\$371,682.50
2011	140,845.00	228,388	\$88,608	457,840.00
2012	142,320.00	229,188	87,325	458,832.50
2013	135,570.00	229,788	86,725	455,082.50
2014	139,607.50	230,188	86,125	455,920.00
2015	140,776.25	230,388	85,525	456,688.75
2016	141,511.25	230,388	89,925	461,823.75
2017	141,870.00	233,888	89,138	464,895.00
2018	141,375.00	231,888	88,263	461,525.00
2019	140,000.00	229,638	87,388	457,025.00
2020	138,375.00	232,138	86,338	456,850.00
2021		234,138	85,288	319,425.00
2022		232,338	89,150	321,487.50
2023		230,119	87,750	317,868.75
2024		232,694	86,350	319,043.75
2025		234,856	89,550	324,406.25
2026		231,606	87,525	319,131.25
2027		233,150	85,500	318,650.00
2028		234,281	88,475	322,756.25
2029			86,225	86,225.00
2030			88,975	88,975.00
2031			86,500	86,500.00
2032			89,025	89,025.00
2033			86,325	86,325.00
2034			88,625	88,625.00
2035			90,700	90,700.00
2036			87,550	87,550.00
2037			89,400	89,400.00
2038			91,025	91,025.00
2039			87,425	87,425.00
2040			88,825	88,825.00
Total	\$1,544,345.00	\$4,401,643.75	\$2,635,545.00	\$,8581,533.75

(REMAINDER OF PAGE LEFT INTENTIONALLY BLANK)

Set forth below is the calculation of anti-dilution test compliance with respect to the City of Valparaiso as of September 30, 2009 (but taking into account the issuance of the Series 2010C Bonds):

City of Valparaiso Non-Ad Valorem Revenue Anti-Dilution Test

Revenues	FY 2008	FY 2009	Prior Two-Year Average
Total Governmental Funds	3,471,658	3,170,582	3,321,120
Less: Ad Valorem Revenues	(681,302)	(790,603)	(735,953)
Total Governmental Non-Ad Valorem Revenues	2,790,356	2,379,979	2,585,168
Less: Restricted Funds			
Streets Fund	(280,606)	(286,081)	(283,344)
Adjusted Non-Ad Valorem Revenues	2,509,750	2,093,898	2,301,824
 Expenditures			
Essential Expenditures			
Public Safety	1,135,974	1,127,703	1,131,839
General Government	648,554	931,035	789,795
Total Essential Expenditures	1,784,528	2,058,738	1,921,633
Less: Ad-Valorem Revenues Available to pay Essential Expenditures	(681,302)	(790,603)	(735,953)
Adjusted Essential Expenditures	1,103,226	1,268,135	1,185,681
 Net Non-Ad Valorem Revenues available for Debt Service	 1,406,524	 825,763	 1,116,144
Ad Valorem Revenues Restricted for Debt Service	-	-	-
Debt Proceeds	-	-	-
 Test 1 - Prior Two Year Avg of Non-Ad Valorem Revenues covers projected MADS by 150%			
Net Non-Ad Valorem Revenues available for Debt Service			1,116,144
Maximum Annual Non-Ad Valorem Debt Service			464,895
Coverage			240.1%
 Test 2 - Projected MADS does not exceed 20% of Governmental Fund Revenues, less ad valorem revenues restricted for debt service and debt proceeds			
Two -Year Average Net Total Governmental Funds			3,321,120
Maximum Annual Non-Ad Valorem Debt Service			464,895
Percentage			14.00%

Source: City of Valparaiso Finance Department

Set forth below is a table showing historical pro forma debt service coverage of the City of Valparaiso's loans relating to the Series 2005A Bonds, Series 2006 Bonds and Series 2010C Bonds:

**City of Valparaiso Historical Non-Ad Valorem Revenues
FY 2005 through FY 2009**

Revenues	FY 2005	FY 2006	FY 2007	FY 2008	FY2009
Total Governmental Funds	3,129,682	3,172,614	3,480,214	3,471,658	3,170,582
Less: Ad Valorem Revenues	(570,290)	(666,182)	(649,250)	(681,302)	(790,603)
Total Governmental Non-Ad Valorem Revenues	2,559,392	2,506,432	2,830,964	2,790,356	2,379,979
Less: Restricted Funds					
Streets Fund	(294,013)	(372,213)	(323,270)	(280,606)	(286,081)
Adjusted Non-Ad Valorem Revenues	2,265,379	2,134,219	2,507,694	2,509,750	2,093,898
Expenditures					
Essential Expenditures					
Public Safety	1,040,914	1,046,016	1,189,171	1,135,974	1,127,703
General Government	629,224	852,004	755,925	648,554	931,035
Total Essential Expenditures	1,733,138	1,898,020	1,945,096	1,784,528	2,058,738
Less: Ad-Valorem Revenues Available to					
	(570,290)	(666,182)	(649,250)	(681,302)	(790,603)
Adjusted Essential Expenditures	1,162,848	1,231,838	1,295,846	1,103,226	1,268,135
Net Non-Ad Valorem Revenues available for Debt Service	1,102,531	902,381	1,211,848	1,406,524	825,763
Less: Maximum Annual Debt Service on Existing Government Fund Debt including 2010 issue	(464,895)	(464,895)	(464,895)	(464,895)	(464,895)
Legally Available Non-Ad Valorem Revenues after MADS	637,636	437,486	746,953	941,629	360,868
Existing Coverage after 2010 Bonds	2.37	1.94	2.61	3.03	1.78

Source: City of Valparaiso Finance Department, derived from audited financial statements for fiscal years 2005 through 2009.

(REMAINDER OF PAGE INTENTIONALLY BLANK)

City of West Melbourne. At the time of issuance of the Series 2010D Bonds, the City will have a Series 2000 Note secured by a covenant to budget and appropriate Non-Ad Valorem Revenues in addition to the Loan relating to the Series 2010D Bonds. Set forth below is the schedule of debt service on the combined West Melbourne obligations secured by a covenant to budget and appropriate Non-Ad Valorem Revenues.

City of West Melbourne Combined Debt Service

<u>Fiscal Year</u>	<u>2000 Note</u>	<u>FMLC 2010</u>	<u>Total</u>
2010	\$120,000		\$120,000.00
2011	125,000	\$274,711.88	399,711.88
2012		273,956.26	273,956.26
2013		276,056.26	276,056.26
2014		278,056.26	278,056.26
2015		274,956.26	274,956.26
2016		276,856.26	276,856.26
2017		278,256.26	278,256.26
2018		279,131.26	279,131.26
2019		277,331.26	277,331.26
2020		275,331.26	275,331.26
2021		274,931.26	274,931.26
2022		278,918.76	278,918.76
2023		277,337.50	277,337.50
2024		280,337.50	280,337.50
2025		276,412.50	276,412.50
2026		277,275.00	277,275.00
2027		277,712.50	277,712.50
2028		277,725.00	277,725.00
2029		277,312.50	277,312.50
2030		281,475.00	281,475.00
Total	\$245,000	\$5,544,080.74	\$5,789,080.74

(REMAINDER OF PAGE INTENTIONALLY BLANK)

Set forth below is the calculation of anti-dilution test compliance with respect to the City of West Melbourne as of September 30, 2009 (but taking into account the issuance of the Series 2010D Bonds):

City of West Melbourne Non-Ad Valorem Revenue Anti-Dilution Test

Revenues	FY 2008	FY 2009	Prior Two-Year Average
Total Governmental Funds	11,012,395	9,587,088	10,299,742
Less: Ad Valorem Revenues	(2,032,998)	(1,964,629)	(1,998,814)
Total Governmental Non-Ad Valorem Revenues	8,979,397	7,622,459	8,300,928
Less: Restricted Funds			
Capital Projects Funds	(1,391,136)	(14,725)	(702,931)
Nonmajor Funds	(408,755)	(481,286)	(445,021)
Adjusted Non-Ad Valorem Revenues	7,179,506	7,126,448	7,152,977
 Expenditures			
Essential Expenditures			
Public Safety	5,078,154	5,252,830	5,165,492
General Government	2,243,762	1,724,020	1,983,891
Total Essential Expenditures	7,321,916	6,976,850	7,149,383
Less: Ad-Valorem Revenues Available to Pay Essential Expenditures	(2,032,998)	(1,964,629)	(1,998,814)
Adjusted Essential Expenditures	5,288,918	5,012,221	5,150,570
Net Non-Ad Valorem Revenues available for Debt Service	1,890,588	2,114,227	2,002,408
Ad Valorem Revenues Restricted for Debt Service	-	-	-
Debt Proceeds	-	-	-
 Test 1 - Prior Two Year Avg of Non-Ad Valorem Revenues covers projected MADS by 150%			
Net Non-Ad Valorem Revenues available for Debt Service			
Maximum Annual Non-Ad Valorem Debt Service			2,000,408
Coverage			501.0%
 Test 2 - Projected MADS does not exceed 20% of Governmental Fund Revenues, less ad valorem revenues restricted for debt service and debt proceeds			
Two -Year Average Net Total Governmental Funds			10,299,742
Maximum Annual Non-Ad Valorem Debt Service			399,712
Percentage			3.88%

Source: City of West Melbourne Finance Department

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

Set forth below is a table showing historical pro forma debt service coverage of the City of West Melbourne's Loan relating to its Series 2000 Note and the Series 2010 Bonds.

**City of West Melbourne Historical Non-Ad Valorem Revenues
FY 2005 through FY 2009**

Revenues	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Total Governmental Funds	7,185,431	10,663,264	10,740,854	11,012,395	9,587,088
Less: Ad Valorem Revenues	-	(1,813,927)	(1,937,188)	(2,032,998)	(1,964,629)
Total Governmental Non-Ad Valorem Revenues	7,185,431	8,849,337	8,803,666	8,879,397	7,622,459
Less: Restricted Funds					
Capital Projects Fund	-	-	(1,022,967)	(1,391,136)	(14,725)
Nonmajor Funds	(469,010)	(1,607,890)	(604,246)	(408,755)	(481,286)
Adjusted Non-Ad Valorem Revenues	6,716,421	7,241,447	7,176,453	7,179,506	7,126,448
Expenditures					
Essential Expenditures					
Public Safety	3,441,712	3,804,255	4,222,909	5,078,154	5,252,830
General Government	1,149,513	1,310,925	1,635,788	2,243,762	1,724,020
Total Essential Expenditures	4,591,225	5,115,180	5,858,697	7,321,916	6,976,850
Less: Ad-Valorem Revenues Available to pay Essential Expenditures		(1,813,927)	(1,937,188)	(2,032,998)	(1,964,629)
Adjusted Essential Expenditures	4,591,225	3,301,253	3,921,509	5,288,918	5,012,221
Net Non-Ad Valorem Revenues available for Debt Service	2,125,196	3,940,194	3,254,944	1,890,588	2,114,227
Less: Maximum Annual Debt Service on Existing Government Fund Debt including 2010 Issue	(399,712)	(399,712)	(399,712)	(399,712)	(399,712)
Legally Available Non-Ad Valorem Revenues after MADS	1,725,484	3,540,482	2,855,232	1,490,876	1,714,515
Existing Coverage after 2010 Bonds	5.32	9.86	8.14	4.73	5.29

Source: City of West Melbourne Finance Department, derived from audited financial statements

City of Palatka Loan

The Loan Repayment obligations of the City of Palatka are payable from and are secured by a pledge of and lien upon the Half Cent Sales Tax Revenues, Communication Services Tax Revenues and Public 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 Palatka Loan Agreement is substantially similar to the standard Covenant Loan Agreement.

"Communication Services Tax Revenues" means all proceeds from the local communications service tax levied pursuant to Section 202.19, Florida Statutes, and Ordinance Nos. 01-14 and 01-15 enacted by the City of Palatka on July 11, 2001 and received by the City from the Local Communications Services Tax Clearing Fund.

"Public Services Tax Revenues" means the proceeds of all of the public service tax levied by the City of Palatka pursuant to Section 166.231, Florida Statutes, and Ordinance No. 91-12 of the City enacted August 29, 1991, as amended and supplemented, in particular by Ordinance No. 92-119, enacted by the City on October 8, 1992.

"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.

Public Services Tax in General. The Public Services Taxes pledged as security for the City of Palatka Loan are levied and collected by the City pursuant to Section 166.231, Florida Statutes, and Sections 78-31 and 86-317, Code of Ordinances of the City. The taxes are levied on every purchase of electricity and cooking and heating gas within the corporate limits of the City in the amount of 10% of the first \$1,000, or fraction thereof, of the charge made by the seller of such utility services from the purchaser thereof for the purchase of such utility services, and a tax equal to 4% of all such charges over \$1,000. In addition, the taxes are levied on every water purchase within the City in an amount equal to 10% of the total water bill. The aforementioned tax on electricity and gas applies to the monthly utility bill, but does not apply to any fuel adjustment charge (as defined in Section 166.231, Florida Statutes). The taxes are paid by the purchaser using the utility service as required by such Code, and the seller is required to remit such amount charged to the City each month. Failure by the seller to charge the tax is unlawful and the seller is required to pay the amount of the tax to the City notwithstanding the failure of the seller to collect the tax from the purchaser of the seller's utility service. Purchases by the United States Government, the State of Florida and all counties, school districts and municipalities of the state, and by public bodies exempted by law or court order, are exempt from the imposition of the Public Service Tax.

Communication Services Tax Revenues. The Communications Services Tax Simplification Act, enacted by Chapter 2000-260, Laws of Florida, as amended by Chapter 2001-140, Laws of Florida, and now codified in part as Chapter 202, Florida Statutes (the "CSTA") established, effective October 1, 2001, a communications services tax on the sale of communications services as defined in Section 202.11, Florida Statutes, and as of the same date repealed Section 166.231(9), Florida Statutes, which previously granted municipalities the authority to levy a utility services tax on the purchase of telecommunications services. Section 202.19, Florida Statutes, authorizes counties and municipalities to levy a discretionary communications services tax (i.e., the "Communications Services Tax") on communications services. The revenues that are received by the City from such Communications Services Tax which derive from the Local Communications Services Tax Clearing Trust Fund (the "Trust Fund") created with the Florida Department of Revenue ("FDOR") pursuant to Section 202.193, Florida Statutes (i.e., the Communications Services Tax Revenues) may be pledged for the repayment of current or future bonded indebtedness. Pursuant to Section 202.20, Florida Statutes, the Communications Services Tax was automatically levied at statutory rates on October 1, 2001 without any action necessary by the City, at a rate of 5.50%, and automatically

decreased to 5.10% on October 1, 2002. On July 11, 2001, the City Commission adopted Ordinance No. 01-14 and Ordinance No. 01-15 which made an election, effective October 1, 2001, (i) to not require and collect right of way permit fees from any provider of communications services that uses or occupies municipal roads or rights-of-way for the provision of communications services, and (ii) to increase its total rate for the Communications Services Tax as computed under Section 202.20(1) and (2), Florida Statutes, by an amount of 0.12%.

The telecommunications tax applies to the purchase of "telecommunications services" which originated or terminated within the City of Palatka, with certain exemptions described below. "Telecommunications services" is defined to be local telephone service, toll telephone service, telegram or telegraph service, teletypewriter service, private communication service, cellular mobile telephone or telecommunication service or specialized mobile radio, pagers and paging service, but excludes Internet access service, cable service, electronic mail service, electronic bulletin board service, or similar on-line computer service.

One effect of the CSTA was to replace the former telecommunications tax, including pre-paid calling arrangements, as well as any revenues from franchise fees on cable and telecommunications service providers and permit fees relating to placing or maintaining facilities in rights-of-way collected from providers of certain telecommunications services, with the local communications services tax. This change in law was intended to be revenue neutral to the counties and municipalities. The Communications Services Tax applies to a broader base of communications services than the former telecommunications tax.

"Communication services" under the CSTA are defined as the transmission, conveyance, or routing of voice, data, audio, video, or any other information or signals, including cable services, to a point, or between or among 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. The term does not include:

- (a) Information services.
- (b) Installation or maintenance of wiring or equipment on a customer's premises.
- (c) The sale or rental of tangible personal property.
- (d) The sale of advertising, including, but not limited to, directory advertising.
- (e) Bad check charges.
- (f) Late payment charges.
- (g) Billing and collection services.
- (h) Internet access service, electronic mail service, electronic bulletin board service, or similar on-line services.

However, such services have historically been taxed if the charges for such services are not stated separately from the charges for communications services, on a customer's bill.

The sale of communications services to (i) the federal government, or any instrumentality or agency thereof, or any entity that is exempt from state taxes under federal law, (ii) the state or any county, municipality or political subdivision of the state when payment is made directly to the dealer by the governmental entity, and (iii) any educational institution (which includes state

tax-supported and nonprofit private schools, colleges and universities and nonprofit libraries, art galleries and museums, among others) or religious institutions (which includes, but is not limited to, organizations having an established physical place for worship at which nonprofit religious services and activities are regularly conducted) that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), are exempt from the Communications Services Tax.

The CSTA provides that, to the extent that a provider of communications services is required to pay to a local taxing jurisdiction a tax, charge, or other fee under any franchise agreement or ordinance with respect to the services or revenues that are also subject to the Communications Services Tax, such provider is entitled to a credit against the amount of such Communications Services Tax payable to the State in the amount of such tax, charge, or fee with respect to such service or revenues. The amount of such credit is deducted from the amount that such local taxing jurisdiction is entitled to receive under Section 202(18)(3), Florida Statutes.

Providers of communications services collect the Communications Services Tax and may deduct 0.75% 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). The communications services providers remit the remaining proceeds to the FDOR for deposit into the Trust Fund. The FDOR then makes monthly contributions from the Trust Fund to local governments after deducting up to 1% of the total revenues generated as an administrative fee.

The federal Internet Tax Freedom Act ("ITFA") imposes a moratorium on taxation of Internet access by states and political subdivisions. As amended by the Internet Tax Nondiscrimination Act ("ITNA"), the ITFA may have a material adverse effect upon future collections of the Communications Services Tax Revenues. Signed by President George W. Bush on December 3, 2004, the ITNA extended the ITFA until November 1, 2007. Federal legislation was introduced, and signed by President George W. Bush on October 31, 2007, to extend the moratorium, which was set to expire on November 1, 2007, on certain state and local government taxation on Internet access to November 1, 2014. This legislation prohibits a state from reimposing a tax on Internet access which the state repealed more than twenty-four (24) months prior to its this legislation's enactment. Additionally, a specific exemption was created for certain state business taxes enacted between June 20, 2005 and before November 1, 2007 which do not discriminate against providers of communication services, Internet access or telecommunications. Effective, November 1, 2003, "Internet access" was amended to include telecommunications services purchased, used or sold by a provider of Internet access to provide Internet access. "Internet access" now also includes related communication services, such as email and instant messaging. The definition of "Internet access" was revised, in part, to eliminate existing language which could be read to allow providers of communication services to exclude from taxation charges for Internet access services which are bundled for a single price with taxable communication services. "Telecommunications," as amended, includes unregulated non-utility telecommunications, such as cable services. Application of the amended definition of "Internet access" was delayed until June 30, 2008 for state or local tax on Internet access that was: (1) generally imposed and actually enforced on telecommunication services, or (2) the subject of litigation instituted in a state court prior to July 1, 2007. Prior to December 3, 2004, under the CSTA, according to FDOR, when charges for Internet access services are not

separately stated on a customer's bill, the entire charge is taxed, regardless of whether the charge includes Internet access or telecommunications services used to provide Internet access. The negative impact on future collections of Communications Services Tax Revenues because of the ITNA cannot be determined at this time; however, the City believes that it will not affect its ability to pay principal and interest on the Bonds.

The amount of Communications Services Tax Revenues received by the City is subject to increase or decrease due to (i) increases or decreases in the dollar volume of taxable sales within the County, (ii) legislative changes, and/or (iii) technological advances which could affect consumer preferences, such as Voice over Internet Protocol ("VoIP"). VoIP is a less expensive technology that allows telephone calls to be made in digital form using a broadband Internet connection, rather than an analog phone line, and has the potential to supplant traditional telephone service. It is possible that VoIP could either reduce the dollar volume of taxable sales within the County or will be a non-taxable service altogether.

Regarding any potential legislative changes, the City would vigorously assert that the contract clauses of the Florida and United States Constitutions would prevent the State from adopting legislation to amend the CSTA in a manner that would impair the contractual obligations of the City to the Issuer pursuant to the Palatka Loan Agreement.

The City of Palatka was informed by the State of Florida Department of Revenue ("DOR") that an overpayment of communications services tax payments was made to the City between fiscal years 2006 and 2009 in the total amount of \$1,739,518.87. DOR has indicated its intent to recoup this amount over a 72-month period beginning March 1, 2011. Accordingly, the City's communications services tax revenues will be decreased by \$24,159.98 per month from March 1, 2011 through February 1, 2017.

Historical Public Services Tax and Communication Services Tax Collection Data. The following table sets forth the amount of Public Services Tax Revenues of the City for the fiscal years ended September 30, 2005 through 2009.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

Public Services Tax Revenues and Communications Services Tax Revenues
Fiscal Years Ended September 30

<u>Revenue</u>	<u>Fiscal Year</u> <u>FY 2005</u>	<u>Fiscal Year</u> <u>FY 2006</u>	<u>Fiscal Year</u> <u>FY 2007</u>	<u>Fiscal Year</u> <u>FY 2008</u>	<u>Fiscal Year</u> <u>FY 2009</u>
Utility Tax (Electric)	\$ 583,829.00	\$ 633,747.00	\$ 605,456.00	\$ 605,447.00	\$ 593,586.00
Utility Tax (Gas)	131,710.00	151,563.00	118,262.00	122,746.00	112,555.00
Utility Tax (Propane)	2,914.00	3,821.00	3,949.00	4,858.00	4,072.00
Total Public Services Tax	718,453.00	789,131.00	727,667.00	733,051.00	710,213.00
Communications Services Tax	500,300.00	24,999.00	911,297.00	1,275,987.00	817,942.00
Total Public Services Tax and Unadjusted Communications Services Tax Revenue	1,218,753.00	1,414,130.00	1,638,964.00	2,009,038.00	1,528,155.00
Adjusted Communications Services Tax to 2005 Level ⁽¹⁾	500,300.00	500,300.00	500,300.00	500,300.00	500,300.00
Less: Communications Services Tax Repayment ⁽¹⁾	289,919.81	289,919.81	289,919.81	289,919.81	289,919.81
Net Adjusted Communications Services Tax Revenue ⁽¹⁾	210,380.19	210,380.19	210,380.19	210,380.19	210,380.19
Total Public Services Tax Plus Net Adjusted Communications Services Tax	\$ 928,833.19	\$ 999,511.19	\$ 938,047.19	\$ 943,431.19	\$ 920,593.19

⁽¹⁾ As described above, the City of Palatka was informed by the State Department of Revenue of an overpayment of communications services tax revenues to the City for fiscal years 2006-2009; accordingly, the Communications Services Tax Revenue levels set forth above have been adjusted to reflect a 2005 level of received communication services taxes. For fiscal years 2011 through 2016, up to \$289,920 annually will be withheld by the State of what would otherwise be due the City.

Factors Affecting Public Services Taxes and Communication Services Taxes. The amount of Public Services Taxes collected by the City may fluctuate as the price of motor fuel, gas and electricity fluctuates, and the Communications Services Taxes may likewise fluctuate as the use of data transmission, electronic cable and other such services fluctuate, or as other media replace them. Historically, the City has experienced decreases in collections of taxes associated with the sale of motor fuel, gas and electricity as costs of such items increase. A sustained increase in the costs of motor fuel, gas or electricity may have a materially adverse effect on the amount of Public Services Taxes collected.

The amount of Public Services Taxes and Communication Services Taxes collected by the City may also be affected by changes in the electric utility industry or telecommunications industry. The electric utility industry in general has been, or in the future may be, affected by a number of factors which could have a materially adverse impact upon the financial condition of an electric utility. Such factors include, among others: (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (ii) changes from projected future load requirements, (iii) increases in costs and uncertain availability of capital, (iv) shifts in the availability and relative costs of different fuels, (v) effects of compliance with rapidly changing environmental, safety, licensing and regulatory requirements, (vi) changes resulting from conservation and demand side management programs on the timing and use of electric energy, (vii) changes that might result from a national energy policy and (viii) effects of open retail competition from other suppliers of electricity through de-regulation. Any of these factors could have a material adverse effect on the financial condition of any electric utility and likely would affect individual utilities in different ways. In turn these factors could reduce the amount of Public Services Taxes collected based upon a reduction in the use of electric energy and/or a reduction in electric energy charges.

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 Palatka is subject to increase or decrease due to (i) increases or decreases in the dollar volume of taxable sales within Putnam 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 Putnam County, Florida and the municipalities therein, including the City of Palatka, which effect the percentage of Half-Cent Sales Tax Revenues distributed to the City of Palatka, and (iv) other factors, some or all of which may be beyond the control of the City of Palatka.

Eligibility. To be eligible to participate in the Half-Cent Sales Tax Program, each municipality, including the City of Palatka, 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 Palatka has complied with all of the requirements for eligibility set forth in the Sales Tax Act for the current fiscal year. The City of Palatka covenants in the Palatka 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 Palatka Loan remains outstanding.

Although the Sales Tax Act does not impose any limitation on the number of years during which the City of Palatka 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 Palatka must comply with the financial reporting and other requirements of the Sales Tax Act. Otherwise, the City of Palatka would lose its Trust Fund distributions for twelve (12) months following a "determination of noncompliance" by the State Department of Revenue.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

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:

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

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

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

**State of Florida and Putnam County
Total Historical Sales Tax Collections
State Fiscal Years 2005 through 2009**

State Fiscal Year Ended <u>June 30</u>	Total Collections <u>State of Florida</u>	Percentage Increase (or decrease)	Total Collections <u>Putnam County⁽¹⁾</u>	Percentage Increase (or decrease)
2005	19,844,486,337	N/A	36,830,868	N/A
2006	21,795,739,695	9.8%	39,065,550	6.06%
2007	21,748,908,130	(0.2%)	38,648,078	(1.06%)
2008	20,569,094,342	(5.4%)	36,090,660	(6.62%)
2009	18,446,085,352	(10.3%)	31,612,964	(12.41%)

⁽¹⁾ Represents 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 Putnam County, Florida and the municipalities therein for the State fiscal years ended June 30, 2005 through 2009.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

**State Distributions of Half-Cent Sales Tax Revenues to Putnam 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>
2005	3,246,901	N/A
2006	3,610,337	11.20%
2007	3,616,350	.05%
2008	3,888,760	7.50%
2009	2,401,139	(38.25%)

Source: Florida Department of Revenue

The percentage of the total Half-Cent Sales Tax Revenues distributed to Putnam County, Florida and the municipalities therein in a particular fiscal year that is distributed to the City of Palatka is referred to as the "Distribution Factor" for the City of Palatka. The table below sets forth the Distribution Factors for the City of Palatka for the State's fiscal years ended June 30, 2005 through 2009.

Sales Tax Distribution Factors

<u>State Fiscal Year Ended June 30</u>	<u>Palatka Distribution Factor</u>	<u>Percentage Increase (Decrease)</u>
2005	12.8695%	N/A
2006	13.0291	.01
2007	13.3452	.02
2008	13.4905	.01
2009	13.4777	(.05)

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 Palatka for the City's fiscal years ended September 30, 2005 through 2009.

<u>Fiscal Year Ended</u>	<u>Half-Cent Sales Tax Revenue Collections</u>	<u>Percentage Increase (Decrease)</u>
2005	\$435,980	N/A
2006	472,081	8.3
2007	473,904	0.4
2008	446,156	(5.9)
2009	389,605	(12.7)

Pro-forma Debt Service Coverage. The following table sets forth the pro-forma debt service coverage for the Palatka Loan for the fiscal years ended September 30, 2005 through 2009.

Historical Coverage of Maximum Annual Debt Service
Fiscal Years Ended September 30

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Palatka Pledged Revenues ⁽¹⁾	\$1,364,813	\$1,471,592	\$1,411,951	\$1,389,587	\$1,310,198
Debt Service ⁽²⁾	472,931	472,931	472,931	472,931	472,931
Debt Service Coverage	2.886x	3.112x	2.986x	2.938x	2.770x

⁽¹⁾ As described above, the City of Palatka was informed by the State Department of Revenue of an overpayment of Communication Services Tax revenues to the City for fiscal years 2006-2009; accordingly, the Communication Services Taxes levels included in the Pledge Revenues set forth above have been adjusted to reflect a 2005 level of received Communication Services Taxes. No attempt has been made in the foregoing table to take into account the repayment of the overage to the State, although, as set forth above, such will result in the City not receiving as much as \$289,920 a year in Communication Services Taxes until the overage is repaid in full.

⁽²⁾ Due to the higher debt service associated with the debt to be refunded by the Palatka Loan, historical debt service coverage of the then-existing debt was lower: 2.042x, 2.175x, 2.104x, 2.073x and 1.970x in fiscal years 2005-2009, respectively.

Under the Palatka Loan Agreement, the City of Palatka covenants to take all lawful steps necessary in order to impose on a continuing basis the Public Services Tax and Communication 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.

Additional Indebtedness. Under the terms of the Palatka Loan Agreement, the City of Palatka 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 Palatka Loan Agreement provided that, among other things, the amount of Pledged Revenues received by the City for any twelve consecutive months within the eighteen months immediately preceding the date of the additional debt equals at least 135% of the maximum annual debt service on the Series 2010A Bonds and the proposed parity debt. The Palatka Loan Agreement does not contain any limitation upon the issuance of indebtedness of the City of Palatka that is not payable from or secured by the Pledged Revenues; the anti-dilution covenant described elsewhere herein is not contained in the Palatka Loan Agreement.

Property Tax Reforms

Although ad valorem tax revenues are by definition excluded from the Non-Ad Valorem Revenues each of the Borrowers under a Covenant Loan Agreement has covenanted to use to pay amounts due under its respective Loan, the amount of ad valorem taxes levied by a Borrower is of interest in examining the overall financial picture of the Borrower and the other funds

available to fund essential services of the Borrower. To that end, the past several years have been volatile with respect to Florida property assessments and levies, with various tax reform measures proposed and implemented, followed by a significant slump in ad valorem tax revenues.

During a special legislative session that ended on June 14, 2007, the Florida Legislature adopted Chapter 2007-321, Laws of Florida, affecting the amount and rate of ad valorem taxes levied by local governments. Among other things, Chapter 2007-321 statutorily required each county, municipality, and special district to roll back their millage rates for Fiscal Year 2007-2008 to a level that with certain adjustments and exceptions, would generate the same level of ad valorem tax revenue as in Fiscal Year 2006-2007. Depending upon the relative growth of each local government's own ad valorem tax revenues from 2001 to 2006, such rolled back millage rates were determined after first reducing Fiscal Year 2006-2007 ad valorem tax revenues by zero to nine percent. Chapter 2007-321 also limits the growth of ad valorem tax levies in future years (except those levied by school districts) based upon the growth in a jurisdiction's population, as measured by new construction, and the statewide growth in per capita personal income. Notwithstanding the foregoing, the governing body of a county, municipality, or special district may levy a millage rate in excess of the then applicable rolled back millage rate upon a two-thirds or unanimous vote of such governing body (or three-fourths vote for jurisdictions that have a governing body comprised of nine or more members) depending on the level of the proposed increase. The rolled back millage rate may also be exceeded based on an affirmative vote of the voters in such jurisdiction.

Furthermore, Chapter 2007-321 provides that in the event a county or municipality fails to comply with certain requirements of the legislation, such county or municipality will forfeit its distribution of the half-cent sales tax state revenue sharing for the 12-months following the determination of non-compliance.

On October 29, 2007, the Florida Legislature adopted a tax reform package that included Senate Joint Resolution 2D, Senate Bill 4D (an implementing bill) and Senate Bill 6D (a special election bill). Joint Resolution 2D set forth several constitutional amendments requiring approval by Florida voters. On January 29, 2008, the constitutional amendments proposed by Joint Resolution 2D were approved, with the affirmative vote of 64% of the voters. Such approval enacted the following ad valorem tax reforms: (1) an additional homestead exemption of \$25,000 applied to assessed property value above \$50,000; (2) a cap of 10 percent on yearly assessment increases on non-homestead residential and commercial property; (3) portability of the three percent cap on homestead residential property, up to \$500,000, when relocating to a new home in the state; and (4) a \$25,000 exemption from the tangible personal property tax (the "Personal Property Tax Exemption"). The 10 percent cap on assessments went into effect on January 1, 2009. All other reforms took effect retroactive to January 1, 2008.

In addition to the legislative activity described above, the constitutionally mandated Florida Taxation and Budget Reform Commission (required to be convened every 20 years) (the "Commission") completed its meetings on April 25, 2008 and placed several constitutional amendments on the November 4, 2008 general election ballot. Three of such amendments were approved by the voters of Florida, which, among other things, do the following: (a) allow the

Florida Legislature, by general law, to exempt from assessed value of residential homes, improvements made to protect property from wind damage and installation of a new renewable energy source device; (b) assess specified working waterfront properties based on current use rather than highest and best use; (c) beginning in 2010, provide property tax exemption for real property that is perpetually used for conservation; and, for land not perpetually encumbered, require the Florida Legislature to provide classification and assessment of land use for conservation purposes solely on the basis of character or use.

In May 2009 the Florida Legislature passed SB 532, which proposes a statewide referendum placed on the November 2010 general election ballot for two measures: (i) an additional homestead exemption for first-time homebuyers; and (ii) a 5% assessment limitation on all commercial and non-homestead, residential property. The additional homestead exemption for first-time homebuyers, which would apply to anyone who has not owned a principal residence in Florida during the previous eight years, provides an exemption of 25% of the just value of the property up to \$100,000. The exemption is then reduced each year thereafter by 20% of the difference between the capped value and the just value, whichever is greater, until the assessment on the just value is attained. The first-time homebuyers' exemption, if approved by voters, would be available for properties purchased on or after January 1, 2010 and would take effect on January 1, 2011. The Florida Constitution currently provides a 10% limitation over the prior year's assessment value on all commercial and non-homestead, residential property. Therefore, if approved by voters, the referendum proposed by SB 532 would not allow commercial and non-homestead, residential property to be assessed at a value greater than 105% of the prior year's assessed value. The commercial and non-homestead, residential property assessment cap would take effect January 1, 2011.

The Florida Legislature also adopted HB 833 in May 2009, which provides an additional homestead exemption for deployed military personnel. The exemption would equal the percentage of days during the prior calendar year that the military homeowner was deployed outside of the United States in support of military operations designated by the legislature. This measure also requires approval of Florida voters at the November 2010 general election. If this measure is approved by the voters, it would take effect January 1, 2011.

At the present time, it is impossible to predict the likelihood of SB 532 or HB 833's proposed referenda being approved by Florida voters or, if approved, the impact these measures would have on municipalities that have indebtedness secured by a covenant to budget and appropriate Non-Ad Valorem Revenues.

During recent years, various other legislative proposals and constitutional amendments relating to ad valorem taxation and restrictions on local government revenues and expenditures have been introduced in the State. Many of these proposals sought to limit local government revenues and expenditures, provide for new or increased exemptions to ad valorem taxation, limit the amount of revenues that local governments could generate from ad valorem taxation or otherwise restrict the ability of local governments in the State to levy ad valorem taxes at recent historical levels. There can be no assurance that similar or additional legislative or other proposals will not be introduced or enacted in the future that would or might apply to, or have a

material adverse effect upon, municipalities that have issued indebtedness secured by a covenant to budget and appropriate Non-Ad Valorem Revenues.

Financial Information Regarding the Borrowers

Appendices F, G, H and I include financial information about each of the Borrowers.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") will issue its separate Municipal Bond Insurance Policies for each series of the Bonds (collectively, the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the applicable series of Bonds when due as set forth in the form of the Policy included as Appendix J to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AAA" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (negative outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of

the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On May 17, 2010, S&P published a Research Update in which it affirmed its "AAA" counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (negative outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moody.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010.

Capitalization of AGM. At June 30, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,264,680,337 and its total net unearned premium reserve was approximately \$2,259,557,420, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference. Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010);
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010); and

(iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c) or 15(d) of the Securities Exchange Act, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE - Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE."

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

DEBT SERVICE REQUIREMENTS

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

Year Ending October 1 (Inclusive)	Series 2010A Bonds			Series 2010B Bonds			Series 2010C Bonds			Series 2010D Bonds			Grand Total
	Principal	Interest	Total Annual Debt Service	Principal	Interest	Total Annual Debt Service	Principal	Interest	Total Annual Debt Service	Principal	Interest	Total Annual Debt Service	
2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2011	110,000.00	354,461.25	464,461.25	225,000.00	663,520.00	888,520.00	25,000.00	63,607.50	88,607.50	130,000.00	144,711.88	274,711.88	1,716,300.63
2012	145,000.00	318,937.50	463,937.50	290,000.00	596,450.00	886,450.00	30,000.00	57,325.00	87,325.00	145,000.00	128,956.26	273,956.26	1,711,668.76
2013	150,000.00	316,037.50	466,037.50	295,000.00	590,650.00	885,650.00	30,000.00	56,725.00	86,725.00	150,000.00	126,056.26	276,056.26	1,714,468.76
2014	155,000.00	312,662.50	467,662.50	305,000.00	581,800.00	886,800.00	30,000.00	56,125.00	86,125.00	155,000.00	123,056.26	278,056.26	1,718,643.76
2015	155,000.00	309,175.00	464,175.00	310,000.00	574,937.50	884,937.50	30,000.00	55,525.00	85,525.00	155,000.00	119,956.26	274,956.26	1,709,593.76
2016	160,000.00	304,525.00	464,525.00	320,000.00	567,962.50	887,962.50	35,000.00	54,925.00	89,925.00	160,000.00	116,856.26	276,856.26	1,719,268.76
2017	170,000.00	298,125.00	468,125.00	330,000.00	555,162.50	885,162.50	35,000.00	54,137.50	89,137.50	165,000.00	113,256.26	278,256.26	1,720,681.26
2018	175,000.00	291,325.00	466,325.00	345,000.00	541,962.50	886,962.50	35,000.00	53,262.50	88,262.50	170,000.00	109,131.26	279,131.26	1,720,681.26
2019	180,000.00	284,325.00	464,325.00	355,000.00	531,612.50	886,612.50	35,000.00	52,387.50	87,387.50	175,000.00	102,331.26	277,331.26	1,715,656.26
2020	190,000.00	277,125.00	467,125.00	370,000.00	520,962.50	890,962.50	35,000.00	51,337.50	86,337.50	180,000.00	95,331.26	275,331.26	1,719,756.26
2021	195,000.00	269,525.00	464,525.00	385,000.00	506,162.50	891,162.50	35,000.00	50,287.50	85,287.50	185,000.00	89,931.26	274,931.26	1,715,906.26
2022	205,000.00	261,725.00	466,725.00	400,000.00	490,762.50	890,762.50	40,000.00	49,150.00	89,150.00	195,000.00	83,918.76	278,918.76	1,725,556.26
2023	215,000.00	254,550.00	469,550.00	410,000.00	476,762.50	886,762.50	40,000.00	47,750.00	87,750.00	200,000.00	77,337.50	277,337.50	1,721,400.00
2024	220,000.00	246,756.26	466,756.26	425,000.00	462,412.50	887,412.50	40,000.00	46,350.00	86,350.00	210,000.00	70,337.50	280,337.50	1,720,856.26
2025	230,000.00	238,506.26	468,506.26	445,000.00	447,006.26	892,006.26	45,000.00	44,550.00	89,550.00	215,000.00	61,412.50	276,412.50	1,726,475.02
2026	240,000.00	229,306.26	469,306.26	460,000.00	430,318.76	890,318.76	45,000.00	42,525.00	87,525.00	225,000.00	52,275.00	277,275.00	1,724,425.02
2027	250,000.00	218,506.26	468,506.26	480,000.00	410,193.76	890,193.76	45,000.00	40,500.00	85,500.00	235,000.00	42,712.50	277,712.50	1,721,912.52
2028	260,000.00	207,256.26	467,256.26	500,000.00	389,193.76	889,193.76	50,000.00	38,475.00	88,475.00	245,000.00	32,725.00	277,725.00	1,722,650.02
2029	275,000.00	195,556.26	470,556.26	525,000.00	367,318.76	892,318.76	50,000.00	36,225.00	86,225.00	255,000.00	22,312.50	277,312.50	1,726,412.52
2030	285,000.00	183,181.26	468,181.26	550,000.00	344,350.00	894,350.00	55,000.00	33,975.00	88,975.00	270,000.00	11,475.00	281,475.00	1,732,981.26
2031	300,000.00	170,356.26	470,356.26	570,000.00	320,287.50	890,287.50	55,000.00	31,500.00	86,500.00	-	-	-	1,447,143.76
2032	315,000.00	156,856.26	471,856.26	600,000.00	295,350.00	895,350.00	60,000.00	29,025.00	89,025.00	-	-	-	1,456,231.26
2033	325,000.00	142,681.26	467,681.26	625,000.00	269,100.00	894,100.00	60,000.00	26,325.00	86,325.00	-	-	-	1,448,106.26
2034	340,000.00	127,650.00	467,650.00	655,000.00	240,975.00	895,975.00	65,000.00	23,625.00	88,625.00	-	-	-	1,452,250.00
2035	360,000.00	111,925.00	471,925.00	685,000.00	211,500.00	896,500.00	70,000.00	20,700.00	90,700.00	-	-	-	1,459,125.00
2036	375,000.00	95,275.00	470,275.00	715,000.00	180,675.00	895,675.00	70,000.00	17,550.00	87,550.00	-	-	-	1,453,500.00
2037	395,000.00	77,931.26	472,931.26	750,000.00	148,500.00	898,500.00	75,000.00	14,400.00	89,400.00	-	-	-	1,460,831.26
2038	410,000.00	59,662.50	469,662.50	780,000.00	114,750.00	894,750.00	80,000.00	11,025.00	91,025.00	-	-	-	1,455,437.50
2039	430,000.00	40,700.00	470,700.00	820,000.00	79,650.00	899,650.00	80,000.00	7,425.00	87,425.00	-	-	-	1,457,775.00
2040	450,000.00	20,812.50	470,812.50	855,000.00	42,750.00	897,750.00	85,000.00	3,825.00	88,825.00	-	-	-	1,457,387.50
Total	\$ 7,665,000.00	\$ 6,375,417.61	\$14,040,417.61	\$14,780,000.00	\$11,953,038.80	\$26,733,038.80	\$ 1,465,000.00	\$ 1,170,545.00	\$ 2,635,545.00	\$ 3,820,000.00	\$ 1,724,080.74	\$ 5,544,080.74	\$48,953,082.15

TAX MATTERS

General

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements which must be met subsequent to the issuance 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 their 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 certain 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 Series 2010A Bonds may be subject to the Federal alternative minimum tax when any Bond is held by a corporation. The Federal 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" may include a portion of the interest on the Series 2010A Bonds for purposes of computing the alternative minimum tax on corporations. Interest on the Series 2010B, Series 2010C and Series 2010D Bonds is not taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. Prospective bondholders should consult with their tax specialists for information and advice with respect to adjusted current earnings.

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.

As to questions of fact material to the opinion of Bond Counsel, Bond Counsel will rely upon representations and covenants made on behalf of the Issuer and the Borrowers, certificates of appropriate officers and certificates of public officials (including certifications as to the use of proceeds of the Bonds), without undertaking to verify the same by independent investigation. 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, INCLUDING, BUT NOT LIMITED TO, THE CONSEQUENCES DESCRIBED ABOVE. PROSPECTIVE BONDHOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

Other Tax Matters. Purchasers of the Bonds should consult their tax advisors as to the income tax status of interest on the Bonds in their particular state or local jurisdiction. 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 of the Bonds and their market value. No assurance can be given that legislative proposals will not be enacted that would apply to, or have an adverse effect upon, the Bonds.

Tax Treatment of Original Issue Discount. Under the Code, the difference between the maturity amount of the Series 2010A Bonds maturing on October 1, 2022 through October 1, 2040, the Series 2010B Bonds maturing on October 1, 2019, October 1, 2022 through October 1, 2025, October 1, 2032 and on October 1, 2039, the Series 2010C Bonds maturing on October 1, 2015 through October 1, 2040, and the Series 2010D Bonds maturing on October 1, 2015 through October 1, 2017 and on October 1, 2020 through October 1, 2030 (collectively, the "Discount Bonds"), 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 Discount Bonds of the same maturity was sold is "original issue discount." Original issue discount will accrue over the term of the Discount Bonds at a constant interest rate compounded periodically. A purchaser who acquires the Discount 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 or she holds the Discount Bonds, and will increase his adjusted basis in the Discount Bonds by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of the Discount Bonds. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of the Discount 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. Bondholders of the Discount 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 the Discount Bonds and with respect to the state and local tax consequences of owning and disposing of the Discount Bonds.

Tax Treatment of Bond Premium The difference between the principal amount of the Bonds other than the Discount Bonds (the "Premium Bonds") 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 such Premium Bonds of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each of the Premium Bonds, which ends on the earlier of the maturity or call date for each of the Premium Bonds which minimizes the yield on such Premium Bonds to the purchaser. For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering price is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Premium Bonds. Bondholders of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Information Reporting and Backup Withholding. Interest paid on tax-exempt bonds such as the Bonds is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Bonds, under certain circumstances, to "backup withholding" at (i) the fourth lowest rate of tax applicable under Section 1(c) of the Code (i.e., a rate applicable to unmarried individuals) for taxable years beginning on or before December 31, 2010; and (ii) the rate of 31% for taxable years beginning after December 31, 2010, with respect to payments on the Bonds and proceeds from the sale of Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Bonds. This withholding generally applies if the owner of Bonds (i) fails to furnish the payor such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

LITIGATION

On the date of delivery of the Bonds, each Borrower will certify 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 Borrower's knowledge, threatened, against or affecting such Borrower wherein an unfavorable decision, ruling or finding would materially and adversely affect such Borrower, its financial condition or its ability to comply with its obligations under its Loan Agreement or the validity or enforceability of its Loan Agreement.

On the date of delivery of the Bonds, the Issuer will certify 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 knowledge of the Issuer, threatened, against or affecting the Issuer, wherein an unfavorable decision, ruling or finding would materially and 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.

SEC ORDER; VOLUNTARY CLOSING AGREEMENT

On July 19, 2010, the Issuer and the City of South Miami ("South Miami") initiated with the Internal Revenue Service the process for requesting a voluntary closing agreement to resolve several issues which came to the attention of the Issuer and could affect the tax-exempt status of certain prior bonds issued by the Issuer. Specifically, South Miami was a borrower of a portion of the proceeds of the Issuer's Series 2002A and Series 2006 Bonds. South Miami has made the Issuer aware of an issue with regard to the use of the proceeds of such bonds and a long-term lease of a parking facility. On July 19, 2010, the United States Securities and Exchange Commission issued an Order Directing Private Investigation and Designating Officers to Take Testimony, alleging that in the underwriting, offering, sale and purchase of such bonds that there may have been made false statements of a material fact or a failure to disclose material facts concerning, among other things, the tax-exempt status of such bonds. The Issuer intends to cooperate fully with the IRS and SEC in evaluating the matter. However, no action in connection with such issues is expected to have any impact on the Bonds or the tax-exempt status thereof.

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 correctness 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" 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 Kraig A. Conn, Esquire, counsel to the Issuer, as assistant general counsel to the Florida League of Cities, Inc. and for the Underwriters by their counsel, Nabors, Giblin & Nickerson, P.A. Certain legal matters will be passed upon for the Borrowers by their respective counsel.

Bond Counsel and counsel to the Underwriters 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 ("S&P") is expected to assign a rating to the Bonds, based upon the issuance of the bond insurance policies by AGM at the time of delivery of the Bonds, of "AAA (negative outlook)." In addition, S&P and Fitch, Inc. have assigned the following ratings to the Bonds without regard to the bond insurance policy:

<u>Bonds</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>
2010A	A	A+
2010B	AA-	AA
2010C	A+	A+
2010D	A+	A+

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 Underwriters nor the Issuer have 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

Wells Fargo Bank, National Association and Merrill Lynch, Pierce, Fenner & Smith Incorporated, the Underwriters, have agreed, subject to certain customary conditions precedent, to purchase the Bonds at a price of \$27,364,792.86 (which includes net original issue discount of \$123,929.50 and underwriters' discount of \$241,277.64), and to reoffer the Bonds at the prices shown on the inside cover hereof. If obligated to purchase any of the Bonds, the Underwriters will be obligated to purchase all of the Bonds. The initial public offering prices may be changed from time to time by the Underwriters.

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.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

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.

As noted elsewhere in this Official Statement, the Bonds constitute the nineteenth series of bonds issued by the Issuer. The Issuer's prior bond issues funded loans to various borrowers (the "Prior Borrowers") in a fashion similar to that described herein with respect to the Bonds. In connection with its prior bond issues, the Issuer and each of the Prior Borrowers entered into continuing disclosure agreements (the "Prior Undertakings") pursuant to the Rule. Pursuant to the Prior Undertakings, the Issuer and each Prior Borrower agreed to provide certain annual financial information on or before the date 270 days after the end of each fiscal year of the Issuer and the respective Prior Borrowers. The Issuer has complied with its Prior Undertakings. Likewise, the Borrowers have complied with prior undertakings applicable to each such Borrower; however, both the City of Valparaiso and the City of West Melbourne failed to provide their annual financial report for fiscal year 2009 on a timely basis.

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 maybe 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/ Isaac Salver
Its Chairman

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

FORM OF CONTINUING DISCLOSURE AGREEMENT FOR BORROWERS

This **CONTINUING DISCLOSURE AGREEMENT** dated as of August 1, 2010 (the "Continuing Disclosure Agreement") is executed and delivered by _____, a Florida municipal corporation ("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 Underwriters 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 filed with the SEC or EMMA 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 2010A, Series 2010B, Series 2010C and Series 2010D.

"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.

"EMMA" means the Electronic Municipal Market Access System as described in Securities and Exchange Commission Release No. 34-59062 and maintained by the Municipal

Securities Rulemaking Board for purposes of the Rule as further described in Sections 4 and 6 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 of even date herewith by and between Florida Municipal Loan Council, as Issuer, and Deutsche Bank Trust Company Americas, as Trustee.

"Insurer" means _____.]

"Loan Agreement" means the Loan Agreement dated of even date herewith, 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.

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

"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 Underwriters" means Wells Fargo Bank, National Association and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

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

"**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.

"**Trustee**" means Deutsche Bank Trust Company Americas, 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 EMMA, 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 EMMA 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, EMMA, 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 Underwriters, 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 the Borrower) addressed to the Issuer, the Participating Underwriters, 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 an 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 EMMA, 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 EMMA 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 EMMA, 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 EMMA, 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 EMMA 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 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 EMMA of any such amendment and shall provide EMMA 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.

(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 Underwriters 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 municipal corporation, 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 August 1, 2010 (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 EMMA or filed with the SEC.

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: _____

A-6

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 August 1, 2010 (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 _____, ____.

_____, as Borrower
By: _____
Its: _____

Acknowledgment of Receipt:

Florida League of Cities, Inc., as
Dissemination Agent

By: _____
Its: _____

A-7

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE ISSUER

This **CONTINUING DISCLOSURE AGREEMENT** dated as of August 1, 2010 (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 Underwriters 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 filed with the SEC or with EMMA 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 2010A, Series 2010B, Series 2010C and Series 2010D.

"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.

"EMMA" means the Electronic Municipal Market Access System as described in Securities and Exchange Commission Release No. 34-59062 and maintained by the Municipal Securities Rulemaking Board for purposes of the Rule as further described in Sections 4 and 6 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 August 1, 2010, by and between the Issuer and Deutsche Bank Trust Company Americas, as Trustee.

"Insurer" means _____].

"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.

"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 Wells Fargo Bank, National Association and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

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

"**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.

"**Trustee**" means Deutsche Bank Trust Company Americas, 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 EMMA, 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 EMMA 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 EMMA, 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 Underwriters 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 the Issuer) addressed to the Issuer, the Participating Underwriters, the Trustee and the Dissemination Agent, to the effect that the Financial Information 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 EMMA, 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 EMMA 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 EMMA, [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 EMMA, [the Insurer], the Rating Agencies and the Trustee. The Dissemination Agent shall provide the Issuer written confirmation that such notice was provided to EMMA 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 EMMA of any such amendment and shall provide EMMA 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

Underwriters 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 August 1, 2010 (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 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 EMMA or filed with the SEC.

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 Issuer 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: _____

B-6

EXHIBIT B

Form of Section 5(a) Continuing Disclosure Certificate

Florida League of Cities, Inc.
Tallahassee, Florida
Deutsche Bank Trust Company Americas
New York, New York
Florida Municipal Loan Council
Tallahassee, Florida
Wells Fargo Bank, National Association
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 _____ 1, 2010 (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 2010A, Series 2010B, Series 2010C and Series 2010D.
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 _____, ____.

FLORIDA MUNICIPAL LOAN COUNCIL,
as Issuer

By: _____
Its: Chairman

Acknowledgment of Receipt:

FLORIDA LEAGUE OF CITIES, INC.,
as Dissemination Agent

By: _____
Its: Executive Director

B-7

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C
FORM OF THE INDENTURE

[THIS PAGE INTENTIONALLY LEFT BLANK]

August 19, 2010
BMO #25000.004

FLORIDA MUNICIPAL LOAN COUNCIL,

Issuer

and

DEUTSCHE BANK TRUST COMPANY AMERICAS,

Trustee

TRUST INDENTURE

\$7,665,000 Florida Municipal Loan Council Revenue Bonds, Series 2010A
\$14,780,000 Florida Municipal Loan Council Revenue Bonds, Series 2010B
\$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C
\$3,820,000 Florida Municipal Loan Council Revenue Bonds, Series 2010D

Dated as of August 1, 2010

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

This Instrument Prepared by:

JoLinda Herring, Esq.
Bryant Miller Olive P.A.
One Biscayne Tower
2 S. Biscayne Boulevard, Suite 1480
Miami, Florida 33131

and

Grace E. Dunlap, Esq.
Bryant Miller Olive P.A.
One Tampa City Center
201 North Franklin Street, Suite 2700
Tampa, Florida 33602

TABLE OF CONTENTS

	Page
GRANTING CLAUSES	2
ARTICLE I - DEFINITIONS AND RULES OF INTERPRETATION	4
SECTION 1.01. Definitions	4
SECTION 1.02. Rules of Interpretation	12
ARTICLE II - THE BONDS	14
SECTION 2.01. Authorization; Book-Entry System	14
SECTION 2.02. Maturity and Interest Rate Provisions	15
SECTION 2.03. Payment Provisions	19
SECTION 2.04. Matters Concerning Bond Insurance Policy	20
SECTION 2.05. Payments in Advance of Scheduled Maturity Dates by the Bond Insurer	20
SECTION 2.06. Mutilated, Lost, Stolen or Destroyed Bonds; Bonds Not Delivered for Redemption	21
SECTION 2.07. Transfer and Exchange of Bonds; Persons Treated as Owners	21
SECTION 2.08. Cancellation of Bonds	22
SECTION 2.09. Temporary Bonds	22
SECTION 2.10. Nonpresentment of Bonds	22
SECTION 2.11. Form of Bonds	23
ARTICLE III - REDEMPTION OF BONDS	24
SECTION 3.01. Optional Redemption of the Bonds	24
SECTION 3.02. Mandatory Redemption of Bonds	25
SECTION 3.03. Notice of Redemption	28
SECTION 3.04. Bonds Due and Payable on Redemption Date; Interest Ceases To Accrue	29
SECTION 3.05. Cancellation	29
SECTION 3.06. Partial Redemption of Bonds	29
SECTION 3.07. Selection of Bonds To Be Redeemed	29
ARTICLE IV - REVENUES AND FUNDS	30
SECTION 4.01. Source of Payment of Bonds	30
SECTION 4.02. Creation of Funds and Accounts	30
SECTION 4.03. Project Loan Fund	31
SECTION 4.04. Principal Fund	31
SECTION 4.05. Revenue Fund	31
SECTION 4.06. Cost of Issuance Fund	32
SECTION 4.07. Application of Bond Proceeds	33
SECTION 4.08. Reserve Funds	34
SECTION 4.09. Claims upon the Policy and Payments by the Bond Insurer	34
SECTION 4.10. Rebate Fund	36
SECTION 4.11. Moneys To Be Held in Trust	36

SECTION 4.12. Reports From Trustee	37
SECTION 4.13. Certain Verifications	37
ARTICLE V - PROJECT LOANS	38
SECTION 5.01. Terms and Conditions of Loans	38
SECTION 5.02. Loan Closing Submission	38
SECTION 5.03. Disbursement to Borrowers From Project Loan Fund	38
ARTICLE VI - SERVICING OF LOANS	39
SECTION 6.01. Loan Servicing	39
ARTICLE VII - INVESTMENT OF MONEYS	40
ARTICLE VIII - DISCHARGE OF INDENTURE	42
ARTICLE IX - DEFAULT PROVISIONS AND REMEDIES OF TRUSTEE AND BONDHOLDERS	45
SECTION 9.01. Defaults; Events of Default	45
SECTION 9.02. Remedies; Rights of Bondholders	45
SECTION 9.03. Right of Bondholders to Direct Proceedings	46
SECTION 9.04. Appointment of Receivers	46
SECTION 9.05. Application of Moneys	47
SECTION 9.06. Remedies Vested in Trustee	48
SECTION 9.07. Rights and Remedies of Bondholders	48
SECTION 9.08. Termination of Proceedings	49
SECTION 9.09. Waivers of Events of Default	49
SECTION 9.10. Notice of Defaults Under Section 9.01(b); Opportunity of Council To Cure Such Defaults	50
SECTION 9.11. Bond Insurer to be Deemed Bondholder; Rights of Bond Insurer	50
ARTICLE X - THE TRUSTEE	52
SECTION 10.01. Acceptance of the Trusts	52
SECTION 10.02. Fees, Charges and Expenses of Trustee	53
SECTION 10.03. Notice to Bondholders if Default Occurs Under Indenture	54
SECTION 10.04. Intervention by Trustee	54
SECTION 10.05. Successor Trustee	54
SECTION 10.06. Resignation by Trustee	54
SECTION 10.07. Removal of Trustee	54
SECTION 10.08. Appointment of Successor Trustee	55
SECTION 10.09. Concerning Any Successor Trustee	55
SECTION 10.10. Preservation and Inspection of Documents	55
SECTION 10.11. [Reserved]	55
SECTION 10.12. Paying Agent	55
SECTION 10.13. Registrar	56
SECTION 10.14. Effect on Bondholders of Certain Actions	56
ARTICLE XI - SUPPLEMENTAL INDENTURES	57

SECTION 11.01. Supplemental Indentures Not Requiring Consent of Bondholders 57

SECTION 11.02. Supplemental Indentures Requiring Consent of Bondholders 57

SECTION 11.03. Notice to S&P and Fitch..... 58

ARTICLE XII - AMENDMENT OF LOAN AGREEMENTS..... 59

SECTION 12.01. Amendments, Etc., Not Requiring Consent of Bondholders 59

SECTION 12.02. Amendments, Etc., Requiring Consent of Bondholders 59

ARTICLE XIII - GENERAL COVENANTS 60

SECTION 13.01. Payment of Principal and Interest..... 60

SECTION 13.02. Performance of Covenants; the Council 60

SECTION 13.03. Instruments of Further Assurance 60

SECTION 13.04. Rights Under the Loan Agreements 60

SECTION 13.05. Possession and Inspection of Loan Agreements 61

SECTION 13.06. Provision of Documents to Bondholders 61

SECTION 13.07. Tax Covenants..... 61

SECTION 13.08. Security Interest 62

ARTICLE XIV - MISCELLANEOUS 63

SECTION 14.01. Consents, etc., of Bondholders..... 63

SECTION 14.02. Limitation of Rights..... 63

SECTION 14.03. The Bond Insurer 63

SECTION 14.04. Severability 63

SECTION 14.05. Notices..... 64

SECTION 14.06. Payments Due on Saturdays, Sundays and Holidays 64

SECTION 14.07. Counterparts..... 64

SECTION 14.08. Applicable Provisions of Law 64

TRUST INDENTURE

THIS TRUST INDENTURE is made and entered into as of August 1, 2010, 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 DEUTSCHE BANK TRUST COMPANY AMERICAS, a New York state banking corporation, 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

C-4

WHEREAS, the Council has now determined to issue its \$7,665,000 Florida Municipal Loan Council Revenue Bonds, Series 2010A, \$14,780,000 Florida Municipal Loan Council Revenue Bonds, Series 2010B, \$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C, and \$3,820,000 Florida Municipal Loan Council Revenue Bonds, Series 2010D 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.

"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.

"Average Debt Service Requirement" means the total amount of Debt Service Requirement on the series of Bonds to become due on all Bonds of such series divided by the total number of years for which such series of Bonds are deemed to be Outstanding.

"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 insurance policy of the Bond Insurer guaranteeing the scheduled 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 Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), a New York stock insurance company and any successor or assignee thereto.

"Bonds" means collectively, the \$7,665,000 Florida Municipal Loan Council Revenue Bonds, Series 2010A, \$14,780,000 Florida Municipal Loan Council Revenue Bonds, Series 2010B, \$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C, and \$3,820,000 Florida Municipal Loan Council Revenue Bonds, Series 2010D issued hereunder.

"Bond Year" means a 12-month period beginning on October 2, ending on and including the following October 1, except for the first period which begins on August 25, 2010 and ends on October 1, 2011.

"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.

"Debt Service Requirement" means for any Bond year, at any time, the amount required to be deposited in such Bond Year into the Revenue Fund, as provided herein.

"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.

"Escrow Deposit Agreement" means the Escrow Deposit Agreement, dated as of August 1, 2010, among the City of Palatka, Florida, the Council and Deutsche Bank Trust Company Americas, as escrow holder.

"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 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.

"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 August 1, 2010 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 April 1 and October 1 of each year, beginning April 1, 2011.

"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 securities lawful for investment under the laws of the State of Florida.

"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.

"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 March 20, 2011 and thereafter each September 20th and March 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.

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

"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 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.

"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 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.

"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 respective Revenue Fund and the respective Principal Fund to pay principal of, premium, if any, and interest on the corresponding series of 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.

"Series 2010A Principal Fund" means the fund by that name created by Section 4.02 hereof.

"Series 2010B Principal Fund" means the fund by that name created by Section 4.02 hereof.

"Series 2010C Principal Fund" means the fund by that name created by Section 4.02 hereof.

"Series 2010D Principal Fund" means the fund by that name created by Section 4.02 hereof.

"Series 2010A Reserve Requirement" means the lesser of (i) the maximum Debt Service Requirement on the Series 2010A Bonds, (ii) 125% of the Average Debt Service Requirement on the Series 2010A Bonds, or (iii) the maximum amount allowed under the Internal Revenue Code of 1986, as amended.

"Series 2010B Reserve Requirement" means the lesser of (i) the maximum Debt Service Requirement on the Series 2010B Bonds, (ii) 125% of the Average Debt Service Requirement on the Series 2010B Bonds, or (iii) the maximum amount allowed under the Internal Revenue Code of 1986, as amended.

"Series 2010C Reserve Requirement" means the lesser of (i) the maximum Debt Service Requirement on the Series 2010C Bonds, (ii) 125% of the Average Debt Service Requirement on the Series 2010C Bonds, or (iii) the maximum amount allowed under the Internal Revenue Code of 1986, as amended.

"Series 2010D Reserve Requirement" means the lesser of (i) the maximum Debt Service Requirement on the Series 2010D Bonds, (ii) 125% of the Average Debt Service Requirement on the Series 2010D Bonds, or (iii) the maximum amount allowed under the Internal Revenue Code of 1986, as amended.

"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 a surety bond issued by a Surety Bond Provider guaranteeing certain payments into the Reserve Fund with respect to a particular series of Bonds, as provided therein which maybe substituted for the monies deposited into the Reserve Fund in accordance herewith.

"Surety Bond Provider" means the provider of a Surety Bond, which shall be subject to the approval of the Bond Insurer.

"Taxable Bonds" means any Bond that the interest income thereof is includable in the gross income of the Bondholder thereof for federal income tax purposes or that such interest is subject to federal income taxation.

"Term Bonds" mean the Bonds which are subject to Amortization Installments, and are designated as Term Bonds.

"Trustee" means Deutsche Bank Trust Company Americas, 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.

(Remainder of this page intentionally left blank)

ARTICLE II
THE BONDS

SECTION 2.01. Authorization; Book-Entry System.

(a) Authorization, Issuance and Execution of Bonds. Bonds may be issued in one or more series 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 2010A", "Florida Municipal Loan Council Revenue Bonds, Series 2010B", "Florida Municipal Loan Council Revenue Bonds, Series 2010C", and "Florida Municipal Loan Council Revenue Bonds, Series 2010D". 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 amounts set forth in the definition of "Bonds." 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 August 25, 2010. 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 Series 2010A Bonds shall bear interest and shall mature at the rates, in the amounts and on the dates set forth below:

\$2,655,000 Serial Bonds

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
10/1/2011	110,000	3.000%
10/1/2012	145,000	2.000%
10/1/2013	150,000	2.250%
10/1/2014	155,000	2.250%
10/1/2015	155,000	3.000%
10/1/2016	160,000	4.000%
10/1/2017	170,000	4.000%
10/1/2018	175,000	4.000%
10/1/2019	180,000	4.000%
10/1/2020	190,000	4.000%
10/1/2021	195,000	4.000%
10/1/2022	205,000	3.500%
10/1/2023	215,000	3.625%
10/1/2024	220,000	3.750%
10/1/2025	230,000	4.000%

Term Bonds Due October 1, 2032 - \$1,925,000 – 4.500%
 Term Bonds Due October 1, 2040 - \$3,085,000 – 4.625%

The Series 2010B Bonds shall bear interest and shall mature at the rates, in the amounts and on the dates set forth below:

\$6,065,000 Serial Bonds

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
10/1/2011	225,000	3.000%
10/1/2012	290,000	2.000%
10/1/2013	295,000	3.000%
10/1/2014	305,000	2.250%
10/1/2015	310,000	2.250%
10/1/2016	320,000	4.000%
10/1/2017	330,000	4.000%
10/1/2018	345,000	3.000%
10/1/2019	355,000	3.000%
10/1/2020	370,000	4.000%
10/1/2021	385,000	4.000%
10/1/2022	400,000	3.500%
10/1/2023	410,000	3.500%
10/1/2024	425,000	3.625%
10/1/2025	445,000	3.750%
10/1/2040	855,000	5.000%

Term Bonds Due October 1, 2032 - \$3,685,000 – 4.375%
 Term Bonds Due October 1, 2039 - \$5,030,000 – 4.500%

The Series 2010C Bonds shall bear interest and shall mature at the rates, in the amounts and on the dates set forth below:

\$435,000 Serial Bonds

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
10/1/2011	25,000	2.000%
10/1/2012	30,000	2.000%
10/1/2013	30,000	2.000%
10/1/2014	30,000	2.000%
10/1/2015	30,000	2.000%
10/1/2016	35,000	2.250%
10/1/2017	35,000	2.500%
10/1/2018	35,000	2.500%
10/1/2019	35,000	3.000%
10/1/2020	35,000	3.000%
10/1/2021	35,000	3.250%
10/1/2022	40,000	3.500%
10/1/2023	40,000	3.500%

Term Bonds Due October 1, 2032 - \$445,000 – 4.500%

Term Bonds Due October 1, 2040 - \$585,000 – 4.500%

The Series 2010D Bonds shall bear interest and shall mature at the rates, in the amounts and on the dates set forth below:

\$2,165,000 Serial Bonds

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
10/1/2011	130,000	2.000%
10/1/2012	145,000	2.000%
10/1/2013	150,000	2.000%
10/1/2014	155,000	2.000%
10/1/2015	155,000	2.000%
10/1/2016	160,000	2.250%
10/1/2017	165,000	2.500%
10/1/2018	170,000	4.000%
10/1/2019	175,000	4.000%
10/1/2020	180,000	3.000%
10/1/2021	185,000	3.250%
10/1/2022	195,000	3.375%
10/1/2023	200,000	3.500%

Term Bonds Due October 1, 2030 - \$1,655,000 – 4.250%

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 provide notice to the Bond Insurer of the following events:

- (a) Prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers of such Bonds;
- (b) Notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;
- (c) Notice of the commencement of any proceeding by or against the Council commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");
- (d) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of the principal of, or interest on, the Bonds;
- (e) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Indenture or any Loan Agreement;
- (f) All reports, notices and correspondence to be delivered to the holders of the Bonds under the terms of the Indenture or any Loan Agreement;
- (g) In addition, with respect to the Continuing Disclosure Agreement executed in connection with the Bonds, all information furnished pursuant to such agreement shall also be provided to the Bond Insurer, simultaneously with the furnishing of such information thereunder;
- (h) The Bonds Insurer shall have the right to receive such addition information as it may reasonably request;
- (i) The Council also permits the Bond Insurer to discuss the affairs, finances and accounts of the Council or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Council or the Program Administrator and will use commercially reasonable efforts to enable the Bond Insurer to have access to the facilities, books and records of the Council on any business day upon reasonable prior notice; and
- (j) The Council shall notify the Bond Insurer of any failure of the Council to provide notices, certificates and other information under the transaction documents.

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).

(Remainder of this page intentionally left blank)

ARTICLE III

REDEMPTION OF BONDS

SECTION 3.01. Optional Redemption of the Bonds.

The Series 2010A Bonds maturing on or before October 1, 2020 are not subject to optional redemption prior to their maturities. The Series 2010A Bonds maturing after October 1, 2020 are subject to redemption at the option of the Council on or after October 1, 2020 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 Borrower whose Loan secures the Series 2010A Bonds, at the redemption price equal to the principal amount of the Series 2010A Bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2010B Bonds maturing on or before October 1, 2020 are not subject to optional redemption prior to their maturities. The Series 2010B Bonds maturing after October 1, 2020 are subject to redemption at the option of the Council on or after October 1, 2020 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 Borrower whose Loan secures the Series 2010B Bonds, at the redemption price equal to the principal amount of the Series 2010B Bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2010C Bonds maturing on or before October 1, 2020 are not subject to optional redemption prior to their maturities. The Series 2010C Bonds maturing after October 1, 2020 are subject to redemption at the option of the Council on or after October 1, 2020 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 Borrower whose Loan secures the Series 2010C Bonds, at the redemption price equal to the principal amount of the Series 2010C Bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2010D Bonds maturing on or before October 1, 2020 are not subject to optional redemption prior to their maturities. The Series 2010D Bonds maturing after October 1, 2020 are subject to redemption at the option of the Council on or after October 1, 2020 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 Borrower whose Loan secures the Series 2010D Bonds, at the redemption price equal to the principal amount of the Series 2010D Bonds to be redeemed, plus accrued interest to the redemption date.

SECTION 3.02. Mandatory Redemption of Bonds.

The Series 2010A Bonds maturing on October 1, 2032 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 October 1, 2026 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2026	\$240,000
2027	250,000
2028	260,000
2029	275,000
2030	285,000
2031	300,000
2032*	315,000

*Maturity, not a redemption.

The Series 2010A Bonds maturing on October 1, 2040 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 October 1, 2033 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2033	\$325,000
2034	340,000
2035	360,000
2036	375,000
2037	395,000
2038	410,000
2039	430,000
2040*	450,000

*Maturity, not a redemption.

The Series 2010B Bonds maturing on October 1, 2032 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 October 1, 2026 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2026	\$460,000
2027	480,000
2028	500,000
2029	525,000
2030	550,000
2031	570,000
2032*	600,000

*Maturity, not a redemption.

The Series 2010B Bonds maturing on October 1, 2039 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 October 1, 2033 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2033	\$625,000
2034	655,000
2035	685,000
2036	715,000
2037	750,000
2038	780,000
2039*	820,000

*Maturity, not a redemption.

The Series 2010C Bonds maturing on October 1, 2032 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 October 1, 2024 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2024	\$40,000
2025	45,000
2026	45,000
2027	45,000

2028	50,000
2029	50,000
2030	55,000
2031	55,000
2032*	60,000

*Maturity, not a redemption.

The Series 2010C Bonds maturing on October 1, 2040 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 October 1, 2033 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2033	\$60,000
2034	65,000
2035	70,000
2036	70,000
2037	75,000
2038	80,000
2039	80,000
2040*	85,000

*Maturity, not a redemption.

The Series 2010D Bonds maturing on October 1, 2030 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 October 1, 2024 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2024	\$210,000
2025	215,000
2026	225,000
2027	235,000
2028	245,000
2029	255,000
2030*	270,000

*Maturity, not a redemption.

Each series of Bonds is subject to extraordinary mandatory redemption as a result of acceleration of any Loan pursuant to a Loan Agreement which secures that particular series of

Bonds 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 securing that particular series of Bonds. Upon the occurrence of an extraordinary mandatory redemption in part, the selection of the Bonds to be redeemed shall be subject to the approval of the Bond Insurer

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 series of 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 teletype 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.

In the case of an optional redemption, any notice of redemption may state that (1) it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Registrar, Paying Agent or a fiduciary institution acting as escrow agent no later than the redemption date or (2) the Council retains the right to rescind such notice on or prior to the scheduled redemption date (in either case, a "Conditional Redemption"), and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described in this section. Any such notice of Conditional Redemption shall be captioned "Conditional Notice of Redemption." Any Conditional Redemption may be rescinded at any time prior to the redemption date if the Program Administrator delivers a written direction to the Registrar directing the Registrar to rescind the redemption notice. The Registrar shall give prompt notice of such rescission to the affected Bondholders. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and neither the rescission nor the failure by the Council to make such funds available shall constitute an Event of Default under the this

Indenture. The Registrar shall give immediate notice to the securities information repositories and the affected Bondholders that the redemption did not occur and that the affected Bonds called for redemption and not so paid remain Outstanding.

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.

(Remainder of this page intentionally left blank)

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) Project Loan Funds:
 - (a) the Series 2010A Project Loan Fund,
 - (b) the Series 2010B Project Loan Fund,
 - (c) the Series 2010C Project Loan Fund, and
 - (d) the Series 2010D Project Loan Fund;
- (2) Principal Funds:
 - (a) the Series 2010A Principal Fund,
 - (b) the Series 2010B Principal Fund,
 - (c) the Series 2010C Principal Fund, and
 - (d) the Series 2010D Principal Fund;
- (3) Revenue Funds:
 - (a) the Series 2010A Revenue Fund,
 - (b) the Series 2010B Revenue Fund,
 - (c) the Series 2010C Revenue Fund, and
 - (d) the Series 2010D Revenue Fund;
- (4) Cost of Issuance Funds:
 - (a) the Series 2010A Cost of Issuance Fund,
 - (b) the Series 2010B Cost of Issuance Fund,
 - (c) the Series 2010C Cost of Issuance Fund, and
 - (d) the Series 2010D Cost of Issuance Fund;

- (5) Reserve Funds:
 - (a) the Series 2010A Reserve Fund,
 - (b) the Series 2010B Reserve Fund,
 - (c) the Series 2010C Reserve Fund, and
 - (d) the Series 2010D Reserve Fund;
- (6) Rebate Funds:
 - (a) the Series 2010A Rebate Fund,
 - (b) the Series 2010B Rebate Fund,
 - (c) the Series 2010C Rebate Fund, and
 - (d) the Series 2010D Rebate Fund.

SECTION 4.03. Project Loan Fund. Interest earnings on investments in each Project Loan Fund shall be held in and credited to such Project Loan Fund. 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 corresponding 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 corresponding 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 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 such series of Bonds.

Amounts in each Principal Fund shall be used as follows: (1) to pay scheduled principal payments of the corresponding series of Bonds and (2) to pay the principal of and premium, if any, on the corresponding series of Bonds redeemed pursuant to Section 3.01 or Section 3.02 when required by such Sections. Upon acceleration of maturity of a series of Bonds pursuant to Section 9.02, all amounts in the corresponding Principal Fund shall be used to pay maturing principal of and interest on such series of 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 corresponding Revenue Fund all moneys remaining after the deposits required by Section 4.04 hereof. All investment earnings on amounts in the Funds and Accounts (except the Rebate Funds and the Project Loan Funds) shall be deposited in the appropriate Revenue Fund as received. Any amounts received by the Trustee hereunder in connection with a particular series of Bonds which are not required to be deposited elsewhere shall also be deposited in the Revenue Fund corresponding to such series of Bonds.

Amounts in each Revenue Funds 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 corresponding series of Bonds;

(2) At such times as are necessary, to pay accrued interest due on the corresponding series of 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 of a series) 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 each 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 for the series of Bonds which corresponds with the Revenue Fund for such series, as provided in Section 5.04 of the Loan Agreements.

(5) To the extent that the amounts on deposit in the Reserve Fund for such series of Bonds are less than the Reserve Requirement for such series of Bonds, the Council shall make deposits from the funds by the applicable Borrower into the Reserve Fund for such series of Bonds in the manner described below from moneys remaining in the Revenue Fund for such series of Bonds. Any withdrawals from a Reserve Fund shall be subsequently restored from the first moneys available in the corresponding Revenue Fund, after all current applications and allocations to the corresponding Principal Fund, including deficiencies for prior payments that have not been made in full. Moneys in a Reserve Fund shall be used only for the purpose of the payment of principal of, or interest on the series of Bonds which corresponds to the particular Reserve Fund 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 a series of Bonds, the Council may withdraw from the Reserve Fund of such series of Bonds, all or any portion of the amount accumulated therein with respect to such series of Bonds being refunded and deposit such amounts as required by the documents authorizing the refunding of such series of Bonds; provided that such withdrawal shall not be made unless (a) immediately thereafter, the series of Bonds being refunded shall be deemed to have been paid, (b) the amount remaining in a 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 such series of Bonds then remaining outstanding. Any excess moneys on deposit in a Reserve Fund shall be transferred by the Trustee, upon the written request of the Council, to the corresponding Principal Fund.

SECTION 4.06. Cost of Issuance Fund. Moneys in each Cost of Issuance Fund shall be used to pay costs of issuing the corresponding series of 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 a Cost of Issuance Fund on August 1, 2011 shall be transferred to the corresponding Revenue Fund and be credited toward the Borrower's obligation to pay Loan interest, taking into consideration the discount at which such Loan was made as specified in Section 3.01 of each Loan Agreement.

SECTION 4.07. Application of Bond Proceeds. The proceeds of the Series 2010A Bonds in the sum of \$8,651,005.90 shall be deposited with the Trustee as follows (which amount is the par amount of the Bonds less original issue discount plus premium, and less the underwriters discount and bond insurance premium along with \$1,153,050.15 of transferred proceeds from other sources):

- (i) In the Series 2010A Cost of Issuance Fund, the total sum of \$53,084.08;
- (ii) In the Series 2010A Project Loan Fund (for the payment of certain loans), the total sum of \$1,550,000;
- (iii) In the Series 2010A Reserve Fund, the total sum of \$472,931.26;
- (iv) In the Escrow Deposit Agreement, the total sum of \$6,574,990.56.

The proceeds of the Series 2010B Bonds in the sum of \$14,432,468.30 shall be deposited with the Trustee as follows (which amount is the par amount of the Bonds less original issue discount plus premium, and less the underwriters discount and bond insurance premium):

- (i) In the Series 2010B Cost of Issuance Fund, the total sum of \$82,843.20;
- (ii) In the Series 2010B Project Loan Fund, the total sum of \$13,449,975.10;
- (iii) In the Series 2010B Reserve Fund, the total sum of \$899,650.

The proceeds of the Series 2010C Bonds in the sum of \$1,408,693.23 shall be deposited with the Trustee as follows (which amount is the par amount of the Bonds less original issue discount plus premium, and less the underwriters discount and bond insurance premium):

- (i) In the Series 2010C Cost of Issuance Fund, the total sum of \$15,692.51;
- (ii) In the Series 2010C Project Loan Fund, the total sum of \$1,301,975.72;
- (iii) In the Series 2010C Reserve Fund, the total sum of \$91,025.

The proceeds of the Series 2010D Bonds in the sum of \$3,731,957.09 shall be deposited with the Trustee as follows (which amount is the par amount of the Bonds less original issue discount plus premium, and less the underwriters discount and bond insurance premium):

- (i) In the Series 2010D Cost of Issuance Fund, the total sum of \$25,018.03;

- (ii) In the Series 2010D Project Loan Fund, the total sum of \$3,425,464.06;
- (iii) In the Series 2010D Reserve Fund, the total sum of \$281,475.

The Council understands that \$293,718.49 is being transmitted directly to the Bond Insurer to pay the Bond Insurance Premium.

SECTION 4.08. Reserve Funds.

(a) The Trustee shall establish a Series 2010A Reserve Fund which shall be funded at closing in an amount equal to the Series 2010A Reserve Requirement. The Trustee shall establish a Series 2010B Reserve Fund which shall be funded at closing in an amount equal to the Series 2010B Reserve Requirement. The Trustee shall establish a Series 2010C Reserve Fund which shall be funded at closing in an amount equal to the Series 2010C Reserve Requirement. The Trustee shall establish a Series 2010D Reserve Fund which shall be funded at closing in an amount equal to the Series 2010D Reserve Requirement.

If any withdrawal is made under subsection (b)(i) below, the Council shall give notice to the Bond Insurer and 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 replenish the applicable Reserve Requirement within twelve (12) months, commencing on the first day of the month following such withdrawal.

(b) Moneys on deposit in each 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 a series of Bonds, moneys in the applicable Reserve Fund (or received from a draw on a Surety Bond, if any) shall be applied to cure any deficiency in the corresponding Principal Fund and the corresponding Revenue Fund. The Council agrees that any transfer from a Reserve Fund to a corresponding Principal Fund and a corresponding Revenue Fund (or any proceeds from a Surety Bond, if any) 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 applicable Reserve Fund such moneys shall be credited against the payment of principal of and interest on the corresponding series of Bonds and shall be transferred to the corresponding Principal Fund for such series of Bonds and the corresponding Revenue Fund for such series of Bonds for the payment of such principal and interest.

(c) Moneys on deposit in a Reserve Fund may be replaced with a Surety Bond upon the consent of the Bond Insurer and the direction by the applicable Borrower.

SECTION 4.09. Claims Upon the Policy and Payments by the Bond Insurer
Unless otherwise provided in the Bond Insurance Policy, the following shall govern claims made upon and payments made under Bond Insurance Policy:

A. If, on the third Business Day prior to the related scheduled Interest Payment Date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under this Indenture, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to any designated agent for which the Bond Insurer has provided written notice to the Trustee designating such agent ("Bond Insurer's Fiscal Agency"), by telephone or teletype of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall make a claim under the Bond Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent, if any, by telephone of the amount of the deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer's Fiscal Agent, if any, by 12:00 noon, New York City time, on such second Business Day by filling in the form of "Notice of Claim and Certificate" delivery with the Bond Insurance Policy.

B. The Trustee shall designate any portion of payment of principal on the Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its records as a reduction in the principal amount of Bonds registered to the then current holders of such Bonds, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Bond Insurer, registered in the name of the Bond Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided, however, that that Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Bond Insurer on any Bond or the subrogation rights of the Bond Insurer.

C. The Trustee shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

D. Upon payment of a claim under the Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of the holders of the Bonds (referred to as the "Policy Payments Account") and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Bond Insurance Policy in trust on behalf of the holders of the Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to the holders of the Bonds in the same manner as principal and interest payments are to be made with respect to the Bonds under Sections 4.04 or 4.05 regarding payment of the Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary set forth in this Indenture, the Council agrees to pay to the Bond Insurer but only from funds provided by the Borrowers under the Loan Agreements (i) a sum equal to the total of all amounts paid by the Bond Insurer

under the Bond Insurance Policy (the "Insurer Advances"); and (ii) to the extent permitted by law, interest on such Insurer Advances from the date paid by the Bond Insurer until the date such Insurer Advances are paid in full, payable to the Bond Insurer at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank, or its successor) plus three percent (3%), and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. Notwithstanding anything to the contrary set forth in this Indenture, the Insurer Reimbursement Amounts shall be payable solely from and secured by a lien on and pledge of Revenues and payable from such Revenues, to the extent permitted by law, on a parity with debt service on the Bonds.

E. Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any fund remaining in the Policy Payments Account following a Payment Date shall promptly be remitted to the Bond Insurer.

F. Amount paid by the Bond Insurance under the Bond Insurance Policy shall not be deemed paid for purposes of this Indenture and the Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Issuer in accordance with this Indenture. This Indenture shall not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

SECTION 4.010. Rebate Fund. In order to insure compliance with the rebate provisions of Section 148(f) of the Code, the Council shall create the Rebate Funds. Such Funds shall be held by the Trustee. The Rebate Funds 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 shall not adversely affect the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation. Moneys in the Rebate Funds 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 Funds (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 4.11. Moneys to be Held in Trust. With the exception of moneys deposited in the Rebate Funds, 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 4.12. 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 4.13. 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 respective Revenue Funds pursuant to Section 4.05(3) hereof.

(Remainder of this page intentionally left blank)

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 Funds 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 Funds or other Bond proceeds), disbursement to or at the direction of the Borrower will be made only if (i) such Borrower is not then in default under this Indenture or their Loan Agreement or the other Bond documents, and (ii) 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

SECTION 6.01. Loan Servicing. 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.

(Remainder of this page intentionally left blank)

C-22

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.

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 a Reserve Fund.

All interest, profits and other income earned from investment (other than in Loans) of all moneys in any Fund or Account for a particular series (except the Rebate Funds and the Project Loan Funds) shall be deposited when received in the Revenue Fund for such series, 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 Project Loan Funds shall be credited to such Project Loan Funds.

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.

(Remainder of this page intentionally left blank)

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 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.

(Remainder of this page intentionally left blank)

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 a series of Bonds, it is hereby defined as and declared to be and to constitute an "Event of Default" with respect to such series of Bonds:

(a) Default in the payment of the principal of or interest on a series of Bonds 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 a series of 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 such series of Bonds then Outstanding, including enforcement of any rights of the Council or the Trustee under the related Loan Agreements, and including the right to mandamus proceedings.

(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 such series of 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 of such series, 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 of such series 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.

If an Event of Default relating to a particular series of Bonds 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 of such series 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 of such series.

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 of a series 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 of a series 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 of a series 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 Section 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 of a series 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 of a series 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 of a series over any other Bond of a series, 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 affected thereby 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 has received notice or has knowledge of an Event of Default specified in Section 9.01 hereof and within two (2) days of any (i) withdrawal of amounts on deposit in the Reserve Fund to pay debt service due to a deficiency; or (ii) 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 event of default shall be waived, without the Bond Insurer's consent.

(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) in accordance with 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 grant consents on behalf of and to control and direct the enforcement of all rights and remedies granted to the Bondholders for the benefit of the Bondholders under this Indenture.

(d) The rights granted to the Bond Insurer under this Indenture or any Bond document to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and such action does not evidence any position of the Bond Insurer, affirmative or negative, as to whether the consent of the Bondowners or any other person is required in addition to the consent of the Bond Insurer.

(e) No contract shall be entered into or any action taken by which the rights of the Bond Insurer or security for or sources of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Bond Insurer.

(Remainder of this page intentionally left blank)

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 \$50,000,000 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 Council may remove the Trustee at any time without cause, by an instrument or concurrent instruments in writing delivered to the Trustee so removed and consented to 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 provided, that all amounts owing to the Trustee shall be paid simultaneous with or prior to such removal. The Trustee may be removed at any time for cause by the Bond Insurer, with notice to the Council.

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. 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 or security of the Bondholders will be adversely affected by any action, amendment, consent, waiver, or other 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.

(Remainder of this page intentionally left blank)

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 any of series of Bondholders any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon such Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, is not to the material prejudice of such 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.

(Remainder of this page intentionally left blank)

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 a Surety Bonds pursuant to Section 4.08(c) hereof.

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 Funds) 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 Funds) 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.

(Remainder of this page intentionally left blank)

C-34

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 or (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.

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, Suite 300
Tallahassee, Florida 32301

Bond Insurer: Assured Guaranty Municipal Corp.
31 West 52nd Street
New York, New York 10019
Attn: Managing Director-Surveillance

Trustee: Deutsche Bank Trust Company Americas
Trust & Securities Services (Municipal Group)
60 Wall Street
Mail Stop 2715
New York, New York 10005

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.

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:
Title: Chairman

ATTEST:

FLORIDA LEAGUE OF CITIES, INC.,
Program Administrator

By: _____
Name: Michael Sittig
Title: Executive Director

C-35

TRUST INDENTURE

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Trustee

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

EXHIBIT A

[FORM OF BOND]

No. R- _____

\$

FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BOND
SERIES 2010[A][B][C][D]

Maturity Date: Interest Rate: Dated Date: CUSIP:

Registered Owner: Cede & Co.

Principal Amount: _____ DOLLARS

FLORIDA MUNICIPAL LOAN COUNCIL, a legal entity duly created and existing under the Constitution and laws of the State of Florida (the "Council"), for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor as hereinafter mentioned) to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above (subject to any right of prior redemption hereinafter mentioned), the Principal Amount identified above, in lawful money of the United States of America; and to pay interest thereon in like lawful money from _____, 2010, until payment of said Principal Amount has been made or duly provided for, at the Interest Rate set forth above on ____ 1, 20__, and on each _____ 1 and _____ 1 thereafter (an "Interest Payment Date"), unless interest on this Bond is in default, in which event it shall bear interest from the last date to which interest has been paid until payment of such Principal Amount shall be discharged as provided in the Indenture hereinafter mentioned. The principal (or redemption price) hereof is payable upon presentation hereof at the principal office of Deutsche Bank Trust Company Americas, as Paying Agent and Registrar (together with any successor thereto, the "Paying Agent" and the "Registrar"). Interest hereon is payable by check mailed, except as provided in the Indenture, to the person whose name appears on the bond registration books maintained by the Registrar as the Registered Owner hereof as of the close of business on the 15th day of the calendar month preceding each Interest Payment Date, at such person's address as it appears on such registration books.

This Bond is one of a duly authorized issue of bonds of the Council designated as "Florida Municipal Loan Council Revenue Bonds, Series 2010[A][B][C][D]" (the "Bonds"), issued in the aggregate principal amount of _____ Dollars (\$_____,000), pursuant to the provisions of Chapter 163, Part I, Florida Statutes, and other applicable provisions of law (collectively, the "Act"), and pursuant to a Trust Indenture, dated as of ____ 1, 2010, between

the Council and Deutsche Bank Trust Company Americas, (the "Trustee") (together with any supplements or amendments thereto, the "Indenture"). The Bonds are issued for the purpose of providing funds to make a loan to the _____ (the "Borrower") to finance, refinance or reimburse the costs of various capital projects, pursuant to a loan agreement between the Council and such Borrower (together with any supplements or amendments thereto, the "Loan Agreement").

Capitalized terms used but not defined herein shall have the meaning set forth in the Indenture.

Reference is hereby made to the Indenture (a copy of which is on file at the principal corporate trust office of the Trustee) and to the Act for a description of the rights and remedies thereunder (and limitations thereon) of the registered owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Council thereunder, to all the provisions of which Indenture the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds and the interest thereon are payable from Revenues (as defined in the Indenture) and are secured by a pledge and assignment of said Revenues and of amounts held in certain funds and accounts established pursuant to the Indenture (including proceeds of the sale of the Bonds until applied as set forth therein), subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Bonds are further secured by an assignment of the right, title and interest of the Council in the Loan Agreement to the Trustee, to the extent and as more particularly described in the Indenture.

[insert redemption provisions]

In addition, the Bonds are also subject to extraordinary mandatory redemption (as a result of acceleration pursuant to the Indenture) 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 (as such terms are defined in the Indenture) received by the Trustee as a result of an acceleration of any Loan. If Bonds are to be redeemed in part by extraordinary mandatory redemption, the Bonds to be redeemed will be selected on a proportionate basis from among all of the maturities of such Bonds which correspond to the maturities of such Loan and within each maturity by lot.

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 as provided in the Indenture. 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. On the redemption date, the principal amount and premium, if any, of each Bond to be redeemed, together with the accrued interest thereon to such date, shall become due and payable; 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 Council shall be under no further liability in respect thereof.

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 financial guaranty insurance policy, and the Bonds are accelerated or redeemed pursuant to the terms of the Indenture or Loan, the Bond Insurer may pay all or a portion of amounts due under the Bonds to the Owners thereof prior to the stated maturity dates thereof.

If an Event of Default (as defined in the Indenture) shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture. The Indenture provides that in certain events such declaration and its consequences may be rescinded.

The Indenture and the rights and obligations of the Council and of the Bondholders and of the Trustee may be modified or amended from time to time and at any time, without consent of the Bondholders in the manner, to the extent and upon the terms provided in the Indenture.

The Bonds are limited obligations of the Council and are not a lien or charge upon the funds or property of the Council, except to the extent of the herein mentioned pledge and assignment. Neither the State of Florida nor the Council shall be obligated to pay the principal of the Bonds, or the interest thereon, except from Revenues received by the Council, and neither the faith and credit nor the taxing power of the State of Florida or of any political subdivision or any municipal corporation thereof is pledged to the payment of the principal of, or interest on, the Bonds. The Bonds are not a debt of the State of Florida and said State is not liable for the payment thereof.

It is hereby certified and recited that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Act, as hereinafter defined, and by the Constitution and laws of the State of Florida, and that the amount of this Bond, together with all other indebtedness of the Council, does not exceed any limit prescribed by the Act, or by the Constitution and laws of the State of Florida, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been signed by the Registrar.

IN WITNESS WHEREOF, FLORIDA MUNICIPAL LOAN COUNCIL has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its Chairman and its seal to be reproduced hereon by facsimile and attested by the manual or facsimile signature of its Executive Director all as of the date of the Bonds.

(SEAL) FLORIDA MUNICIPAL LOAN COUNCIL
By: _____
Chairman
Attest: _____
Executive Director

VALIDATION CERTIFICATE

This Bond is one of a series of Bonds which were validated and confirmed by judgment of the Circuit Court for Leon County, Florida, rendered on February 13, 2003.

By: _____
Chairman

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within-mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Registrar
Date of Authentication: _____
By: _____
Authorized Signer

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto _____
the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s) attorney, to transfer the same on the books of the Registrar with full power of substitution in the premises.

Dated: _____
Signature guaranteed: _____

STATEMENT OF INSURANCE

[END OF BOND FORM]

C-38

EXHIBIT B

BORROWERS

Series 2010A
Series 2010B
Series 2010C
Series 2010D

City of Palatka, Florida
Village of Palmetto Bay, Florida
City of Valparaiso, Florida
City of West Melbourne, Florida

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

FORM OF THE LOAN AGREEMENT

**[Form of the Loan Agreement for the City of Palatka
contains provisions relating to its separate sources of security as described.]**

[THIS PAGE INTENTIONALLY LEFT BLANK]

LOAN AGREEMENT

By and Between

FLORIDA MUNICIPAL LOAN COUNCIL

and

[BORROWER]

Dated as of August 1, 2010

FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BONDS, SERIES 2010[A][B][C][D]

This Instrument Prepared By:

JoLinda Herring, Esq.
Bryant Miller Olive P.A.
One Biscayne Tower
2 S. Biscayne Boulevard, Suite 1480
Miami, Florida 33131

and

Grace E. Dunlap, Esq.
Bryant Miller Olive P.A.
One Tampa City Center, Suite 2700
Tampa, Florida 33602

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I - DEFINITIONS	5
ARTICLE II - REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER AND COUNCIL	12
SECTION 2.01. Representations, Warranties and Covenants.....	12
SECTION 2.02. Covenants of Borrower.....	15
ARTICLE III - THE LOAN.....	20
SECTION 3.01. The Loan	20
SECTION 3.02. Evidence of Loan	20
ARTICLE IV - LOAN TERM AND LOAN CLOSING REQUIREMENTS.....	21
SECTION 4.01. Commencement of Loan Term.....	21
SECTION 4.02. Termination of Loan Term	21
SECTION 4.03. Loan Closing Submissions	21
ARTICLE V - LOAN REPAYMENTS.....	23
SECTION 5.01. Payment of Basic Payments	23
SECTION 5.02. Payment of Surety Bond Costs	23
SECTION 5.03. Payment of Additional Payments.....	23
SECTION 5.04. Interest Earnings or Investment Losses and Excess Payments.....	24
SECTION 5.05. Obligations of Borrower Unconditional.....	25
SECTION 5.06. Refunding Bonds.....	25
SECTION 5.07. Prepayment	25
ARTICLE VI - DEFEASANCE.....	26
ARTICLE VII - ASSIGNMENT AND PAYMENT BY THIRD PARTIES	27
SECTION 7.01. Assignment by Council	27
SECTION 7.02. Assignment by Borrower	27
SECTION 7.03. Payments by the Bond Insurer	27
SECTION 7.04. Payments by the Surety Bond Provider	27
ARTICLE VIII - EVENTS OF DEFAULT AND REMEDIES	28
SECTION 8.01. Events of Default Defined	28
SECTION 8.02. Notice of Default.....	29
SECTION 8.03. Remedies on Default.....	29
SECTION 8.04. [Reserved].....	30
SECTION 8.05. No Remedy Exclusive; Waiver, Notice	30
SECTION 8.06. Application of Moneys	30

ARTICLE IX - MISCELLANEOUS	31
SECTION 9.01. Notices.....	31
SECTION 9.02. Binding Effect.....	31
SECTION 9.03. Severability	32
SECTION 9.04. Amendments, Changes and Modifications	32
SECTION 9.05. Execution in Counterparts	32
SECTION 9.06. Applicable Law	32
SECTION 9.07. Benefit of Bondholders; Compliance with Indenture.....	32
SECTION 9.08. Consents and Approvals	32
SECTION 9.09. Immunity of Officers, Employees and Members of Council and Borrower	32
SECTION 9.10. Captions.....	33
SECTION 9.11. No Pecuniary Liability of Council.....	33
SECTION 9.12. Payments Due on Holidays	33
SECTION 9.13. Calculations.....	33
SECTION 9.14. Time of Payment.....	33

EXHIBIT A USE OF LOAN PROCEEDS	
EXHIBIT B CERTIFIED [ORDINANCE][RESOLUTION] OF BORROWER	
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 August 1, 2010 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 August 1, 2010, 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 2010[A][B][C][D]" (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.

"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

D-3

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 Assured Guaranty Municipal Corp. and any successors thereto.

“Bonds” means the \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2010[A][B][C][D] issued pursuant to Article II of the Indenture.

“Bond Year” means a 12-month period beginning on October 2 and ending on and including the following October 1, except for the first period which begins on August 25, 2010.

“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 Series 2010 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) non-callable direct obligations of the United States of America ("Treasuries"), (ii) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (iii) subject to the prior written consent of the Bond Insurer, pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, (v) subject to the prior written consent of the Bond Insurer, securities eligible for "AAA" defeasance under then existing criteria of S&P or (vi) any combination of the foregoing, unless the Bond Insurer otherwise approves.

"Indenture" means the Trust Indenture dated as of August 1, 2010 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 April 1 and October 1 of each year, commencing April 1, 2011.

"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 March 20, 2011, and thereafter each September 20th and March 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 [Series 2010A] Principal Fund 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 and with respect to the Borrower’s financing hereunder means the Project described on Exhibit A hereof.

“Project Loan Fund” means the [Series 2010A][Series 2010B][Series 2010C][Series 2010D] Project Loan Fund established pursuant to Section 4.02 of the Indenture.

“Proportionate Share” means, with respect to the Borrower, a fraction the numerator of which is the outstanding principal amount of the Loan of the 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 Series 2010 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 [Series 2010A] [Series 2010A] [Series 2010B] [Series 2010C] [Series 2010D] Reserve Fund created by Section 4.02 of the Indenture.

“Revenue Fund” means the [Series 2010A] [Series 2010B][Series 2010C] [Series 2010D] Revenue Fund 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.

“Series 2010 Bonds” means collectively, the Council’s \$7,665,000 Florida Municipal Loan Council Revenue Bonds, Series 2010A, \$14,780,000 Florida Municipal Loan Council Revenue Bonds, Series 2010B, \$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C and \$3,820,000 Florida Municipal Loan Council Revenue Bonds, Series 2010D issued pursuant to Article II of the Indenture.

“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.

“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 Deutsche Bank Trust Company Americas, as Trustee, or any successor thereto under the Indenture.

“Underwriters” means collectively, Wells Fargo Bank, National Association and Merrill Lynch Pierce Fenner & Smith Incorporated.

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, the Underwriters 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, the Underwriters 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, the Underwriters 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 expects to obtain when required, 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 and to fund its Reserve Fund. 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 August ____, 2013, 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, the Trustee or the Bond Insurer (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 August ____, 2013. 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 directly 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 secured by Non-Ad Valorem Revenues. 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 and for depositing a portion of the proceeds in the amount of \$_____ into the Reserve Fund.

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 August ____, 2013, 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.

D-12

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 March 20th and September 20th, or if such day is not a Business Day, the next preceding Business Day (a "Loan Repayment Date"), commencing March 20, 2011, and extending through September 20, 20__, unless the due date of the Basic Payments is accelerated pursuant to the terms of Section 8.03 hereof.

SECTION 5.02. [Reserved]

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 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 (ii) costs and fees related to the Series 2010[A][B][C][D] Bonds: the annual fees of the Trustee; annual fees of the Registrar and Paying Agent; the annual fees or expenses of the Council, if any, including the fees of any provider of arbitrage rebate calculations; the fees of the rating agencies (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) any amounts owed to the United States of America as rebate obligations on the [Series 2010A][Series 2010B][Series 2010C][Series 2010D] Bonds related to the Borrower's Loan, which obligation shall survive the termination of this Loan Agreement.

(c) For replenishment of the [Series 2010A] [Series 2010B][Series 2010C][Series 2010D] Reserve Fund held by the Trustee an amount equal to any amount drawn by the Borrower (or on behalf of the Borrower) from the [Series 2010A] Reserve Fund 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 replenish the [Series 2010A][Series 2010B][Series 2010C][Series 2010D] Reserve Fund. The Borrower shall repay such amount drawn on the [Series 2010A] [[Series 2010B][Series 2010C][Series 2010D] Reserve Fund due to the Borrower's failure to pay its Basic Payments with the first available funds after payment of the current Loan Repayment.

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, the Trustee or the Bond Insurer. 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 and the Bond Insurer.

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.

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, the payment of which would materially adversely affect the Borrower's ability to meet its obligations hereunder (it being agreed that, if insurance or adequate reserves are available to make such payment, such judgment would not materially affect the Borrower's ability to meet its obligations hereunder) 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 or other applicable law.

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: Assured Guaranty Municipal Corp.
31 West 52nd Street
New York, New York 10019
- Trustee: Deutsche Bank Trust Company Americas
Trust & Securities Services (Municipal Group)
60 Wall Street, 27th Floor
New York, New York 10005

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

Deutsche Bank Trust Company Americas
Trust & Securities Services (Municipal Group)
60 Wall Street, 27th Floor
New York, New York 10005

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.

(SEAL)

FLORIDA MUNICIPAL LOAN COUNCIL

By: _____
Name:
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 _____, 2010.

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. ____

D-19

EXHIBIT C

OPINION OF BORROWER'S COUNSEL

[Letterhead of Counsel to Borrower]

_____, 2010

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

Deutsche Bank Trust Company Americas
Trust & Securities Services (Municipal Group)
60 Wall Street, 27th Floor
New York, New York 10005

Bryant Miller Olive P.A.
One Tampa City Center
201 North Franklin Street, Suite 2700
Tampa, Florida 33602

Wells Fargo Bank, National Association, as
representative of the Underwriters
2363 Gulf-to-Bay Boulevard
Mail Code: WS7517
Clearwater, Florida 33765

[Bond Insurer]

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 _____, 2010 (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, Trust Indenture dated as of August 1, 2010 (the "Indenture") between the Council and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), Ordinance No. _____ enacted by the Borrower on _____, 2010 (the "Ordinance"), a Continuing Disclosure Agreement dated as of _____ 1, 2010 (the "Continuing Disclosure Agreement") between the Borrower and the Florida League of Cities, Inc., and a Bond Purchase Contract dated August 13, 2010 (the "Bond Purchase Contract") between the Council, Wells

Fargo Bank, National Association, on behalf of itself and Merrill Lynch, Pierce, Fenner & Smith, Incorporated, and the City of Palatka, the Village of Palmetto Bay, the City of Valparaiso and the City of West Melbourne (jointly, the "Borrowers"). 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 described in the Official Statement or otherwise 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.

D-20

(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 (i) the status of interest on the Bonds under either Federal laws or the laws of the State of Florida, or (ii) economic or financial matters described in the Official Statement relating to the Borrower.

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>
-------------	------------------------------	--------------------------	-----------------	--------------

*Loan repayments are actually due _____ 20th and _____ 20th of each year.

[TO COME]

EXHIBIT E TO LOAN AGREEMENT

FORM OF REQUISITION CERTIFICATE

TO: DEUTSCHE BANK TRUST COMPANY AMERICAS, AS TRUSTEE

FROM: [BORROWER] (THE "BORROWER")

SUBJECT: LOAN AGREEMENT DATED AS OF THE 1ST DAY OF _____, 2010

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 _____, 2010.

[BORROWER]

By: _____
Name:
Title:

[THIS PAGE INTENTIONALLY LEFT BLANK]

D-22

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

RE: \$7,665,000 Florida Municipal Loan Council Revenue Bonds, Series 2010A
 \$14,780,000 Florida Municipal Loan Council Revenue Bonds, Series 2010B
 \$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C
 \$3,820,000 Florida Municipal Loan Council Revenue Bonds, Series 2010D

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Florida Municipal Loan Council (the "Council") of its \$7,665,000 Florida Municipal Loan Council Revenue Bonds, Series 2010A (the "Series 2010A Bonds"), \$14,780,000 Florida Municipal Loan Council Revenue Bonds, Series 2010B (the "Series 2010B Bonds"), \$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C (the "Series 2010C Bonds") and \$3,820,000 Florida Municipal Loan Council Revenue Bonds, Series 2010D (the "Series 2010D Bonds" and together with the Series 2010A Bonds, the Series 2010B Bonds and the Series 2010C Bonds, collectively referred to herein as 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, a Trust Indenture dated as of August 1, 2010, between the Council and Deutsche Bank Trust Company Americas, as Trustee (the "Indenture"), and Resolution No. 2002-04 adopted by the Council on October 23, 2002, as amended and supplemented by Resolution No. 2010-02 adopted March 25, 2010, as amended by Resolution No. 2010-04 adopted June 3, 2010 (collectively, the "Resolution"). In such capacity, we have examined such law and certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion. Any capitalized undefined terms used herein shall have the meanings set forth in the Indenture.

The proceeds of the Bonds will be loaned to the City of Palatka, Florida, Village of Palmetto Bay, Florida, City of Valparaiso, Florida and the City of West Melbourne, 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 and others furnished to us, without undertaking to verify the same by independent investigation. We have not undertaken an independent audit, examination, investigation or inspection of such matters and have relied solely on the facts, estimates and circumstances described in such proceedings and certifications. We have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

In rendering this opinion, we have examined and relied upon the opinion of even date herewith of Kraig A. Conn, Esquire, Counsel to the Council, as to the due creation and valid existence of the Council, the due adoption of the Resolution, the due 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 or indebtedness 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.

The opinions set forth below are expressly limited to, and we opine only with respect to, the laws of the State of Florida and the federal income tax laws of the United States of America.

Based on our examination, we are of the opinion that under existing law:

1. The Resolution constitutes a valid and binding obligation of the Council enforceable against the Council in accordance with its terms.
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. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest on the Series 2010B Bonds, the Series 2010C Bonds and the Series 2010D Bonds is not taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. Interest on the Series 2010A Bonds may be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer complies with all requirements of the Internal Revenue Code of 1986, as amended, (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Council has covenanted in the Indenture to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. 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.

For purposes of this opinion, we have not been engaged or undertaken to review and, therefore, express no opinion herein regarding the accuracy, completeness or adequacy of the Official Statement or any other offering material relating to the Bonds. This opinion should not be construed as offering material, an offering circular, prospectus or official statement and is not intended in any way to be a disclosure statement used in connection with the sale or delivery of the Bonds. 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 underwriter with any federal or state statute, regulation or ruling with respect to the sale and distribution of the Bonds or regarding the perfection or priority of the lien on the revenues pledged and created by the Indenture. Further, we express no opinion regarding federal income tax consequences arising with respect to the Bonds other than as expressly set forth herein.

Florida Municipal Loan Council
[Dated Date of Closing]
Page 4

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.

APPENDIX F

FINANCIAL INFORMATION REGARDING CITY OF PALATKA

[THIS PAGE INTENTIONALLY LEFT BLANK]

City of Palatka, Florida
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances/Equity
 General Fund
 For the Fiscal Years Ended September 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Revenues:			
Taxes	7,107,720	7,511,986	6,865,963
Licenses and Permits	199,194	191,364	207,494
Intergovernmental	1,676,773	1,367,611	1,903,417
Charges for Services	196,549	176,968	176,629
Fines and forfeitures	75,607	85,850	112,850
Miscellaneous:	<u>188,746</u>	<u>190,912</u>	<u>257,181</u>
Total Revenues	9,444,589	9,524,691	9,523,534
 Expenditures:			
Current:			
General government	1,022,291	3,900,803	1,442,668
Public Safety	7,546,297	6,127,251	5,875,853
Physical environment	57,554	163,198	780,123
Transportation	1,393,241	759,315	0
Economic environment	0	0	284,176
Human Services	257,208	227,715	1,038,817
Culture and recreation	708,890	897,530	
Debt Service:			
Principal retirement	109,527	522,124	449,966
Interest and Fiscal Charges	<u>29,826</u>	<u>46,783</u>	<u>203,215</u>
Total expenditures	<u>11,124,834</u>	<u>12,644,719</u>	<u>10,074,818</u>
Excess (Deficiency) of revenues over (under) expenditures	(1,680,245)	(3,120,028)	(551,280)
 Other financing sources (uses):			
Transfers In	247,957	245,000	275,000
Transfers Out	(30,000)	(46,138)	(48,473)
Debt Issued	1,379,225	3,243,802	
Total other financing sources (uses)	1,597,182	3,442,664	226,527
Net change in fund balances	(83,063)	322,636	(324,753)
 Fund balances - beginning	<u>1,767,288</u>	<u>1,684,225</u>	<u>2,006,861</u>
Fund balances - ending	<u><u>1,684,225</u></u>	<u><u>2,006,861</u></u>	<u><u>1,682,108</u></u>

Independent Auditors' Report

Carr, Riggs & Ingram, LLC
906 South State Road 19
Palatka, Florida 32177

(386) 325-4561
(386) 328-1014 (fax)
www.cricpa.com

The Honorable Mayor and
City Commissioners
City of Palatka, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palatka, Florida (the "City"), as of and for the year ended September 30, 2009, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

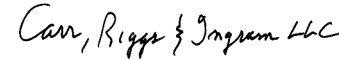
In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor and City Commissioners
City of Palatka, Florida

Page Two

Management's Discussion and Analysis and the required supplementary information listed in the table of contents 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 City's basic financial statements. The information listed in the table of contents as "supplemental information", and the Schedule of Expenditures of Federal Awards and State Financial Assistance, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, Rules of the Auditor General, are presented for purposes of additional analysis and are 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. The introductory section and the information provided in the statistical section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



April 20, 2010
Palatka, Florida

**City of Palatka
Management's Discussion and Analysis
September 30, 2009**

As management of the City of Palatka, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page i of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$45,815,095. Of this amount, \$8,745,032 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$7,172,950 (18.56%). Due to the millage rate of 8.65 mills, grants, one-cent discretionary sales tax and telecommunications tax, governmental net assets increased by \$433,018 (3.15%). The Enterprise funds net assets increased by \$6,739,932 (27.07%) due to grants received during the fiscal year.
- The total net assets in the Enterprise funds were: Water \$17,162,403, Sanitation \$448,981, Golf \$131,289 and Airport \$13,893,796.
- As of September 30, 2009, the City's governmental funds reported combined ending fund balances of \$3,275,044, a decrease of \$169,076 (4.91%).
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$1,682,108 or 16.62% of total General Fund expenditures and transfers out for recurring operational costs reported in other funds. (i.e. transfer to golf) Downtown Redevelopment Agency fund balance was \$1,322,507.
- Net assets of the General, Police and Firefighter's Pension Trust Funds decreased by \$66,905, \$160,238 and \$138,268, respectively. These decreases were the result of lower than anticipated interest gains on investments as well as benefits that were paid to members of the pension funds.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City of Palatka's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *State of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected taxes and earned but unused vacation leave).

The *Government-wide Financial Statements* distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and drainage, economic development and culture and recreation. The business type activities of the City include the utility (water and wastewater), the airport, the golf course, sanitation and the component unit, gas authority.

The government-wide financial statements include not only the City of Palatka, but also the Palatka Gas Authority, an independent component unit of the City. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 1 & 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Palatka can be divided into three categories: governmental funds, proprietary fund, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund and the Downtown Redevelopment Agency fund, which are considered major funds. Data from the non-major governmental fund is included in the Other Governmental fund column.

The City adopts an annual appropriated budget for its General fund and the Downtown Redevelopment special revenue fund. Budgetary comparison schedules have been provided for the General fund and Downtown Redevelopment special revenue fund in the required supplementary information section.

The basic governmental fund financial statements can be found on pages 3 - 6 of this report.

Proprietary Funds

The City maintains several enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Utility, Golf, Airport and Sanitation operations, as well as the independent Gas Authority.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the funds listed above, all of which are considered to be major funds of the City.

The proprietary fund financial statements can be found on pages 7 - 10 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 11 & 12 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 35 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning budgetary comparisons and the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 36-41 of this report.

Combining fund statements can be found on pages 42-43 of this report immediately following the required supplementary information.

Government-wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Palatka, assets exceeded liabilities by \$45,815,095 at the close of the most recent fiscal year.

The majority of the City's net assets (75.67%) rest in its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire these assets that is still outstanding. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Palatka
Summary of Net Assets
For the Year Ended September 30, 2009**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$3,470,487	\$3,747,852	\$10,645,962	\$11,466,120	\$14,116,449	\$15,213,972
Capital assets	\$15,062,191	\$14,844,802	\$46,010,750	\$34,852,610	\$61,072,941	\$49,697,412
Total assets	\$18,532,678	\$18,592,654	\$56,656,712	\$46,318,730	\$75,189,390	\$64,911,384
Long-term liabilities						
Outstanding	\$4,171,284	\$4,582,250	\$22,735,739	\$19,698,990	\$26,907,023	\$24,281,240
Other liabilities	\$182,768	\$264,796	\$2,284,504	\$1,723,203	\$2,467,272	\$1,987,999
Total liabilities	\$4,354,052	\$4,847,046	\$25,020,243	\$21,422,193	\$29,374,295	\$26,269,239
Net assets:						
Invested in capital assets,						
net of related debt	\$11,281,907	\$10,614,552	\$23,384,736	\$15,276,203	\$34,666,643	\$25,890,755
Restricted	\$1,592,936	\$1,437,259	\$810,484	\$792,708	\$2,403,420	\$2,229,967
Unrestricted	\$1,303,783	\$1,693,797	\$7,441,249	\$8,827,626	\$8,745,032	\$10,521,423
Total net assets	\$14,178,626	\$13,745,608	\$31,636,469	\$24,896,537	\$45,815,095	\$38,642,145

An additional portion of the City's net assets \$2,403,420 (5.25%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$8,745,032 (19.09%) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

Change in Net Assets

Governmental activities increased the City's net assets by \$433,018 thereby accounting for 6.04% of the total growth in the net assets of the City. Key elements of this increase were the ad valorem revenue as well as other taxes that the City received during the year.

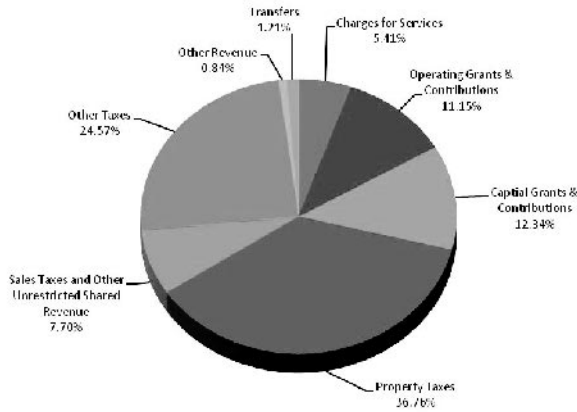
**City of Palatka
Changes in Net Assets
For the year ended September 30, 2009**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for Services	\$564,866	\$533,944	\$6,460,995	\$6,580,750	\$7,025,861	\$7,114,694
Operating Grants & Contributions	\$1,163,584	\$705,287			\$1,163,584	\$705,287
Capital Grants & Contributions	\$1,288,072	\$1,090,723	\$8,242,870	\$6,301,063	\$9,530,942	\$7,391,786
General Revenues:						
Property Taxes	\$3,836,383	\$3,942,201			\$3,836,383	\$3,942,201
Sales Taxes and Other Unrestricted						
Shared Revenues	\$803,775	\$863,426			\$803,775	\$863,426
Other Taxes	\$2,564,396	\$3,013,264			\$2,564,396	\$3,013,264
Other Revenue	\$87,690	\$131,350	\$289,030	\$542,801	\$376,720	\$674,151
Total Revenues	\$10,308,766	\$10,280,195	\$14,992,895	\$13,424,614	\$25,301,661	\$23,704,809
Expenses:						
General Government	\$768,892	\$852,906			\$768,892	\$852,906
Public Safety	\$6,005,490	\$6,210,601			\$6,005,490	\$6,210,601
Physical Environment	-	\$295,824			-	\$295,824
Transportation	\$1,129,653	\$973,566			\$1,129,653	\$973,566
Economic Environment	\$579,661	\$148,148			\$579,661	\$148,148
Human Services	\$266,804	\$232,009			\$266,804	\$232,009
Culture/Recreation	\$1,048,560	\$822,526			\$1,048,560	\$822,826
Interest on Long-Term Debt	\$203,215	\$49,532			\$203,215	\$49,532
Water			\$4,550,364	\$4,342,447	\$4,550,364	\$4,342,447
Sanitation			\$1,393,713	\$1,473,689	\$1,393,713	\$1,473,689
Golf Course			\$908,883	\$1,014,105	\$908,883	\$1,014,105
Airport			\$1,273,476	\$1,127,150	\$1,273,476	\$1,127,150
Total Expenses	\$10,002,275	\$9,585,412	\$8,126,436	\$7,957,391	\$18,128,711	\$17,542,803
Increase in Net Assets before Transfers	\$306,491	\$694,783	\$6,866,459	\$5,467,223	\$7,172,950	\$6,162,006
Transfers	\$126,527	\$212,910	(\$126,527)	(\$212,910)	\$0	\$0
Increase in Net Assets	\$433,018	\$907,693	\$6,739,932	\$5,254,313	\$7,172,950	\$6,162,006
Net Assets-Beginning of Year	\$13,745,608	\$12,837,915	\$24,896,537	\$19,642,224	\$38,642,145	\$32,480,139
Net Assets-End of Year	\$14,178,626	\$13,745,608	\$31,636,469	\$24,896,537	\$45,815,095	\$38,642,145

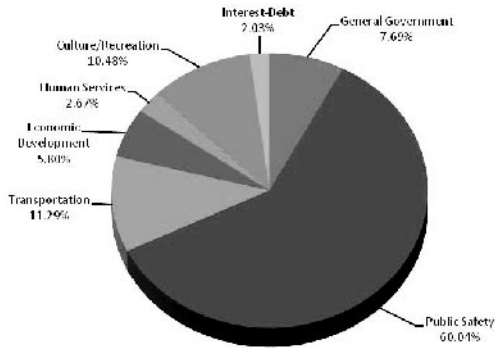
Governmental Activities

The City's total net assets increased \$7,172,950 over the previous year with an increase of \$433,018 resulting from governmental activities and an increase of \$6,739,932 from business activities. The primary reasons for these changes were ad-valorem revenue and grants that were received during the year.

Revenue by Source - Governmental Activity



Expenses - Governmental Activities



Business-type Activities

Business-type activities increased the City's net assets by \$6,739,932 accounting for a 93.96% growth in the City's net assets. Key elements in this increase are as follows:

Grant funds of \$3,699,390 were received from the Department of Environmental Protection and St. Johns River Water Management District for activities related to the Water Revenue fund. These funds were used for capital improvement projects for upgrading wastewater reuse lines and a water plant upgrade. These projects ultimately created an increase in net assets of \$2,931,022.

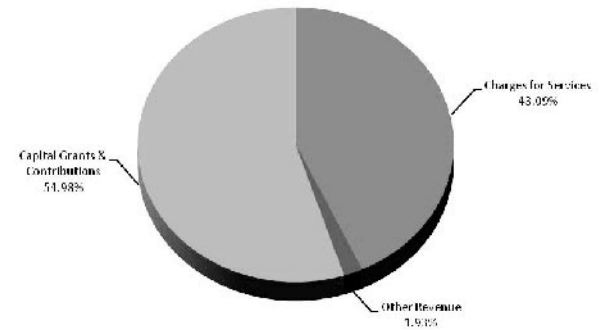
Activities related to the Sanitation fund caused an increase in net assets by \$75,214. This increase was due to a reduction in operating expenses.

Activities related to the Golf Course fund decreased net assets by \$133,897. This was due to an increase in interest expense as well as a substantial shortfall in anticipated revenues.

Grant funds in the amount of \$4,543,480 were received from the Federal Aviation Administration and the Florida Department of Transportation for activities related to the Airport fund. These grant funds were used for several capital improvement projects that included construction of a new terminal building, rehabilitation of parking aprons and several runways as well as drainage rehabilitation. These projects caused an increase in net assets of \$3,867,593. The net assets at the end of the fiscal year in the Airport fund totaled \$13,893,796.

The most significant expenses were improvements related to grants received. Operating expenses, which includes personnel and depreciation, for all enterprise funds increased by \$43,390.

Revenue by Source - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,275,044, a decrease of \$169,076 (4.91%) in comparison to the prior year. This total includes unreserved fund balance of \$1,682,108 in the General Fund, which is available for spending at the government's discretion.

General Fund

The general fund is the chief operating fund of the City. At the end of the current fiscal year General fund balance was \$1,682,108, a decrease of \$324,753 (16.18%) from the prior year. This was mostly due to the balance carried forward for the Discretionary Sales Surtax of \$404,637 from the prior year.

Local tax revenues are the primary sources of the City's tax revenue and are a combination of property tax, franchise, utility, sales tax and local option gas tax. Total taxes decreased by \$645,424 from the prior year.

Ad valorem taxes, which were accounted for in the general and special revenue funds was 8.65 mills and generated \$3,256,078, a decrease of \$107,213 from the prior year.

The General Fund had a decrease of \$2,569,905 in expenditures due to one-time expenditures in the General Government function during the prior fiscal year.

Unreserved fund balance in the General Fund decreased by \$324,753 from the prior year due to the General fund assisting the Airport and Golf Course with their debt service requirements.

Special Revenue Funds

The Downtown Redevelopment fund balance was \$1,322,507, a decrease of \$12,625 from the prior year. This was due to a new grant program that caused a substantial increase in expenditures. This increase, combined with a transfer of \$100,000 to assist in debt service payments for the Frank George land purchase during the prior fiscal year, caused the slight decrease in fund balance.

Other Governmental Funds fund balance was \$270,429, an increase of \$168,302 (165%) from the prior year. This was due to grant funds that were received for Community Development Block Grants from the Department of Community Affairs for two grant programs.

Proprietary Funds

Proprietary funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis is financed through user charges. The City operate four proprietary enterprise funds: the Water Revenue Fund, Municipal Golf Course Fund, Sanitation Fund, and Airport Fund.

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As of September 30, 2009, total proprietary fund net assets amounted to \$31,636,469.

Water Revenue Fund

The Water Revenue Fund accounts for revenues of the City's water and sewer systems. Several of the City's major projects and initiatives are directly related to the Water Revenue Fund. Operating revenue increased by \$118,927 or 3.2% from the prior year while expenses increased by a total of \$247,222 mostly due to an increase of \$219,686 in operating expenses. Unrestricted net assets at the end of the fiscal year for the water revenue fund amounted to \$7,023,277.

Sanitation Fund

There was an increase in operating revenue of \$24,219 or 1.6% from the prior year. Expenses decreased by a total of \$38,637, mostly due to a decrease in operating expenses of \$31,970. Personal services also decreased slightly from the prior year by \$6,667. Unrestricted net assets for the sanitation fund totaled \$93,699.

Golf Course Fund

Operating revenues decreased by \$28,498 or 3.77% from the prior year. Operating expenses, which had a substantial decrease from the prior year by \$207,859 or 20.68%, exceeded operating revenues by \$70,785. Unrestricted net assets decreased by \$86,964 to arrive at a negative unrestricted net asset balance of \$123,850 for the year. The city reduced expenses substantially during the fiscal year and is working to increase the revenues by offering special incentives to their customers.

Airport Fund

Operating revenue decreased by \$134,104 from the prior year due to the decrease in fuel prices. The airport received \$4,543,480 from state and federal grants. Unrestricted net assets of the airport fund totaled \$448,123 at fiscal year end.

Other factors concerning the finances of these four funds have already been addressed in the discussion of the City's business-type activities above.

General Fund Budgetary Highlights

The general fund budget was amended during the fiscal year by \$889,968 (including transfers) an increase of 9.24% over the original projections. These increases were mostly attributed to balance forwards and unanticipated revenues received during the year. The variance between original and final budget amounts for the year is composed of the following:

- Balance forward of \$404,637 from the Discretionary Sales Surtax that was pledged but not spent in fiscal year 2008. This was primarily spent in General Government and Transportation. Balance forward of \$175,092 was from leftover funds that were borrowed to purchase the Frank George property on the riverfront. Other balance forwards of \$172,316 from an assortment of contribution accounts that were earmarked for the cemetery, police and fire departments.

A comparison of actual revenues versus the final budget reflects that actual revenues, excluding transfers, were \$31,074 more than budgeted.

Significant variances in actual versus final budget expenditures were as follows:

- General Government expenditures were \$227,641 less than anticipated due to several projects in the Better Place Plan that were not completed and are being continued into the next fiscal year.
- Public Safety actual expenditures were \$118,756 less than final budget due to operating reductions along with grants and other projects that will carry forward to next fiscal year.
- Transportation expenditures were \$93,816 less due to decreased operating expenditures.

**Capital Asset and Debt Administration
City of Palatka Capital Assets
(Net of Depreciation)
For the Year Ended September 30, 2009**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land and Improvements	\$6,746,180	\$6,746,180	\$4,223,659	\$4,580,159	\$10,969,839	\$11,326,339
Buildings and Improvements	3,198,256	2,803,722	11,998,930	7,104,199	\$15,197,186	9,907,921
Infrastructure	2,743,254	2,909,118			\$2,743,254	2,909,118
Equipment	1,593,218	1,741,565	1,056,204	1,194,951	\$2,649,422	2,936,516
Water and Sewer Distributions System			11,564,601	11,749,548	\$11,564,601	11,749,548
Construction in Progress	781,283	644,217	17,167,356	10,223,753	\$17,948,639	10,867,970
	<u>\$15,062,191</u>	<u>\$14,844,802</u>	<u>\$46,010,750</u>	<u>\$34,852,610</u>	<u>\$61,072,941</u>	<u>\$49,697,412</u>

Capital Assets

The capital assets of the governmental funds are those assets used in the performance of general governmental functions and exclude the assets of the Enterprise Funds. As of September 30, 2009, the governmental capital assets of the City amounted to \$15,062,191, net of depreciation. This was an increase of \$217,389 over the prior year. Capital assets are recorded at historical cost or estimated historical cost, except for contributed assets, which are recorded at fair value at the date of contribution.

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2009, (net of accumulated depreciation) amounts to \$61,072,941. This investment in capital assets includes land, buildings, infrastructure, improvements, furniture, equipment, water and sewer distribution system and construction in progress. The total increase in the City's net investment in capital assets was \$11,375,529.

Major capital asset events during the fiscal year were in airport, water and transportation. The city received FAA and FDOT grants that paid 80% to 95% of the projects at the airport. The water fund received grants from the Department of Environmental Protection and the St. Johns River Water Management District. The capital asset expenditures of \$13,695,167 were for the following:

- Purchase of property and improvements to the riverfront.
- Rehabilitation of runways, runway lights, signage and drainage improvements at the airport.
- Construction in progress of terminal building and t-hangars. Installing security fence at airport.
- Construction in progress of a new water treatment plant.
- Wastewater reuse improvements.

Additional information on the City's capital assets is found in Note 4 in the notes to the financial statements.

Long-Term Debt

At September 30, 2009, the City had \$3,742,771 of revenue bonds & notes payable from specific general fund revenue sources other than ad valorem taxes. Also, outstanding were, \$5,383,638 Water and Sewer System Improvement and Refunding Bonds, Series 1998, payable from the net revenues of the Water and Sewer system and Public Service Tax Revenues; \$525,537 Water Reuse System Construction loan, payable from the net revenues of the Water and Sewer system; \$9,747,459 interim construction loan that is due August 2010; \$1,393,000 Satellite Meter Equipment Loan payable from half-cent sales tax revenue; \$1,429,450 Drinking Water State Revolving Fund Loan payable from the net revenues of the water and sewer system; \$1,671,875 Taxable Golf Course Revenue Note payable from the net revenues of the Golf Course and non-ad valorem taxes; \$700,000 Airport Hangar Revenue notes and a \$1,166,667 Airport Terminal Revenue Note payable from the net revenues of the Airport and non-ad valorem taxes; \$363,463 Sanitation note payable from the net revenues of the Sanitation system.

The City has no general obligation debt (debt secured by ad valorem taxes) outstanding.

At the end of the current fiscal year, the City had total debt outstanding of \$26,161,373. Of this amount, \$1,172,901 comprises debt backed by the full faith and credit of the City, \$143,563 water/sewer agreements with other agencies, \$37,513 of capital leases and the remainder represents bonds and notes secured solely by specified revenue sources (i.e., revenue bonds).

**City of Palatka
Long-Term Debt Obligations**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue Bonds	\$37,498	\$98,522	\$5,383,638	\$5,668,653	\$5,421,136	\$5,767,175
Notes Payable	3,705,273	4,026,577	16,997,451	13,647,844	20,702,724	17,674,421
Capital Lease Obligations	37,513	105,151	0	0	37,513	105,151
Water/Sewer Agreements			143,563	143,563	143,563	143,563
Total	<u>\$3,780,284</u>	<u>\$4,230,250</u>	<u>\$22,524,652</u>	<u>\$19,460,060</u>	<u>\$26,304,936</u>	<u>\$23,690,310</u>

The City's total long-term debt increased \$2,614,626 from the prior year, while the long-term liability for compensated absences also increased by \$11,157.

Governmental Activities:

- The City made the following principal payments during the year: revenue bonds - \$327,691; notes payable - \$54,637.
- Governmental obligations for compensated absences increased by 11.08% or \$39,000.

Business-type activities:

- The City entered into a \$1,393,000 Water meter equipment loan to install water meters that can be read remotely.
- The City received additional proceeds of \$1,832,380 for the interim construction loan for the water plant upgrade and a \$455,686 Drinking Water State Revolving Fund loan.
- The following principal payments were made during the year: revenue bonds - \$300,000, notes payable - \$331,459.
- Compensated absences decreased by 11.65% or \$27,843.

The City's current bond rating is Aaa from Moody's Investor Service. There are no limitations placed on the amount of debt the City may issue by either the City's charter, code of ordinances or Florida State Statutes.

Additional information on the City's long-term liabilities can be found in Note 5 in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Expected reductions in ad valorem taxes, state sales taxes and other fees received by the City will continue to place an extra burden on the city to maintain the level of service that we provide our citizens. We are continuing to limit capital improvement projects and capital outlay expenditures. We are now looking at reducing operating expenses so that all employees can be retained. However, we are not expecting to fill nonessential positions vacated due to attrition or retirement.

The City prepared balanced budgets for the 2009-2010 fiscal year, however the rates for both water and sewer usage were increased by \$2.00 to offset the additional operating budget and debt repayment associated with the new Water Treatment Plant. The millage rate was maintained at 8.65 mills; however additional reductions to operating and capital expenditures were necessary in order to achieve this.

A management team has been retained to oversee the operations at the golf course. This change has already seen the partnership of the City, County and Chamber to identify the resources it will take to make this viable entity. We are further expecting that this change will assist the City in increasing revenues and maximizing resources at the golf course. It is hopeful that within two years this facility will no longer be operating in the red.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Finance Director, 201 N. 2nd Street, Palatka, Florida 32177.

**City of Palatka, Florida
Statement of Net Assets
September 30, 2009**

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Palatka Gas Authority
ASSETS				
Cash and Equivalents	\$ 2,696,215	\$ 7,248,463	9,944,678	\$ 206,921
Investments	-	-	-	3,670,144
Accounts Receivable	31,940	474,575	506,515	130,329
Internal Balances	199,663	(199,663)	-	-
Due From Other Governments	523,395	1,515,319	2,038,714	-
Inventory	-	230,253	230,253	87,634
Mortgages Receivable	19,274	-	19,274	-
Other Assets	-	-	-	15,568
Restricted Cash and Equivalents	-	866,089	866,089	-
Restricted Investments	-	510,926	510,926	-
Capital Assets:				
Non-Depreciable	7,527,463	21,391,015	28,918,478	415,021
Depreciable, Net	7,534,728	24,619,735	32,154,463	1,582,797
TOTAL ASSETS	18,532,678	56,656,712	75,189,390	6,108,414
LIABILITIES				
Accounts Payable and Accrued				
Liabilities	158,000	1,903,657	2,061,657	46,876
Deposits	2,825	368,028	370,853	219,293
Net OPEB Obligation	21,943	12,819	34,762	-
Noncurrent Liabilities:				
Due Within One Year	489,818	10,697,298	11,187,116	-
Due in More Than One Year	3,681,466	12,038,441	15,719,907	28,800
TOTAL LIABILITIES	4,354,052	25,020,243	29,374,295	294,969
NET ASSETS				
Invested in Capital Assets, Net of				
Related Debt	11,281,907	23,384,736	34,666,643	1,997,818
Restricted For:				
Downtown Redevelopment	1,322,507	-	1,322,507	-
Housing and Community				
Development	270,429	-	270,429	-
Debt Service	-	45,216	45,216	-
Bond Reserve	-	594,376	594,376	-
Renewal and Replacement	-	51,439	51,439	-
Rate Stabilization	-	119,453	119,453	-
Unrestricted	1,303,783	7,441,249	8,745,032	3,815,627
TOTAL NET ASSETS	\$ 14,178,626	\$ 31,636,469	\$ 45,815,095	\$ 5,813,445

See accompanying notes.

City of Palatka, Florida
Statement of Activities
For the Year Ended September 30, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Palatka Gas Authority
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
PRIMARY GOVERNMENT:								
GOVERNMENTAL ACTIVITIES								
General Government	\$ 768,892	\$ 102,882	\$ -	\$ -	\$ (666,010)	\$ -	\$ (666,010)	\$ -
Public Safety	6,005,490	296,767	532,516	-	(5,176,207)	-	(5,176,207)	-
Transportation	1,129,653	51,654	359,745	732,946	14,692	-	14,692	-
Economic Environment	579,661	-	-	221,115	(358,546)	-	(358,546)	-
Human Services	266,804	95,914	261,348	-	90,458	-	90,458	-
Culture and Recreation	1,048,560	17,649	9,975	334,011	(686,925)	-	(686,925)	-
Interest on Long-Term Debt	203,215	-	-	-	(203,215)	-	(203,215)	-
TOTAL GOVERNMENTAL ACTIVITIES	10,002,275	564,866	1,163,584	1,288,072	(6,985,753)	-	(6,985,753)	-
BUSINESS-TYPE ACTIVITIES								
Water	4,550,364	3,628,361	-	3,699,390	-	2,777,387	2,777,387	-
Sanitation	1,393,713	1,533,927	-	-	-	140,214	140,214	-
Golf Course	908,883	726,113	-	-	-	(182,770)	(182,770)	-
Airport	1,273,476	572,594	-	4,543,480	-	3,842,598	3,842,598	-
TOTAL BUSINESS-TYPE ACTIVITIES	8,126,436	6,460,995	-	8,242,870	-	6,577,429	6,577,429	-
TOTAL PRIMARY GOVERNMENT	\$ 18,128,711	\$ 7,025,861	\$ 1,163,584	\$ 9,530,942	(6,985,753)	6,577,429	(408,324)	-
COMPONENT UNIT:								
Palatka Gas Authority	\$ 1,347,822	\$ 1,478,003	\$ -	\$ -	-	-	-	130,181
GENERAL REVENUES:								
Property Taxes					3,836,383	-	3,836,383	-
Sales Tax and Intergovernmental Unrestricted					-	-	-	-
Shared Revenues					803,775	-	803,775	-
Franchise Taxes					931,985	-	931,985	-
Utility Taxes					814,469	-	814,469	-
Communications Service Tax					817,942	-	817,942	-
Investment Earnings					55,790	56,140	111,930	132,409
Gain on Sale of Assets					-	22,174	22,174	8,000
Miscellaneous					31,900	210,716	242,616	-
Transfers					126,527	(126,527)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					7,418,771	162,503	7,581,274	140,409
CHANGE IN NET ASSETS					433,018	6,739,932	7,172,950	270,590
NET ASSETS – BEGINNING OF YEAR					13,745,608	24,896,537	38,642,145	5,542,855
NET ASSETS – END OF YEAR					\$ 14,178,626	\$ 31,636,469	\$ 45,815,095	\$ 5,813,445

See accompanying notes.

[THIS PAGE INTENTIONALLY LEFT BLANK]

City of Palatka, Florida
Balance Sheet
Governmental Funds
September 30, 2009

City of Palatka, Florida
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
September 30, 2009

	General Fund	Downtown Redevelopment Agency Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Equivalents	\$ 1,257,764	\$ 1,317,806	\$ 120,645	\$ 2,696,215
Accounts Receivable	27,239	4,701	-	31,940
Due from Other Funds	207,113	-	-	207,113
Due from Other Governments	350,817	-	172,578	523,395
Mortgages Receivable	-	-	19,274	19,274
TOTAL ASSETS	\$ 1,842,933	\$ 1,322,507	\$ 312,497	\$ 3,477,937
LIABILITIES				
Accounts Payable and Accrued Liabilities:	\$ 158,000	\$ -	\$ -	\$ 158,000
Due to Other Funds	-	-	7,450	7,450
Deposits	2,825	-	-	2,825
Deferred Revenue	-	-	34,618	34,618
TOTAL LIABILITIES	160,825	-	42,068	202,893
FUND BALANCES				
Unreserved, Reported In				
General Fund	1,682,108	-	-	1,682,108
Special Revenue Funds	-	1,322,507	270,429	1,592,936
TOTAL FUND BALANCES	1,682,108	1,322,507	270,429	3,275,044
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,842,933	\$ 1,322,507	\$ 312,497	\$ 3,477,937

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 3,275,044
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the governmental funds.	
Capital Assets – Net	15,062,191
Long-term liabilities are not reported in the governmental funds.	
Bonds and Notes Payable	(3,742,771)
Capital Leases	(37,513)
Compensated Absences	(391,000)
The Net OPEB Obligation is reported in the government-wide financial statements but is not reported in the governmental fund financial statements.	(21,943)
Liabilities for earned but unavailable revenue are reported in the governmental funds but not in the statement of net assets.	
Deferred Revenue	34,618
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 14,178,626

See accompanying notes.

See accompanying notes.

City of Palatka, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2009

City of Palatka, Florida
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
Governmental Funds
For the Year Ended September 30, 2009

F-11

	<u>General Fund</u>	<u>Downtown Redevelopment Agency Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 6,865,963	\$ 579,510	-	\$ 7,445,473
Licenses and Permits	207,494	-	-	207,494
Intergovernmenta	1,903,417	-	221,115	2,124,532
Charges for Services	176,629	-	-	176,629
Fines and Forfeitures	112,850	-	-	112,850
Miscellaneous	257,181	25,484	9,229	291,894
TOTAL REVENUES	<u>9,523,534</u>	<u>604,994</u>	<u>230,344</u>	<u>10,358,872</u>
EXPENDITURES				
Current:				
General Government	1,442,668	-	-	1,442,668
Public Safety	5,875,853	-	-	5,875,853
Transportation	780,123	-	-	780,123
Economic Environment	-	517,619	62,042	579,661
Human Services	284,172	-	-	284,172
Culture and Recreator	1,038,817	-	-	1,038,817
Debt Service:				
Principal Retirement	449,966	-	-	449,966
Interest and Fiscal Charge	203,215	-	-	203,215
TOTAL EXPENDITURES	<u>10,074,814</u>	<u>517,619</u>	<u>62,042</u>	<u>10,654,475</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(551,280)</u>	<u>87,375</u>	<u>168,302</u>	<u>(295,603)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	275,000	-	-	275,000
Transfers Out	(48,473)	(100,000)	-	(148,473)
TOTAL OTHER FINANCING SOURCES (USES)	<u>226,527</u>	<u>(100,000)</u>	<u>-</u>	<u>126,527</u>
NET CHANGE IN FUND BALANCES	(324,753)	(12,625)	168,302	(169,076)
FUND BALANCES – BEGINNING OF YEAR	<u>2,006,861</u>	<u>1,335,132</u>	<u>102,127</u>	<u>3,444,120</u>
FUND BALANCES – END OF YEAR	<u>\$ 1,682,108</u>	<u>\$ 1,322,507</u>	<u>\$ 270,429</u>	<u>\$ 3,275,044</u>

See accompanying notes.

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ (169,076)
Amounts reported for governmental activities in the statement of activities are 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.	
Acquisitions of Capital Assets	1,021,747
Current Year Depreciation Expense	(758,570)
In the statement of activities, only the gain or loss on the disposal of capital assets is reported. However, in the governmental funds, the change in net assets differs from the change in fund balance by the net book value of the assets disposed.	
Loss on disposal of capital assets	(45,788)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment does not effect net assets of governmental activities.	
Principal Payments	449,966
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.	
Compensated Absences	(39,000)
Net OPEB Obligation	(21,943)
The timing of revenue recognition sometimes differs between the governmental funds and governmental activities.	
Change in Deferred Revenues	(4,318)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 433,018

See accompanying notes.

City of Palatka, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2009

City of Palatka, Florida
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2009

	Business-type Activities – Enterprise Funds				Total Enterprise Funds
	Water Fund	Sanitation Fund	Golf Course Fund	Airport Fund	
CURRENT ASSETS					
Cash and Equivalents	\$ 7,041,558	\$ 9,879	\$ 42,180	\$ 154,846	\$ 7,248,463
Restricted Cash and Equivalents	100,821	-	-	-	100,821
Restricted Investments	465,710	-	-	-	465,710
Accounts Receivable	298,092	133,234	5,517	37,732	474,575
Due from Other Funds	7,450	-	-	-	7,450
Due from Other Governments	415,071	-	-	1,100,248	1,515,319
Inventory	164,940	-	14,667	50,646	230,253
TOTAL CURRENT ASSETS	8,493,642	143,113	62,364	1,343,472	10,042,591
NONCURRENT ASSETS					
Restricted Cash and Equivalents	765,268	-	-	-	765,268
Restricted Investments	45,216	-	-	-	45,216
Capital Assets, Net	28,052,652	718,745	1,927,014	15,312,339	46,010,750
TOTAL NONCURRENT ASSETS	28,863,136	718,745	1,927,014	15,312,339	46,821,234
TOTAL ASSETS	37,356,778	861,858	1,989,378	16,655,811	56,863,825
CURRENT LIABILITIES					
Accounts Payable and Accrued Liabilities	1,089,770	-	6,828	807,059	1,903,657
Due to Other Funds	-	-	134,786	72,327	207,113
Deposits	339,701	-	21,037	7,290	368,028
Net OPEB Obligation	6,735	3,259	2,173	652	12,819
Current Portion of Long-Term Liabilities	10,311,632	125,844	122,229	137,593	10,697,298
TOTAL CURRENT LIABILITIES	11,747,838	129,103	287,053	1,024,921	13,188,915
NONCURRENT LIABILITIES					
Long-Term Liabilities	8,446,537	283,774	1,571,036	1,737,094	12,038,441
TOTAL LIABILITIES	20,194,375	412,877	1,858,089	2,762,015	25,227,356
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	9,328,642	355,282	255,139	13,445,673	23,384,736
Restricted For Debt Service	45,216	-	-	-	45,216
Restricted for Bond Reserve	594,376	-	-	-	594,376
Restricted for Renewal and Replacement	51,439	-	-	-	51,439
Restricted for Rate Stabilization	119,453	-	-	-	119,453
Unrestricted	7,023,277	93,699	(123,850)	448,123	7,441,249
TOTAL NET ASSETS	\$ 17,162,403	\$ 448,981	\$ 131,289	\$ 13,893,796	\$ 31,636,469

See accompanying notes.

	Business-type Activities – Enterprise Funds				Total Enterprise Funds
	Water Fund	Sanitation Fund	Golf Course Fund	Airport Fund	
OPERATING REVENUES					
User Fees	\$ 3,628,361	\$ 1,533,927	\$ 726,113	\$ 572,594	\$ 6,460,995
Other Operating Revenues	205,515	-	400	4,801	210,716
TOTAL OPERATING REVENUES	3,833,876	1,533,927	726,513	577,395	6,671,711
OPERATING EXPENSES					
Personal Services	1,938,279	735,150	330,331	174,322	3,178,082
Operating Expenses	1,060,681	585,291	391,908	593,988	2,631,868
Depreciation and Amortization	711,999	57,633	75,059	400,247	1,244,938
TOTAL OPERATING EXPENSES	3,710,959	1,378,074	797,298	1,168,557	7,054,888
OPERATING INCOME (LOSS)	122,917	155,853	(70,785)	(591,162)	(383,177)
NONOPERATING REVENUES (EXPENSES)					
Investment Earnings	56,140	-	-	-	56,140
Interest Expense	(839,405)	(15,639)	(111,585)	(104,919)	(1,071,548)
Gain (Loss) on Disposal of Capital Assets	1,980	-	-	20,194	22,174
TOTAL NONOPERATING REVENUES (EXPENSES)	(781,285)	(15,639)	(111,585)	(84,725)	(993,234)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(658,368)	140,214	(182,370)	(675,887)	(1,376,411)
Capital Contributions	3,699,390	-	-	4,543,480	8,242,870
Transfers In	-	-	48,473	-	48,473
Transfers Out	(110,000)	(65,000)	-	-	(175,000)
CHANGE IN NET ASSETS	2,931,022	75,214	(133,897)	3,867,593	6,739,932
NET ASSETS – BEGINNING OF YEAR	14,231,381	373,767	265,186	10,026,203	24,896,537
NET ASSETS – END OF YEAR	\$ 17,162,403	\$ 448,981	\$ 131,289	\$ 13,893,796	\$ 31,636,469

See accompanying notes.

**City of Palatka, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2009**

**City of Palatka, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2009**

	<u>Business-type Activities – Enterprise Funds</u>				<u>Total Enterprise Funds</u>
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Golf Course Fund</u>	<u>Airport Fund</u>	
<u>OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 5,747,280	\$ 1,516,989	\$ 724,279	\$ (141,203)	\$ 7,847,345
Payments to Suppliers	(931,848)	(633,610)	(261,703)	89,854	(1,737,307)
Payments to Employees	(1,996,220)	(746,037)	(330,409)	(174,438)	(3,247,104)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>2,819,212</u>	<u>137,342</u>	<u>132,167</u>	<u>(225,787)</u>	<u>2,862,934</u>
<u>NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers In	-	-	48,473	-	48,473
Transfers Out	(110,000)	(65,000)	-	-	(175,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(110,000)</u>	<u>(65,000)</u>	<u>48,473</u>	<u>-</u>	<u>(126,527)</u>
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Issued Debt	3,681,066	-	-	-	3,681,066
Capital Contributions	3,699,390	-	-	4,543,480	8,242,870
Acquisitions of Capital Assets	(6,875,959)	-	-	(5,868,635)	(12,744,594)
Principal Paid on Debt	(346,314)	(108,456)	(28,125)	(148,564)	(631,459)
Interest Paid on Debt	(906,265)	(15,639)	(111,585)	(104,919)	(1,138,408)
Proceeds from Sale of Capital Assets	1,980	-	-	376,696	378,676
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(746,102)</u>	<u>(124,095)</u>	<u>(139,710)</u>	<u>(1,201,942)</u>	<u>(2,211,849)</u>
<u>INVESTING ACTIVITIES</u>					
Interest Received	56,140	-	-	-	56,140
Purchase of Investments	(9,040)	-	-	-	(9,040)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>47,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,100</u>
CHANGE IN CASH AND EQUIVALENTS	2,010,210	(51,753)	40,930	(1,427,729)	571,658
CASH AND EQUIVALENTS – BEGINNING OF YEAR	5,897,437	61,632	1,250	1,582,575	7,542,894
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 7,907,647</u>	<u>\$ 9,879</u>	<u>\$ 42,180</u>	<u>\$ 154,846</u>	<u>\$ 8,114,552</u>

(continued)

(concluded)

	<u>Business-type Activities – Enterprise Funds</u>				<u>Total Enterprise Funds</u>
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Golf Course Fund</u>	<u>Airport Fund</u>	
OPERATING INCOME (LOSS)	\$ 122,917	\$ 155,853	\$ (70,785)	\$ (591,162)	\$ (383,177)
Depreciation and Amortization	711,999	57,633	75,059	400,247	1,244,938
Change In:					
Accounts Receivable	(40,298)	(20,197)	2,116	(24,787)	(83,166)
Due from Other Funds	(7,450)	-	-	-	(7,450)
Due from Other Governments	1,961,832	-	-	(695,155)	1,266,677
Inventory	18,196	-	2,269	2,192	22,657
Accounts Payable and Accrued Liabilities	78,459	(57,543)	(13,099)	606,236	614,053
Due to Other Funds	(32,498)	-	134,786	72,327	174,615
Compensated Absences	(680)	(1,663)	3,998	2,318	3,973
Net OPEB Obligation	6,735	3,259	2,173	652	12,819
Customer Deposits	-	-	(4,350)	1,345	(3,005)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 2,819,212</u>	<u>\$ 137,342</u>	<u>\$ 132,167</u>	<u>\$ (225,787)</u>	<u>\$ 2,862,934</u>

See accompanying notes.

**City of Palatka, Florida
Statement of Fiduciary Net Assets
Pension Trust Funds
September 30, 2009**

ASSETS

Investments:	
Money Market and Other Cash Equivalents	\$ 1,040,466
Government Bonds and Notes	3,960,374
Corporate Bonds and Notes	10,073,303
Mutual Funds (REIT)	362,057
Mutual Funds - Equities	10,204,893
Common Stock/Equities	<u>2,374,275</u>
Total Investments	28,015,368
Accounts Receivable	<u>106,714</u>
TOTAL ASSETS	28,122,082
LIABILITIES	<u>-</u>
<u>NET ASSETS</u>	
Held in Trust for Pension Benefits	<u>\$ 28,122,082</u>

See accompanying notes.

**City of Palatka, Florida
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended September 30, 2009**

ADDITIONS

CONTRIBUTIONS:	
Employer	\$ 1,030,628
Member	373,515
State on behalf, through General Fund	<u>138,233</u>
TOTAL CONTRIBUTIONS	<u>1,542,376</u>
INVESTMENT INCOME (LOSS):	
Net Depreciation in Fair Value of Investments	(85,015)
Interest	304,707
Dividends	<u>242,262</u>
	461,954
Less Investment Management Fee	<u>171,085</u>
NET INVESTMENT INCOME	<u>290,869</u>
TOTAL ADDITIONS	<u>1,833,245</u>
<u>DEDUCTIONS</u>	
Member Benefits	2,030,675
Withdrawals	98,973
Administrative Expense	<u>69,008</u>
TOTAL DEDUCTIONS	<u>2,198,656</u>
CHANGE IN NET ASSETS	(365,411)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year	<u>28,487,493</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year	<u>\$ 28,122,082</u>

See accompanying notes.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Palatka, Florida (the "City"), which is located in northeast Florida, was incorporated January 8, 1853 under the Laws of the State of Florida, Chapter 492. The City operates under an elected Mayor-Commissioner and a Board of Commissioners (four members) and provides human services, community enrichment and development, law enforcement, fire protection and rescue service.

As required by generally accepted accounting principles, the accompanying financial statements present the City as a primary government and its component units, entities for which the City is considered financially accountable. The component units are included in the reporting entity because of the significance of their operational relationship with the City. The City is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either 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 to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Blended component units, although legally separate entities, are in substance part of the City's operations and, accordingly, data from these units are combined with the data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Blended Component Unit

The Palatka Downtown Redevelopment Agency (the "Agency") is a legally separate entity created pursuant to Florida Statutes following the adoption of an approving Resolution (No. 4-12, dated November 10, 1983) by the City. The Agency is governed by a five-member board whose members are the same as the City Commission. The operations of the Agency are reported in a governmental fund.

Discretely Presented Component Unit

The Palatka Gas Authority (the "Gas Authority") was created by an Act of the Florida Legislature (Ch. 59-1679, Act 1959) and ratified by election on November 10, 1959. The members of the Gas Authority's governing board are appointed by the City Commission. Additionally, bond issues and operational and capital budgets must be approved by the City Commission. Annually, the Gas Authority provides a contribution to the City from its net income. The contribution is one-half of annual profits.

Complete financial statements of the Gas Authority can be obtained directly from:

The Palatka Gas Authority
518 Main Street
Palatka, Florida 32177

City of Palatka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Organization

The Palatka Housing Authority (the "Housing Authority") was established by the City in 1962 pursuant to Chapter 421, Florida Statutes. The purpose of the Housing Authority is to provide affordable housing to the Palatka community and surrounding areas. The Housing Authority is considered a related organization because its Board members are appointed by the Mayor of the City of Palatka. The City is not financially accountable for the Housing Authority, nor does it meet other criteria of a component unit and, accordingly, the Housing Authority is not included in the accompanying financial statements.

Joint Ventures

The City did not participate in any joint ventures during the 2008-2009 fiscal year.

Basis of Presentation

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. The more significant of the City's accounting policies are hereafter described.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used, if any, are not eliminated in the process of consolidation. *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 charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: charges for services that are directly related to a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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 and enterprise funds are reported as separate columns in the fund financial statements, but all nonmajor funds are

City of Palatka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

aggregated and displayed in a single column. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The City reports the following major governmental funds:

General Fund – the primary operating fund, used to account for all activities except those required to be accounted for in another fund.

Downtown Redevelopment Agency Fund – to account for the assets and operations of the City's Downtown Redevelopment Agency.

The City reports the following major proprietary funds:

Water Fund – to account for the assets, operation and maintenance of the City-owned water and sewer system.

Sanitation Fund – to account for the assets, operation and maintenance of the City's solid waste department.

Golf Course Fund – to account for the assets, operation and maintenance of the City-owned golf course.

Airport Fund – to account for the assets, operation and maintenance of the City-owned airport.

Additionally, the City reports the following fiduciary funds:

Pension Trust Funds – to account for activities of the City's pension plans.

Measurement Focus and Basis of Accounting

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 at the time liabilities are 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 funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Taxes and certain intergovernmental revenues constitute the most significant sources of revenue considered susceptible to accrual. In governmental funds, expenditures are generally recognized when the related liability is incurred. However, debt service expenditures, and expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Application of FASB Pronouncements

For its business-type activities and enterprise funds, the City applies all applicable GASB pronouncements. Additionally, the City applies pronouncements of the FASB and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

For purpose of the Statement of Cash Flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Receivables are stated at net realizable value, reduced by an allowance for uncollectable accounts, where appropriate. Accounts receivable of the Enterprise Funds are net of a \$143,000 allowance. Accounts receivable of the Gas Authority are net of a \$45,903 allowance.

Most of the Mortgages Receivable balance is not expected to be repaid within the next fiscal year.

Investments

Investments are reported at fair value based on quoted market prices, except for money market investments, which are reported at cost, which approximates fair value.

Inventories

Inventories are stated at cost, based on the first-in, first-out method. Expense is charged as items are consumed.

Long-Term Receivables

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheet, without regard to the fund's measurement focus. However, special reporting treatment is used to indicate that these receivables are not considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund revenues represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of long-term loans and advances receivable are offset by fund balance reserves.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, except for contributed assets which are recorded at fair value at the date of contribution. The City generally uses a capitalization threshold of \$5,000 for all classes of capital assets, other than infrastructure. General infrastructure assets, such as dirt to pavement roads, mill and resurface road projects and all sidewalk projects, use a capitalization threshold of \$100,000.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City began prospective reporting of general infrastructure assets at the effective date of GASB Statement No. 34. Effective October 1, 2006, the City began retroactive reporting of all major general governmental infrastructure assets. The estimated cost of the initial reporting of these assets was obtained through backtrending (i.e. estimating the current replacement cost of the infrastructure and using appropriate indices to deflate the cost to the estimated acquisition year). The reported values exclude basic road resurfacing, or other normal maintenance and repairs that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Buildings and improvements	30
Furniture, equipment and vehicles	3 – 10
Water and sewer distribution system	15 – 50
Plant assets and equipment	20 – 50
General infrastructure	35 – 50

For its business-type activities, the City's policy is to capitalize construction period interest costs on projects funded specifically through debt financing. Interest earnings are offset against construction costs for qualified projects financed with tax-exempt debt. No interest costs were capitalized during 2009.

Claims and Judgments

For governmental funds, a fund liability is reported to account for the portion of the liability that will be liquidated with expendable available financial resources. The liability is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Compensated Absences

The City's policy is to allow limited vesting of employee vacation pay and accumulated sick leave. A liability for accrued compensated absences of employees of the governmental funds has been accrued. Since this liability will not be liquidated with expendable available financial resources, the liability has not been reported in the governmental funds. A liability for compensated absences is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In prior years, compensated absence liabilities associated with governmental funds were liquidated by the funds that incurred the liabilities.

Property Taxes

The Putnam County Tax Collector bills and collects property taxes for the City. At September 30, 2009, property taxes receivable were not material.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Details of the City's tax calendar are presented below:

Lien Date	January 1
Levy Date	October 1
Discount Period	November - February
No Discount Period	March
Delinquent Date	April 1

Operating Revenues and Expenses

The enterprise 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 an enterprise fund's principal ongoing operations. Operating expenses for enterprise funds 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.

Restricted Net Assets

In the accompanying government-wide and proprietary funds' statements of net assets, *restricted net assets* are subject to restrictions beyond the City's control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation.

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.

Fund Balance Reserves

Governmental Funds - Reserves represent portions of fund balances which cannot be appropriated for expenditure or which have been legally restricted for specific future uses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

All of the City's and the Gas Authority's demand deposits, certificates of deposit, and money market accounts are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, and are entirely insured by Federal depository insurance or collateralized pursuant to the Florida Security for Public Deposits Act.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments

Section 218.415, Florida Statutes, authorizes the City to invest excess public funds in the following:

- ◆ Direct obligations of the U.S. Treasury;
- ◆ Savings accounts and certificates of deposit in qualified public depositories;
- ◆ The Local Government Surplus Funds Trust Fund;
- ◆ Securities and Exchange Commission registered money market funds with the highest credit quality rating.

Deposits and investments are classified in the accompanying financial statements as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Statement of Net Assets:		
Cash and Equivalents	\$ 9,944,678	\$ 206,921
Investments	-	3,670,144
Restricted Cash and Equivalents	866,089	-
Restricted Investments	510,926	-
Statement of Fiduciary Net Assets:		
Investments	<u>28,015,368</u>	<u>-</u>
Total Deposits and Investments	<u>\$ 39,337,061</u>	<u>\$ 3,877,065</u>

For purposes of risk disclosures, deposits and investments are comprised of the following:

	<u>Primary Government</u>	<u>Component Unit</u>
Deposits with Financial Institutions, including Certificates of Deposit	\$ 10,810,767	\$ 3,877,065
Investments - Other than Pension	510,926	-
Investments - Pension	<u>28,015,368</u>	<u>-</u>
Total Deposits and Investments	<u>\$ 39,337,061</u>	<u>\$ 3,877,065</u>

The City's investments at September 30, 2009 are summarized in the following table:

	<u>Maturities</u>			
	<u>0-5 yrs</u>	<u>5-10 yrs</u>	<u>10+ yrs</u>	
Pension Investments:				
Money Market & Other Cash Equivalents	\$ 1,040,466	\$ 1,040,466	\$ -	\$ -
Government Bonds and Notes	3,960,374	1,017,966	1,033,400	1,909,008
Corporate Bonds and Notes	10,073,303	9,137,220	936,083	-
Common Stock	2,374,275	2,374,275	-	-
Mutual Funds (REIT)	362,057	362,057	-	-
Mutual Funds (Foreign Equities)	1,121,700	1,121,700	-	-
Mutual Funds (ETF)	2,558,638	2,558,638	-	-
Mutual Funds (Equities)	<u>6,524,555</u>	<u>6,524,555</u>	<u>-</u>	<u>-</u>
Total Pension Investments	28,015,368	24,136,877	1,969,483	1,909,008
Other Investments:				
Government Bonds and Notes	510,926	510,926	-	-
Total	<u>\$ 28,526,294</u>	<u>\$ 24,647,803</u>	<u>\$ 1,969,483</u>	<u>\$ 1,909,008</u>

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 2 – DEPOSITS AND INVESTMENTS

The City's investments in common stock, corporate bonds and notes, and government bonds and notes are rated as follows. Ratings are reported as of September 30, 2009, other than for certain equities of the General Employees Pension, totaling \$451,893, which are reported as of January 2009. Ratings for those equities are not available as of September 30, 2009, but are not believed to have changed substantially in that period.

<u>Common Stock</u>	<u>Corporate Bonds and Notes</u>	<u>Government Bonds and Notes</u>
A+ -	AAA 76%	AAA 100%
A -	AA2 2%	- -
A- -	AA3 3%	- -
B+ -	A1 7%	- -
B -	A2 7%	- -
B- -	A3 2%	- -
	BAA2 2%	
Not rated 100%	Not rated 1%	Not rated -
Total <u>100%</u>	<u>100%</u>	<u>100%</u>

The City's investments in mutual funds, money markets and foreign equities are not rated for credit quality by a nationally recognized statistical rating organization.

The City is exposed to the following risks associated with its investment portfolio:

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment.

Concentration of Credit Risk – the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The City does not have a formal investment policy relating to the aforementioned risks, other than Section 218.415, Florida Statutes, for investing public funds. That statute limits the City's exposure to credit risk and interest rate risk by limiting authorized investment options as previously described. However, the City's three pension plans have each adopted investment policies that address the risks described above and set other investing guidelines. Those policies require the investments to be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt must be made to match investment maturities with known cash needs and anticipated cash-flow requirements. Furthermore, the policies of the Police and Firefighter Plan require diversification to the extent practical to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, dealer or bank in which the financial instruments are bought and sold. The policies of the General Pension Plan place restrictions on investments, including limits as to quality ratings of at least Standard & Poor's A1 or Moody's P-1 for cash instruments; Standard and Poor's BBB or Moody's Baa for bonds or other evidences of indebtedness; corporations listed on one or more of the recognized national exchanges or on the National Market System of the NASDAQ stock market for equities; real estate investments (REITs) that trade on a major exchange; or obligations issued by the United States Government or guaranteed as to principal and interest by the United States Government or an agency of the United States Government.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 3 – INTERFUND BALANCES AND TRANSFERS

At September 30, 2009, interfund balances are as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 207,113	\$ -
Other Governmental Funds	-	7,450
Major Enterprise Funds:		
Water	7,450	-
Golf Course	-	134,786
Airport	-	72,327
Total	<u>\$ 214,563</u>	<u>\$ 214,563</u>

As summarized below, the interfund balances arose in part because one fund had overdrawn its share of the City's pooled cash account.

	Cash and Equivalents As Reported	Adjustment for Overdraft	True Balance
General Fund	\$ 1,257,764	\$ 133,536	\$ 1,391,300
Major Enterprise Fund: Golf Course	<u>42,180</u>	<u>(133,536)</u>	<u>(91,356)</u>
Total	<u>\$ 1,299,944</u>	<u>\$ -</u>	<u>\$ 1,299,944</u>

Interfund transfers for the year ended September 30, 2009 consisted of the following:

Fund Type/Fund	Transfers In	Transfers Out
General Fund	\$ 275,000	\$ 48,473
Downtown Redevelopment	-	100,000
Major Enterprise Funds:		
Water Fund	-	110,000
Sanitation Fund	-	65,000
Golf Course Fund	<u>48,473</u>	<u>-</u>
Total	<u>\$ 323,473</u>	<u>\$ 323,473</u>

The interfund transfers were made in the normal course of operations and are consistent with the activities of the fund making the transfer.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 4 – CAPITAL ASSET ACTIVITY

During the year ended September 30, 2009, the following changes in capital assets occurred:

	Balance October 1, 2008	Increases	Decreases	Balance September 30, 2009
Primary Government				
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 6,746,180	\$ -	\$ -	\$ 6,746,180
Construction in Progress	644,217	137,066	-	781,283
Total Capital Assets Not Being Depreciated	<u>7,390,397</u>	<u>137,066</u>	<u>-</u>	<u>7,527,463</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	4,976,790	622,159	-	5,598,949
Infrastructure	8,021,423	156,614	-	8,178,037
Furniture and Equipment	3,109,434	105,908	183,125	3,032,217
Total Capital Assets Being Depreciated	<u>16,107,647</u>	<u>884,681</u>	<u>183,125</u>	<u>16,809,203</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	2,173,068	227,625	-	2,400,693
Infrastructure	5,112,305	322,478	-	5,434,783
Furniture and Equipment	1,367,869	208,467	137,337	1,438,999
Total Accumulated Depreciation	<u>8,653,242</u>	<u>758,570</u>	<u>137,337</u>	<u>9,274,475</u>
Total Capital Assets Being Depreciated, Net	<u>7,454,405</u>	<u>126,111</u>	<u>45,788</u>	<u>7,534,728</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,844,802</u>	<u>\$ 263,177</u>	<u>\$ 45,788</u>	<u>\$ 15,062,191</u>

	Balance October 1, 2008	Increases	Decreases	Balance September 30, 2009
Business-type Activities				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 4,580,159	\$ -	\$ 356,500	\$ 4,223,659
Construction in Progress	10,223,753	7,808,478	864,875	17,167,356
Total Capital Assets Not Being Depreciated	<u>14,803,912</u>	<u>7,808,478</u>	<u>1,221,375</u>	<u>21,391,015</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	13,078,599	5,345,161	-	18,423,760
Furniture and Equipment	2,569,945	24,450	59,837	2,534,558
Water and Sewer Distribution System	8,459,772	57,260	-	8,517,032
Plant Assets and Equipment	14,540,285	374,119	-	14,914,404
Total Capital Assets Being Depreciated	<u>38,648,601</u>	<u>5,800,990</u>	<u>59,837</u>	<u>44,389,754</u>
Less Accumulated Depreciation for:				
Building and Improvements	5,974,400	450,430	-	6,424,830
Furniture and Equipment	1,374,994	163,197	59,837	1,478,354
Water and Sewer Distribution System	3,035,876	217,947	-	3,253,823
Plant Assets and Equipment	8,214,633	398,379	-	8,613,012
Total Accumulated Depreciation	<u>18,599,903</u>	<u>1,229,953</u>	<u>59,837</u>	<u>19,770,019</u>
Total Capital Assets Being Depreciated, Net	<u>20,048,698</u>	<u>4,571,037</u>	<u>-</u>	<u>24,619,735</u>
Business-type Activities Capital Assets, Net	<u>\$ 34,852,610</u>	<u>\$ 12,379,515</u>	<u>\$ 1,221,375</u>	<u>\$ 46,010,750</u>

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 4 – CAPITAL ASSET ACTIVITY

Depreciation expense was charged to the functions of the primary government as follows:

Governmental Activities:	
General Government	\$ 205,218
Public Safety	161,700
Transportation	353,594
Human Services	7,505
Culture and Recreation	<u>30,553</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 758,570</u>
Business-type Activities:	
Water and Sewer	\$ 697,014
Sanitation	57,633
Airport	400,247
Golf Course	<u>75,059</u>
Total Depreciation Expense – Business-type Activities	<u>\$ 1,229,953</u>

Discretely Presented Component Unit

Capital assets activity for the Gas Authority for the year ended September 30, 2009 follows:

	<u>Balance October 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2009</u>
Capital Assets Not Being Depreciated:				
Land	\$ 194,147	\$ -	\$ -	\$ 194,147
Construction Work in Progress	-	220,874	-	220,874
Total Capital Assets Not Being Depreciated	<u>194,147</u>	<u>220,874</u>	<u>-</u>	<u>415,021</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	571,542	-	-	571,542
Furniture and Equipment	534,377	35,052	30,464	538,965
Plant Assets and Equipment	2,753,243	134,143	-	2,887,386
Total Capital Assets Being Depreciated	<u>3,859,162</u>	<u>169,195</u>	<u>30,464</u>	<u>3,997,893</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	74,617	14,281	-	88,898
Furniture and Equipment	400,837	38,200	30,464	408,573
Plant Assets and Equipment	1,872,757	44,868	-	1,917,625
Total Accumulated Depreciation	<u>2,348,211</u>	<u>97,349</u>	<u>30,464</u>	<u>2,415,096</u>
Total Capital Assets Being Depreciated, Net	<u>1,510,951</u>	<u>71,846</u>	<u>-</u>	<u>1,582,797</u>
Gas Authority Capital Assets, Net	<u>\$ 1,705,098</u>	<u>\$ 292,720</u>	<u>\$ -</u>	<u>\$ 1,997,818</u>

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 5 – LONG-TERM OBLIGATIONS

Long-term debt of the governmental activities is described below:

Governmental Activities

\$850,000 Fire truck loan, payable in quarterly installments through 10/1/2021, plus interest at 3.85%, revenue source - non-ad valorem revenues.	\$ 738,413
\$500,000 Road Improvement Revenue Bond, due in monthly installments including interest at 5.5%, through April 2010, payable from General Fund and secured by a covenant to budget and appropriate from legally available non-ad valorem revenues.	37,498
\$3,200,000 Infrastructure Surtax Revenue Note, payable in annual installments of \$266,667 through April 2020, plus interest at 5.19%, payable semiannually, secured by the One-Cent Infrastructure Surtax and non-ad valorem revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$3,846,773. During the current year, the City recognized infrastructure surtax revenues of \$732,946 and made \$ 432,747 principal and interest payments.	2,933,333
\$43,802 Police Vehicle Loan, payable from non-ad valorem revenues in annual installments of \$9,524 through June 2013, plus interest at 3.34%.	<u>33,527</u>
Total	<u>\$ 3,742,771</u>

Business-type Activities

Long-term debt of the business-type activities is described on the following page.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 5 – LONG-TERM OBLIGATIONS

Business-type Activities

\$7,335,000 Water and Sewer System Improvement and Refunding Revenue Bonds, Series 1998, payable in varying installments through October 1, 2021, bearing interest from 4.25% to 5.0%, secured by a pledge of the net revenues of the water and sewer system and public service tax revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$7,252,995. During the current year, the City recognized net revenues of \$893,036 and made \$561,377 principal and interest payments. \$ 5,485,000

\$714,914 Water Reuse System State Revolving Loan; interest rate of 1.34%. Repayment began in September 2005 in 30 semiannual payments. Secured by a pledge of the net revenues of the water and sewer system after satisfaction of senior obligations. The approximate amount of the pledge is equal to the remaining principal and interest of \$565,041. During the current year, the City recognized net revenues of \$893,036, which are first pledged to the senior obligation of the Series 1998 Bonds, and made \$53,822 principal and interest payments. 525,537

\$9,747,459 Interim Construction Loan at 5.02% interest, due August 2010, payable solely from the proceeds of the permanent financing. The proceeds were used for construction of a new water treatment plant. The approximate amount of the pledge is equal to the remaining principal and interest of \$10,155,229. During the current year, the City recognized permanent financing proceeds of \$450,000 loan and \$2,550,000 grant, and made interest payments of \$522,331. No principal payments were made or due as of September 30, 2009. 9,747,459

\$1,429,450 Drinking Water State Revolving Fund Loan, plus capitalized interest of \$17,913, payable in semiannual installments of \$23,389, including interest at 2.71%, through August 2038, from net revenues of the water and sewer system. The proceeds are to be used to repay the portion of interim loan for construction of the drinking water treatment/distribution project, that will not be covered by a DEP grant. The approximate amount of the pledge is equal to the remaining principal and interest of \$ 1,892,977. During the current year, the City recognized net revenues of \$893,036 and paid interest payments in the amount of \$17,913. No principal payments were made or due as of September 30, 2009. 1,429,450

\$1,393,000 Satellite Meter Equipment Note; payable from the Water Fund in varying semi-annual installments, including interest at 4.05%, through January 2019, from the half-cent sales tax revenues. The approximate amount of the pledge is equal to the remaining principal and interest of \$1,693,490. During the current year, the City recognized net revenues of \$893,036 and made an interest payment in the amount of \$29,462. No principal payments were made or due as of September 30, 2009. 1,393,000

\$765,510 Sanitation Equipment Note; payable in monthly installments of \$10,341 including interest at 3.70% variable rate through October 31, 2012, revenue source - non ad valorem revenues. 363,463

\$750,000 Airport T-Hangar Revenue Note, payable in annual installments of \$50,000, plus interest at 6.5% paid semiannually through September 2023, from net revenues of the airport and non-ad valorem revenues. The proceeds are to be used for the construction of new hangars. The approximate amount of the pledge is equal to the remaining principal and interest of \$1,046,206. During the current year, the City recognized net revenues of \$(170,720) and made \$98,626 principal and interest payments. 700,000

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 5 – LONG-TERM OBLIGATIONS

Business-type Activities

\$1,250,000 Airport Terminal Revenue Note, payable in annual installments of \$83,333, plus interest at 4.39%, paid semiannually through September 2023, from net revenues of the airport and non-ad valorem revenues. The proceeds are to be used for a new airport terminal. The approximate amount of the pledge is equal to the remaining principal and interest of \$1,556,371. During the current year, the City recognized net revenues of \$(170,720) and made \$137,788 principal and interest payments. \$ 1,166,667

\$1,700,000 Taxable Golf Course Revenue Note, Series 2008, payable in annual installments, plus interest at 6.5% payable semiannually through September 2023, from the net revenues of the Golf Course Facilities and non-ad valorem taxes. Proceeds were used to reimburse the City's General and certain Enterprise Funds for prior advances, and to consolidate other smaller debt. The approximate amount of the pledge is equal to the remaining principal and interest of \$2,588,193. During the current year, the City had net revenues of \$4,274 and made \$139,711 principal and interest payments. 1,671,875
Less Unamortized Discounts and Costs (101,362)
Total \$ 22,381,089

Aggregate maturities of revenue bonds and notes payable are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 360,851	\$ 181,661	\$ 10,640,798	973,372
2011	325,523	164,964	881,921	527,658
2012	327,744	148,898	913,503	488,299
2013	327,760	132,667	837,700	448,022
2014	322,794	116,649	854,237	409,653
2015-2019	1,648,616	340,999	4,771,473	1,415,851
2020-2024	429,483	21,790	3,129,111	351,964
2025-2029	-	-	429,043	37,947
2030-2034	-	-	24,665	352
Totals	\$ 3,742,771	\$ 1,107,628	\$ 22,482,451	\$ 4,653,118

Following is a summary of changes in long-term obligations:

Governmental Activities

	Balance October 1, 2008			Balance September 30, 2009		Due Within One Year
		Additions	Deductions			
Revenue Bonds and Notes Payable	\$ 4,125,099	\$ -	\$ 382,328	\$ 3,742,771	\$ 360,851	
Capital Leases	105,151	-	67,638	37,513	23,967	
Compensated Absences	352,000	276,000	237,000	391,000	105,000	
Total	\$ 4,582,250	\$ 276,000	\$ 686,966	\$ 4,171,284	\$ 489,818	

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 5 – LONG-TERM OBLIGATIONS

The City has a \$92,000, 4.45% capital lease for police vehicles due in monthly installments of \$2,098 payable from the General Fund and reported in governmental activities.

Future lease payments, together with the present value of the minimum lease payments, are summarized in the following tabulation:

<u>Year Ending</u> <u>September 30</u>	<u>Governmental</u> <u>Activities</u>
2010	\$ 25,186
2011	<u>13,757</u>
Total Minimum Lease Payments	38,943
Less: Amount Representing Interest	<u>1,430</u>
Present Value of Net Minimum Lease Payments	<u>\$ 37,513</u>

Business-type Activities

	<u>Balance</u> <u>October 1,</u> <u>2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>September 30,</u> <u>2009</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Water and Sewer Refunding Revenue					
Bonds Series 1998	\$ 5,785,000	\$ -	\$ 300,000	\$ 5,485,000	\$ 315,000
Less: Unamortized Issuance Costs	(116,347)		(14,985)	(131,332)	
Drinking Water State Revolving Fund Loan	973,764	455,686	-	1,429,450	52,936
Sanitation Equipment	471,919	-	108,456	363,463	112,944
Water Reuse Loan	571,851	-	46,314	525,537	46,937
Florida Rural Utility Loan	7,915,079	1,832,380	-	9,747,459	9,747,459
Water Fund Satellite Meter Equipment Loan	-	1,393,000	-	1,393,000	116,000
Golf Revenue Note	1,700,000	-	28,125	1,671,875	116,189
Airport Hangar Phase 4 Note	15,231	-	15,231	-	-
Airport Terminal Revenue Note	1,250,000	-	83,333	1,166,667	83,333
Airport T-Hangars Revenue Note	750,000	-	50,000	700,000	50,000
Total Revenue Bonds and Notes	<u>19,316,497</u>	<u>3,681,066</u>	<u>616,474</u>	<u>22,381,089</u>	<u>10,640,798</u>
County Water/Sewer Agreement	132,270	-	-	132,270	-
SJRWMD Water/Sewer Agreement	11,293	-	-	11,293	-
Compensated Absences	238,930	124,757	152,600	211,087	56,500
Total	<u>\$ 19,698,990</u>	<u>\$ 3,805,823</u>	<u>\$ 769,074</u>	<u>\$ 22,735,739</u>	<u>\$ 10,697,298</u>

The City has long-term water/sewer agreements with the St. Johns River Water Management District and Putnam County, which are liquidated when permit costs are incurred or new business hook-ups are made in the Highway 19 corridor.

Contractual Provisions

As of September 30, 2009, rate covenants on certain debt obligations of the Water, Golf and Airport Funds were not met. The City has performed internal rate studies and increased rates in October 2009, as part of its efforts to generate sufficient gross revenues to meet the covenants in the future.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 6 – RESTRICTED NET ASSETS

The following schedule displays restricted assets, liabilities payable from those assets, and restricted net assets.

	<u>Business-type</u> <u>Activities</u>
Restricted Assets:	
Cash and Equivalents	\$ 866,089
Investments	<u>510,926</u>
Total	<u>1,377,015</u>
Liabilities Payable from Restricted Assets:	
Current Portion of Debt Service:	
Principal	435,842
Interest	<u>130,689</u>
Total	<u>566,531</u>
Restricted Net Assets	<u>\$ 810,484</u>

The City has no net assets reported on the Statement of Net Assets that are restricted by enabling legislation.

NOTE 7 – PENSION PLANS

Defined Benefit Plan

Plan Description. The City sponsors a single-employer public employee retirement system (the "System") administered by the City of Palatka, Pension Boards of Trustees. The System administers the City Employees Retirement Plan (the "Plan") which provides three employee contributory defined benefit pension plans. Members of the Plan include employees of the City and the Palatka Gas Authority. Nonemployer contributions are made by the State of Florida on behalf of Police Officers and Firefighters who participate in the System. For the year ended September 30, 2009 the City recognized \$66,457 and \$71,776 in the General Fund for State contributions to the Police Officers' and Firefighters' Retirement Funds, respectively. The City accounts for the Plan in three Pension Trust Funds, corresponding to three benefit groups as follows:

- General* – all members not included in Police Officers and Firefighters
- Police Officers* – all state-certified police officers
- Firefighters* – all state-certified firefighters

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 7 – PENSION PLANS

The Plan provides for vesting of benefits after 7 years of creditable service. All members are eligible for normal retirement after 7 years of service and attaining age 50 or after 30 years of service regardless of age. Additionally, police and fire employees are also eligible after age 55 and attaining 10 years of service, or after age 52 and attaining 25 years of service. The Plan also provides for disability, retirement and death benefits with eligibility and benefit provisions as described in the authorizing ordinance. For general, police officer and firefighter members, annual benefits for the plan year beginning October 1, 2007, are equal to total years of service times 2.5%, 2.5% and 3.25%, respectively, of final average compensation (highest 3 consecutive years of the last five). No other changes in benefit provisions have been made for the plan year beginning October 1, 2007. The minimum benefit for duty disability is 45% of final average compensation for general, police officer and firefighter members. The minimum benefit for non-duty disability for all members is 25% of final average compensation.

The Boards of Trustees establish and may amend provisions of the plan related to participant eligibility, contribution requirements, vesting, and benefit provisions. However, these plan provisions are subject to minimum requirements established in Chapters 112, 175, and 185, Florida Statutes. The Plan does not issue a stand-alone financial report.

Current membership in the Plan as of September 30, 2009 is as follows:

	<u>General</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Active Employees	110	37	20	167
Service Retirees and Beneficiaries	62	14	7	83
Disability Retirees	5	4	2	11
Terminated Vested	-	2	-	2
DROP	12	2	3	17
Total	<u>189</u>	<u>59</u>	<u>32</u>	<u>280</u>

Funded Status and Funding Progress: The funded status of each plan as of October 1, 2009, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Assets (000's)	Actuarial Liability (AAL) (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio	Covered Payroll (000's)	UAAL
						As A Percent Of Covered Payroll
General Plan	\$ 16,053	\$ 16,543	\$ 490	97%	\$ 3,493	14%
Police Officers Plan	\$ 8,240	\$ 8,047	\$ (193)	102%	\$ 1,750	(11)%
Firefighters Plan	\$ 6,130	\$ 7,383	\$ 1,253	83%	\$ 834	150%

The required schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 7 – PENSION PLANS

Funding Policy and Annual Pension Cost. Administrative costs of the Plan are financed through investment earnings. The City's annual pension cost for the current year and related information for each plan is as follows:

	<u>General</u>	<u>Police Officers</u>	<u>Firefighters</u>
Contribution Rates:			
City	15.0%	13.4%	23.9%
Plan Members	6.0%	6.0%	6.0%
Annual Pension Cost	641,357	236,148	146,114
Contributions Made	641,482	236,148	146,114
Actuarial Valuation Date	10/1/2007	10/1/2007	10/1/2007
Actuarial Cost Method	Frozen Entry Age	Frozen Entry Age	Entry Age Normal
Amortization Method	Level % of Payroll-Closed	Level % of Payroll-Closed	Level % of Payroll-Closed
Remaining Amortization Period	30 Years	30 Years	29 Years
Asset Valuation Method	4 Year Smooth	4 Year Smooth	4 Year Smooth
Actuarial Assumptions:			
Investment Rate of Return	8.0%	8.0%	8.0%
Projected Salary Increases*	6.0%	6.0%	6.0%
* Includes Inflation at	3.0%	3.0%	3.0%

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>
General	9/30/2009	\$ 641,357	100%	\$ -
	9/30/2008	559,533	100%	-
	9/30/2007	602,616	100%	-
Police Officers	9/30/2009	\$ 236,148	100%	\$ -
	9/30/2008	297,845	100%	-
	9/30/2007	256,341	100%	-
Firefighters	9/30/2009	\$ 146,114	100%	\$ -
	9/30/2008	124,076	100%	-
	9/30/2007	121,177	100%	-

City of Palatka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 7 – PENSION PLANS

Combining Statement of Fiduciary Net Assets

	General Retirement Fund	Police Officers' Retirement Fund	Firefighters' Retirement Fund	Total
ASSETS				
Investments:				
Money Market and Other Cash Equivalents	\$ 208,864	\$ 395,169	\$ 436,433	\$ 1,040,466
Government Bonds and Notes	-	2,113,064	1,847,310	3,960,374
Corporate Bonds and Notes	7,530,244	1,370,533	1,172,526	10,073,303
Mutual Funds (REIT)	-	185,722	176,335	362,057
Mutual Funds - Equities	6,524,555	2,017,508	1,662,830	10,204,893
Common Stock/Equities	451,893	1,038,259	884,123	2,374,275
Total Investments	14,715,556	7,120,255	6,179,557	28,015,368
Receivables	71,090	23,588	12,036	106,714
TOTAL ASSETS	14,786,646	7,143,843	6,191,593	28,122,082
LIABILITIES	-	-	-	-
NET ASSETS				
Held in Trust for Pension Benefits	\$ 14,786,646	\$ 7,143,843	\$ 6,191,593	\$ 28,122,082

Combining Statement of Changes in Fiduciary Net Assets

	General Retirement Fund	Police Officers' Retirement Fund	Firefighters' Retirement Fund	Total
ADDITIONS				
CONTRIBUTIONS:				
Employer	\$ 641,482	\$ 225,322	\$ 163,824	\$ 1,030,628
Member	219,960	105,687	47,868	373,515
State on Behalf, through General Fund	-	66,457	71,776	138,233
TOTAL CONTRIBUTIONS	861,442	397,466	283,468	1,542,376
INVESTMENT INCOME (LOSS):				
Net Appreciation (Depreciation) in Fair Value of Investments	308,115	(211,637)	(181,493)	(85,015)
Interest	-	161,649	143,058	304,707
Dividends	112,144	69,928	60,190	242,262
Less Investment Management Fee	420,259	19,940	21,755	461,954
Less Investment Management Fee	97,491	38,475	35,119	171,085
NET INVESTMENT INCOME (LOSS)	322,768	(18,535)	(13,364)	290,869
TOTAL ADDITIONS	1,184,210	378,931	270,104	1,833,245
DEDUCTIONS				
Member Benefits	1,194,242	475,071	361,362	2,030,675
Withdrawals	37,691	39,027	22,255	98,973
Administrative Expense	19,182	25,071	24,755	69,008
TOTAL DEDUCTIONS	1,251,115	539,169	408,372	2,198,656
CHANGE IN NET ASSETS	(66,905)	(160,238)	(138,268)	(365,411)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year	14,853,551	7,304,081	6,329,861	28,487,493
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year	\$ 14,786,646	\$ 7,143,843	\$ 6,191,593	\$ 28,122,082

City of Palatka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 7 – PENSION PLANS

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The City has complied with the requirements of subsection (g) of IRC Section 457 and, accordingly, all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City administers a single-employer defined benefit plan for postemployment benefits other than pension benefits (OPEB Plan).

The City's health care plan includes certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. The premiums for the retirees are deducted from their pension account, and are entirely paid by those participants. The City pays no portion of the premiums attributable to the retirees, but does contribute any remaining amount necessary for payment of claims. In future years, contributions are assumed to increase at the same rate as premiums.

The OPEB Plan does not issue a stand-alone financial report.

At September 30, 2009, participants consisted of:

Active Employees	160
Retirees Participants	12
Covered Spouses	6
Total	178

Annual OPEB Cost and Net OPEB Obligation

The City had an actuarial valuation performed for the OPEB Plan as of October 1, 2008 to determine the annual required contribution (ARC) for the fiscal year ended September 30, 2009. The City's annual OPEB cost for the fiscal year was \$58,246 (of which \$12,819 is related to the enterprise funds) and the transition liability was set to zero as of September 30, 2008. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 were as follows:

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2007	N/A	N/A	N/A	N/A
September 30, 2008	N/A	N/A	N/A	N/A
September 30, 2009	\$ 58,246	\$ 23,484	40.3%	\$ 34,762

In future years, three-year trend information will be presented. Fiscal Year 2009 was the year of implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and the City has elected to implement prospectively, therefore, prior year comparative data is not available.

Funded Status

The funded status of the OPEB Plan as of September 30, 2009 was as follows:

Entry Age	Actuarial Liability (AAL)	Actuarial Value of Plan Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
\$ 483,795	\$ -	\$ 483,795	0.0%	\$ 8,830,792	5.5%	

Funding Policy

Funding for the OPEB Plan is from the City's general resources. There is no separate trust through which benefits for retirees are funded. No resources are currently accumulated or earmarked for this purpose.

Actuarial Methods and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**City of Palatka, Florida
Notes to Financial Statements
September 30, 2009**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following actuarial methods and assumptions were used:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level % of Payroll-Closed
Amortization Period	30 Years
Remaining Amortization Period	30 Years
Asset Valuation Method	Unfunded
Actuarial Assumptions:	
Funding Interest Rate	5%
Payroll Growth/ Inflation	3%
Healthcare Inflation	9% Initial; grading down to 5% in 2013

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to general liability, workers' compensation, public liability, law enforcement liability, health benefits, property damage, and errors and omissions. To manage its risks, the City participates in the Florida League of Cities Self Insurance Fund (the "Fund") a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to the Fund for its coverage. The premiums are designed to fund the liability risks assumed by the Fund and are based on certain actual exposures of each member. The City's settled claims have not exceeded coverage in any of the past three fiscal years.

NOTE 10 – COMMITMENTS

The City leases some of its police vehicles and golf carts under operating leases. Lease payments for the year ended September 30, 2009 were \$321,980. Future lease payments are as follows:

	Governmental Activities	Business-type Activities
2010	\$ 240,485	\$ 41,796
2011	216,832	23,669
2012	99,285	-
Total	<u>\$ 556,602</u>	<u>\$ 65,465</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2009

NOTE 10 – COMMITMENTS

At September 30, 2009, the City had remaining commitments for approximately \$538,000 for airport improvements, \$159,000 for wastewater reuse line improvements, and \$435,000 for water treatment plant.

NOTE 11 – CONTINGENCIES

The City is sometimes a party to lawsuits and claims arising out of the normal conduct of its activities. While the results of lawsuits or other proceedings against the City can not be predicted with certainty, management does not expect that these matters will have a material adverse effect on the financial condition of the City.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

FINANCIAL INFORMATION REGARDING VILLAGE OF PALMETTO BAY

[THIS PAGE INTENTIONALLY LEFT BLANK]

Village of Palmetto Bay, Florida
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances/Equity
 General Fund
 For the Fiscal Years Ended September 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Revenues:			
Real and personal property taxes	6,073,012	6,692,181	6,574,981
Utility taxes	1,809,609	1,904,671	1,903,636
Communication service tax	932,032	1,169,070	1,336,528
Franchise fees	1,169,359	1,371,130	1,308,472
Intergovernmental	2,854,386	2,698,468	2,438,119
Licenses and Permits	915,151	948,423	916,567
Fines and forfeitures	196,038	300,551	241,620
Charges for service	178,217	297,343	376,785
Interest	412,596	289,116	223,469
Miscellaneous	20,594	137,703	29,024
	<u>14,560,994</u>	<u>15,808,656</u>	<u>15,349,201</u>
Total Revenues			
Expenditures:			
Current:			
General government	2,168,126	2,307,805	3,091,525
Public safety	5,763,986	5,535,831	5,967,109
Public works	388,176	389,525	414,033
Community service	1,019,301	1,228,659	1,284,957
Planning and zoning	1,178,705	1,313,025	484,737
Mitigation/QNIP	190,072	621,380	0
Capital outlay	67,218	0	460,714
Debt Service:			
Principal	153,496	128,521	234,452
Interest expense	268,108	330,811	379,497
	<u>11,197,188</u>	<u>11,855,557</u>	<u>12,317,024</u>
Total expenditures			
Excess (Deficiency) of revenues over (under) expenditures	<u>3,363,806</u>	<u>3,953,099</u>	<u>3,032,177</u>
Other financing sources (uses):			
Bonds issues			
Operating transfers in			
Operating transfers out	(1,430,875)	(1,063,751)	(1,193,404)
Total other financing sources (uses)	<u>(1,430,875)</u>	<u>(1,063,751)</u>	<u>(1,193,404)</u>
Special Item			
Mitigation settlement (Note 9)	0	0	(4,631,723)
Net change in fund balances	1,932,931	2,889,348	(2,792,950)
Fund balances - beginning	<u>5,836,442</u>	<u>7,769,373</u>	<u>10,658,721</u>
Fund balances - ending	<u><u>7,769,373</u></u>	<u><u>10,658,721</u></u>	<u><u>7,865,771</u></u>

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Village Council and Village Manager
Village of Palmetto Bay, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Palmetto Bay, Florida (the Village), as of and for the year ended September 30, 2009, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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, each major fund, and the aggregate remaining fund information of the Village of Palmetto Bay, Florida, as of September 30, 2009, and the respective changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 24, 2010, on our consideration of the Village's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements

Honorable Mayor, Village Council and Village Manager
Village of Palmetto Bay, Florida
Page Two

and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 9 and the required supplementary information on pages 33 and 34 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 Village's basic financial statements. The introductory section, combining fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Similarly, the accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. The combining fund financial statements and schedule of state financial assistance 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 information included in the introductory and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



a division of Marcum LLP
Miami, Florida
March 24, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Management's Discussion and Analysis

As management of the Village of Palmetto Bay (the Village), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village of Palmetto Bay for the fiscal year ended September 30, 2009.

Financial Highlights

- The assets of the Village of Palmetto Bay exceeded its liabilities at the close of the most recent fiscal year by \$45,257,634 (net assets). Of this amount, \$12,504,418 (*unrestricted net assets*) may be used to meet the Village's ongoing obligations to citizens and creditors. The balance, \$32,753,216 is comprised of capital assets net of related debt \$31,957,486 and restricted assets \$795,730.
- The Village's total net assets decreased by \$250,078. This decrease is attributable to the payout of \$4,631,723 as part of the Village's mitigation litigation settlement.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$13,385,136, a decrease of \$5,457,420 in comparison with the prior year. Approximately 96% of ending fund balance or \$12,788,426 is available for spending at the Village's discretion (*unreserved fund balance*).
- At the end of the reporting period, unreserved fund balance for the General Fund was \$7,693,549, or 62% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village of Palmetto Bay's basic financial statements. The Village of Palmetto Bay's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village of Palmetto Bay's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Village of Palmetto Bay's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village of Palmetto Bay is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village of Palmetto Bay that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village of Palmetto Bay include general government, public safety, public works, parks & recreation, and building, planning & zoning. The Village has no business-type activities.

The government-wide financial statements include only the Village itself (known as the *primary government*) and can be found on pages 10 and 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Palmetto Bay, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Village of Palmetto Bay has one fund category: governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statement focus on *near-term inflows and outflows of spendable resources* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village of Palmetto Bay maintains four major governmental funds: a General Fund, Grant Fund, Transportation Fund and a Capital Projects Fund. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balance.

The Village adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget on page 33.

The basic governmental fund financial statements can be found on pages 12 to 14 of this report.

The Village has four non-major funds, the Palmetto Bay Foundation, Law Enforcement Forfeiture Fund, False Alarm and Stormwater Management. A description of the Foundation is found in the notes to the financial statements on page 15, and the combining statements can be found on pages 35 and 36.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 15 to 32 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the Village's case, assets exceeded liabilities by \$45,257,634 at the close of the most recent fiscal year.

The largest portion of the Village's net assets, \$31,957,486 or 71%, reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The Village of Palmetto Bay uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village of Palmetto Bay reports its investment in capital assets net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets \$12,504,418 may be used to meet the government's ongoing obligations to citizen's and creditors.

Village of Palmetto Bay's Net Assets

	Fiscal Year	
	2009	2008
Current assets	\$ 14,174,471	\$ 20,223,382
Capital assets	43,601,941	36,191,715
Total assets	57,776,412	56,415,097
Long-term liabilities outstanding	11,743,757	9,623,116
Other liabilities	775,021	1,284,269
Total liabilities	12,518,778	10,907,385
Net assets:		
Investment in capital assets, net of related debt	31,957,486	26,660,555
Restricted for:		
Law enforcement	6,461	6,461
Transportation	789,269	910,218
Unrestricted	12,504,418	17,930,478
Total net assets	\$ 45,257,634	\$ 45,507,712

At the end of the current fiscal year, the Village of Palmetto Bay is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

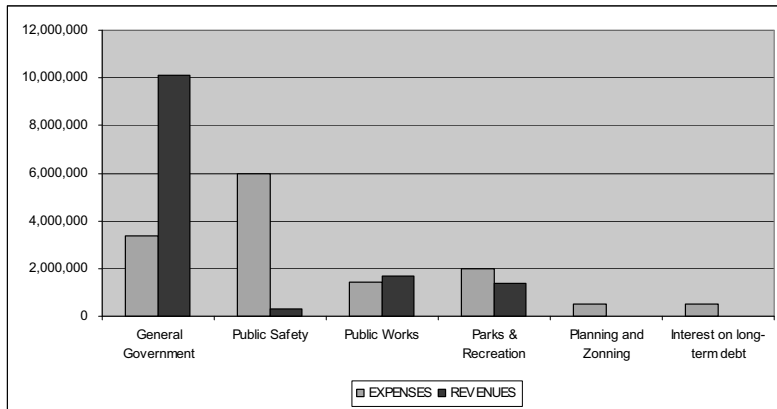
Governmental activities. The Village's net assets decreased by \$250,078 during the current fiscal year. This decrease is attributable to the payout of \$4,631,723 as part of the Village's mitigation litigation settlement.

Village of Palmetto Bay's Net Changes in Net Assets

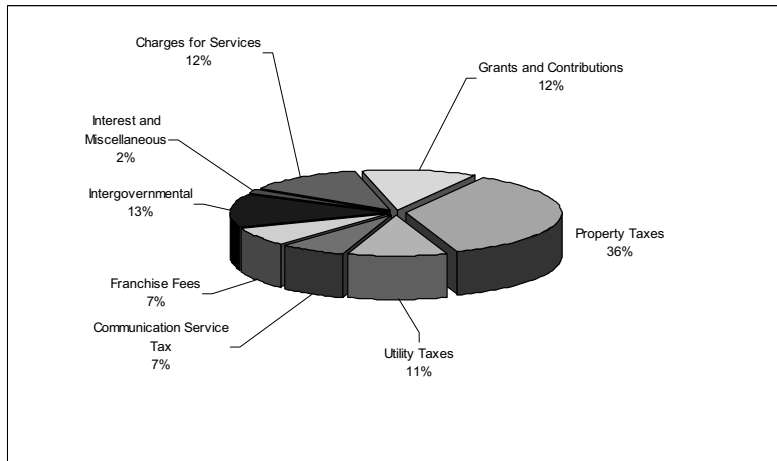
	Fiscal Year	
	2009	2008
Revenues:		
Program revenues:		
Charges for services	\$ 2,142,039	\$ 2,174,798
Operating grants and contributions	15,321	1,364
Capital grants and contributions	2,159,722	3,156,510
General revenues:		
Property taxes	6,574,981	6,692,181
Utility taxes	1,903,636	1,904,671
Communications service tax	1,250,495	1,255,103
Franchise fees	1,308,472	1,371,130
Intergovernmental	2,438,119	2,698,468
Investment income and miscellaneous	336,973	648,314
Total revenues	18,129,758	19,902,539
Expenses:		
General government	3,367,301	2,884,327
Public safety	5,987,514	5,563,958
Public works	1,417,707	1,291,657
Parks and recreation	1,998,470	1,787,333
Planning and zoning	490,377	1,322,591
Interest on long-term debt	486,744	427,126
Total expenses	13,748,113	13,276,992
Special item	4,631,723	--
Change in net assets	\$ (250,078)	\$ 6,625,547

- Taxes of \$9,729,112 comprised 54% of total revenues in the current fiscal year. Most of this category is Property Taxes \$6,574,981. The Village increased the millage rate to 2.4476 per \$1,000 of assessed taxable value for fiscal year 2009, which was equal to the roll back rate of 2.4476.
- Operating Grants, Capital Grants and Contributions accounted for \$2,175,043 (12%) of total revenues

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the Village of Palmetto Bay uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village of Palmetto Bay's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village of Palmetto Bay's governmental funds reported combined ending fund balances of \$13,385,136, a decrease of \$5,457,420 in comparison with the prior year. Approximately 96% of this amount or \$12,788,426 constitutes *unreserved fund balance*, which is available for spending at the Village's discretion.

The General Fund is the chief operating fund of the Village of Palmetto Bay. At the end of the current fiscal year fund balance of the general fund was \$7,865,771, \$7,693,549 of which was unreserved. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 62% percent of total general fund expenditures, while total fund balance represents 64% percent of that same amount. The fund balance of the Village's general fund decreased \$2,792,950 during the current fiscal year. This decrease is attributable to the payout of \$4,631,723 as part of the Village's mitigation litigation settlement.

The Grant Fund is used to account for and track the expenditures of the approximately 25 grants and impact fees. The decrease in fund balance of \$121,627 is mainly due to the completion of the Village Community Center and library which had partial funding from a donation, which is almostly depleted. The ending fund balance of \$424,488 is for balances from impact fees and the Village's Art In Public Places fees.

The Transportation Fund is used to account for the various fuel and transportation taxes that are restricted to the maintenance and improvement of the Village's roadways. The decrease in the ending fund balance of \$215,268 to \$694,950 is a result of the Village's continued aggressive traffic calming and drainage improvements.

The Capital Projects Fund is used to account for financial resources (usually when financed through borrowings or contributions) to be used for the acquisition or construction of major capital facilities. The ending fund balance of \$3,847,446 represents the unused financing the Village borrowed to renovate the Village's three main parks, build a Village library and install Village street signs. The decrease of \$2,653,044 is due to the completion of the Village Community Center and library and the purchase of a Village Hall site.

General Fund Budgetary Highlights

Total surpluses from revenues of \$575,561 partially offset overages in expenditures and other financing uses of \$3,368,511 for a reduction in Fund Balance of \$2,792,950.

The most significant variances are:

REVENUES:

Communication Taxes – had a surprising surplus of \$236,528, possibly as a result of the audits the State has been conducting on the providers.

Franchise Fees – had a surplus of \$321,982, mainly to the estimating process which uses actual amounts from FY2007.

Licenses & Permits – had a shortfall of \$152,433 due to the economy.

Charges For Services – had a shortfall of \$211,235 due to the economy.

EXPENDITURES:

Manager/Clerk – Savings of \$122,825 were realized from hiring delays, finding cheaper advertising for legal advertisements and election expenditures that were not needed.

Other General Government – showed an overage of \$1,085,080 because of a \$4,631,723 payment to settle mitigation.

Public Safety – \$417,705, savings from several personnel vacancies that took some time to fill and the County eliminating charges for Specialized Police.

Public Works – \$123,226, savings were realized in personnel costs from the vacancy on one employee and reduced vehicle operation costs.

Building & Permitting – the Building department was reorganized from contractors to employees that resulted in a surplus of \$225,482.

Capital Outlay – delays in Capital expenditures resulted in surpluses of \$1,460,420, but will be expended in the next fiscal year.

Capital Assets and Debt Administration

Capital Assets. The Village of Palmetto Bay’s investment in capital assets as of September 30, 2009, amounted to \$43,601,941 (net of accumulated depreciation). This investment in capital assets includes land, buildings, street and sidewalk improvements, machinery, furniture and equipment. The Village’s investment in capital assets increased by \$7,410,226 in the current fiscal year.

Major capital asset events during the current fiscal year included the following:

- Purchase of Village Hall site (\$4,086,185).
- Library and Community Room (\$1,966,497)

VILLAGE OF PALMETTO BAY
Capital Assets (Net of Depreciation)

	Balance September 30,	
	2009	2008
Governmental activities:		
Land	\$ 23,689,655	\$ 19,603,470
Construction in progress	1,255,436	2,305,363
Furniture and equipment	828,954	505,761
Building	4,786,690	972,490
Improvements other than buildings	9,292,548	9,586,629
Infrastructure	3,748,658	3,218,002
Governmental activities capital assets, net	<u>\$ 43,601,941</u>	<u>\$ 36,191,715</u>

Additional information on the Village’s capital assets can be found in Note 6 on pages 25-26 of this report.

Long-term Debt. At the end of the current fiscal year, the Village of Palmetto Bay had total debt outstanding of \$11,644,455. The total debt is backed by the full faith and credit of the Village for which the Village is liable in the unlikely event of default.

**Village of Palmetto Bay’s Outstanding Debt
Promissory Notes and Revenue Bonds**

	2009	2008
Promissory Note	\$ 10,235,864	\$ 8,113,705
Revenue Bond	<u>1,408,591</u>	<u>1,435,000</u>
Total	<u>\$ 11,644,455</u>	<u>\$ 9,548,705</u>

There were four debt issues outstanding at the end of the fiscal year; Florida Municipal Loan Council Revenue Bond Series 2005D (Village Library) \$1,495,000, Promissory Note Series 2006 (Park Renovation) \$6,000,000, Promissory Note Series 2007 (Street Signs) \$2,500,000 and Promissory Note Series 2009 (Village Hall site purchase). Additional information on the Village of Palmetto Bay’s long-term debt can be found in Note 7 pages 26.

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate for Miami-Dade County in September 2009 was 11.3% percent, which represents a significant increase from a rate of 5.8% percent the previous year. This is comparable to the state’s average unemployment rate of 11.2% percent and unfavorable to the national average rate of 9.8% percent in September 2009. The unemployment rate of the Village of Palmetto Bay is generally lower than the County. (Source: Florida Research and Economic Database - Labor Market Statistics.)
- Inflationary trends in the County at -1.8% are approximately equal to the national average at -1.5% as of August 2009.
- In the second year of foreclosures and property value declines, the Village of Palmetto Bay saw about the same decrease in property values as the County average of 9.5%.

All of these factors were considered in preparing the Village’s budget for the 2010 fiscal year. During the current fiscal year, unreserved fund balance in the general fund decreased to \$7,865,771. The Village of Palmetto Bay has appropriated \$797,781 of this amount for capital projects in the 2010 fiscal year budget. The Village of Palmetto Bay used a millage rate of 2.447 for fiscal year 2010, which is 8.89% less than the roll back rate of 2.6857.

Requests for Information

This financial report is designed to provide a general overview of the Village of Palmetto Bay’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 8950 S.W. 152nd Street, Palmetto Bay, Florida 33157.

VILLAGE OF PALMETTO BAY, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

	Governmental <u>Activities</u>
Assets	
Cash and cash equivalents	\$ 11,567,449
Investments	125,551
Receivables, net	1,228,638
Due from other governments	1,195,987
Prepaid assets	28,727
Deferred charges	28,119
Capital assets not being depreciated	24,945,090
Capital assets being depreciated, net	<u>18,656,851</u>
Total Assets	<u>57,776,412</u>
Liabilities	
Accounts payable	664,412
Accrued liabilities	109,498
Due to other governments	1,111
Noncurrent liabilities:	
Due in one year	630,406
Due in more than one year	<u>11,113,351</u>
Total Liabilities	<u>12,518,778</u>
Net Assets	
Invested in capital assets, net of related debt	31,957,486
Restricted for:	
Law enforcement	6,461
Transportation	789,269
Unrestricted	<u>12,504,418</u>
Total Net Assets	<u>\$ 45,257,634</u>

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

G-7

BASIC FINANCIAL STATEMENTS

VILLAGE OF PALMETTO BAY, FLORIDA

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 3,367,301	\$ 916,567	\$ --	\$ --	\$ (2,450,734)
Public safety	5,987,514	325,270	--	3,328	(5,658,916)
Public works	1,417,707	523,417	15,321	1,158,116	279,147
Parks and recreation	1,998,470	376,785	--	998,278	(623,407)
Planning and zoning	490,377	--	--	--	(490,377)
Interest on long-term debt	486,744	--	--	--	(486,744)
Total Governmental Activities	<u>\$ 13,748,113</u>	<u>\$ 2,142,039</u>	<u>\$ 15,321</u>	<u>\$ 2,159,722</u>	<u>(9,431,031)</u>
General Revenues					
Real and personal property taxes					6,574,981
Communication service tax					1,250,495
Franchise fees based on gross receipts					1,308,472
Utility taxes					1,903,636
Unrestricted intergovernmental					2,438,119
Unrestricted interest earnings					306,350
Miscellaneous					30,623
Special Item					
Mitigation settlement (Note 9)					(4,631,723)
Total general revenues and special items					<u>9,180,953</u>
Change in net assets					(250,078)
Net Assets - Beginning					<u>45,507,712</u>
Net Assets - Ending					<u>\$ 45,257,634</u>

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

VILLAGE OF PALMETTO BAY, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

	General	Grants Fund	Transportation Fund	Capital Projects Fund	Other Governmental Funds	Totals Governmental Funds
Assets						
Cash and cash equivalents	\$ 5,177,519	\$ 456,839	\$ 671,792	\$ 4,786,899	\$ 474,400	\$ 11,567,449
Investments	70,289	--	--	55,262	--	125,551
Accounts receivable	1,126,749	--	--	--	101,889	1,228,638
Due from other funds	1,822,758	11,502	165,234	1,000,290	--	2,999,784
Due from other governments	182,219	986,641	12,700	--	14,427	1,195,987
Prepaid items	28,727	--	--	--	--	28,727
Total Assets	\$ 8,408,261	\$ 1,454,982	\$ 849,726	\$ 5,842,451	\$ 590,716	\$ 17,146,136
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 173,545	\$ 43,362	\$ 49,736	\$ 387,183	\$ 10,586	\$ 664,412
Accrued liabilities	95,693	--	--	--	--	95,693
Due to other governments	1,111	--	--	--	--	1,111
Due to other funds	272,141	987,132	105,040	1,607,822	27,649	2,999,784
Total Liabilities	542,490	1,030,494	154,776	1,995,005	38,235	3,761,000
Fund Balances						
Reserved:						
Prepays	28,727	--	--	--	--	28,727
Transportation	94,319	--	--	--	--	94,319
Asset replacement	40,000	--	--	--	--	40,000
Law enforcement	9,176	--	--	--	--	9,176
Impact fees	--	195,639	--	--	--	195,639
Capital projects	--	96,814	--	--	--	96,814
Art in public places	--	132,035	--	--	--	132,035
Unreserved, undesignated reported in:						
General fund	7,693,549	--	--	--	--	7,693,549
Special revenue funds	--	--	694,950	--	552,481	1,247,431
Capital projects fund	--	--	--	3,847,446	--	3,847,446
Total Fund Balances	7,865,771	424,488	694,950	3,847,446	552,481	13,385,136
Total Liabilities and Fund Balances	\$ 8,408,261	\$ 1,454,982	\$ 849,726	\$ 5,842,451	\$ 590,716	

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 funds.	43,601,941
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
The details of the difference are as follows:	
Long term debt	(11,644,455)
Compensated absences	(99,302)
Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued whereas these amounts are deferred and amortized in the statement of activities.	
The details of the difference are as follows:	
Accrued interest on bonds	(13,805)
Bond issue costs	28,119
Net Assets of Governmental Activities	\$ 45,257,634

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

VILLAGE OF PALMETTO BAY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2009

	General	Grants Fund	Transportation Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Real and personal property taxes	\$ 6,574,981	\$ --	\$ --	\$ --	\$ --	\$ 6,574,981
Utility taxes	1,903,636	--	--	--	--	1,903,636
Communication service tax	1,336,528	--	--	--	--	1,336,528
Franchise fees	1,308,472	--	--	--	--	1,308,472
Intergovernmental	2,438,119	1,302,340	857,382	--	--	4,597,841
Licenses and permits	916,567	--	--	--	--	916,567
Impact fees	--	15,321	--	--	--	15,321
Fines and forfeitures	241,620	--	--	--	--	241,620
Charges for services	376,785	--	--	--	607,067	983,852
Interest	223,469	534	4,821	77,526	--	306,350
Miscellaneous	29,024	--	--	--	1,599	30,623
Total Revenues	15,349,201	1,318,195	862,203	77,526	608,666	18,215,791
Expenditures						
Current:						
General government	3,091,525	1,626	--	--	66,422	3,159,573
Public safety	5,967,109	3,328	--	--	--	5,970,437
Public works	414,033	42,552	420,916	61,285	47,993	986,779
Parks and Recreation	1,284,957	--	--	--	--	1,284,957
Planning and zoning	484,737	--	--	--	--	484,737
Capital outlay	460,714	1,392,316	471,419	6,280,995	168,782	8,774,226
Debt service:						
Principal payments	234,452	--	173,388	--	--	407,840
Interest and fiscal charges	379,497	--	88,442	5,000	--	472,939
Total Expenditures	12,317,024	1,439,822	1,154,165	6,347,280	283,197	21,541,488
Excess (deficiency) of revenues over expenditures	3,032,177	(121,627)	(291,962)	(6,269,754)	325,469	(3,325,697)
Other Financing Sources (Uses)						
Transfers in	--	--	76,694	1,116,710	--	1,193,404
Transfers out	(1,193,404)	--	--	--	--	(1,193,404)
Debt issued	--	--	--	2,500,000	--	2,500,000
Total Other Financing Sources (Uses)	(1,193,404)	--	76,694	3,616,710	--	2,500,000
Special Item						
Mitigation settlement (Note 9)	(4,631,723)	--	--	--	--	(4,631,723)
Net change in fund balances	(2,792,950)	(121,627)	(215,268)	(2,653,044)	325,469	(5,457,420)
Fund Balances - Beginning	10,658,721	546,115	910,218	6,500,490	227,012	18,842,556
Fund Balances - Ending	\$ 7,865,771	\$ 424,488	\$ 694,950	\$ 3,847,446	\$ 552,481	\$ 13,385,136

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

VILLAGE OF PALMETTO BAY, FLORIDA

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2009

Amounts reported for governmental activities in the statement of activities (Page 11) are different because:

Net change in fund balances - total government funds (Page 13) \$ (5,457,420)

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. This is the amount by which capital outlay exceeds depreciation in the current period:

Details of the difference are as follows:

Cost of assets	\$ 8,470,689	
Depreciation expense	(1,052,221)	
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and dispositions)	<u>(5,858)</u>	7,412,610

The issuance of long-term debt (e.g., bonds, 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Details of the difference are as follows:

Debt proceeds	(2,500,000)	
Principal payments on debt	407,840	
Principal payments on capital leases	<u>7,926</u>	(2,084,234)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds (CST adjustment) (86,033)

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:

Details of the difference are as follows:

Change in accrued interest on debt	(1,242)	
Change in compensated absences	(32,816)	
Amortization of bond issue costs	(1,081)	
Amortization of bond premium	<u>138</u>	(35,001)

Change in net assets of governmental activities (Page 11) \$ (250,078)

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

NOTES TO BASIC FINANCIAL STATEMENTS

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Palmetto Bay, Florida (the Village) was incorporated on September 10, 2002. The Village operates under a Council-Manager form of government. In addition to the general government function, the Village provides its residents with public safety (police), public works, parks and recreation, planning and zoning and building and permitting. The Village does not provide educational or water and sewer, solid waste or hospital facilities; those services are provided by the Miami-Dade County School Board and Miami-Dade County, respectively.

The financial statements of the Village 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 accounting and financial reporting principles. The more significant of the Village's accounting policies are described below:

A. FINANCIAL REPORTING ENTITY

The financial statements were prepared in accordance with Government Accounting Standards, 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 Village, organizations for which the Village is financially accountable, and other organizations for which the nature and significance of their relationship with the Village are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Village 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 Village.

Component units are included in the reporting entity either as blended or as discretely presented. Blended component units, although legally separate entities, are, in substance, part of the Village's operations. Accordingly, data from these component units are combined with data of the primary government.

Based upon the application of the criteria described above, the financial activity of the blended component unit listed below has been included in the Village's financial reporting entity. The Board of Directors of the Foundation are the same individuals as the Village of Palmetto Bay Council.

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. FINANCIAL REPORTING ENTITY (CONTINUED)

The Palmetto Bay Foundation, Inc. (the Foundation) was created on December 6, 2004 for the purpose of enhancing and preserving the history of Palmetto Bay. The Foundation is a not-for-profit (501(c)(3)) corporation using a calendar year end. Revenues consist primarily of donations and investment income. The Foundation articles restrict the use of the funds to charitable, educational or scientific purposes.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Village. 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 Village does not have any business-type activities.

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. The major individual governmental funds are reported as separate columns in the fund financial statements. All remaining nonmajor governmental funds are aggregated and reported as other governmental funds.

C. 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*. 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.

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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 Village 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 are recorded only when payment is due.

Property taxes, franchise fees and other 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. Revenue for expenditure driven grants are recognized when the qualifying expenditures are incurred. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The *General Fund* is the Village'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 *Grants Fund* accounts for all grant monies and the related program income from federal, state and local agency grants.

The *Transportation Fund* accounts for the revenues received from the transportation surtax and new local option gas tax and expenditures for related transportation costs.

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities.

The Village also reports the following nonmajor governmental fund:

Special Revenue Funds account for monies received which are to be used in accordance with the funds stated purposes. These are included under the heading of other governmental funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. DEPOSITS AND INVESTMENTS

The Village's cash and cash equivalents include cash on hand, pooled cash, demand deposits, investments in money market funds.

All investments, except the Florida PRIME (formerly known as the Local Government Surplus Funds Trust Fund (LGIP) and Fund B, are reported at fair value. The Florida PRIME is recorded at the value of the pool shares (2a-7 like pool), which is fair value. Fund B is a fluctuating NAV pool and is reported based on the fair value factor.

The nature of investments is governed by the provisions of Florida Statutes Section 218. Under this statute, authorized investments are limited, unless otherwise authorized by law or ordinance, to the local government surplus funds trust fund, money market funds, direct or unconditionally guaranteed obligations of the United States Government, obligations of certain governmental agencies, interest bearing time deposits or savings accounts. Income from investments is recorded as earned.

Cash and cash equivalents include cash and investments which are defined as short-term, highly liquid investments with original maturities of three months or less.

2. INTERFUND RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as due to/from other funds.

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

3. RECEIVABLES

Receivables include amounts due from other governments and others for services provided by the Village. Receivables are recorded and revenues are recognized as earned or as specific program expenditures/expenses are incurred. Allowances for uncollectible receivables are based upon historical trends and the periodic aging of receivables.

4. PREPAIDS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

5. CAPITAL ASSETS

Capital assets, which include land, buildings, furniture and equipment and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. 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.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

	<u>Estimated Useful Lives (Years)</u>
Furniture and equipment	5-20
Buildings	30
Leasehold improvements	10
Infrastructure	30

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

6. COMPENSATED ABSENCES

The Village’s policy is to permit employees to accumulate earned but unused sick and vacation pay benefits, limited to certain maximums, based on length of service. For certain employees, the Village also grants compensation time. All vacation, sick and compensated pay is accrued when incurred in the government-wide 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. For the governmental funds, compensated absences are liquidated from the general fund.

7. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line amortization method. The results of using this method do not differ significantly from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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. Long-term liabilities of governmental funds are generally liquidated through the general fund.

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, where noted, represent tentative management plans that are subject to change. Undesignated fund balance indicates the portion of fund balance which is available for future use.

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

9. NET ASSETS

Net assets of the government-wide statement of net assets are categorized as invested in capital assets, net of related debt; restricted or unrestricted. Invested in capital assets, net of related debt, is that portion of net assets that relates to the Village's capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct or improve those assets, excluding unexpended proceeds.

Restricted net assets is that portion of net assets that has been restricted for general use by external parties (creditors, grantors, contributors, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation. Unrestricted net assets consist of all net assets that do not meet the definition of either of the other two components.

10. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets, liabilities, disclosures of contingent liabilities, revenues and expenditures/expenses reported in the financial statements and accompanying notes. These estimates include assessing the collectability of receivables and the useful lives of capital assets. Although these estimates as well as all 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 values are assessed on a county-wide basis by the Miami-Dade County Property Appraiser as of January 1, the lien date, of each year and are due the following November 1. Taxable value of property within the Village is certified by the Property Appraiser and the Village levies a tax millage rate upon the taxable value, which will provide revenue required for the fiscal year beginning October 1. The millage rate assessed by the Village for the year ended September 30, 2009 was 2.4476 mills.

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 2 – PROPERTY TAXES (CONTINUED)

Property taxes levied each November 1, by the Village and all other taxing authorities within the County, are centrally billed and collected by Miami-Dade County, with remittances to the Village of their proportionate share of collected taxes. Taxes for the fiscal year beginning October 1 are billed in the month of November, subject to a 1% per month discount for the period November through February, and are due no later than March 31. On April 1, unpaid amounts become delinquent with interest and penalties added thereafter. Beginning June 1, tax certificates representing delinquent taxes with interest and penalties are sold by Miami-Dade County, with remittance to the Village for its share of those receipts. At September 30, 2009, there were no material delinquent taxes.

NOTE 3 – DEPOSITS AND INVESTMENTS

DEPOSITS

In addition to insurance provided by the Federal Depository 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 insured or collateralized with securities held by the entity or its agent in the entity's name.

INVESTMENTS

The Village is authorized to invest in obligations of the U.S. Treasury, its agencies, instrumentalities and the Local Government Surplus Funds Trust Fund administered by the State Board of Administration. The investments follow the investment rules defined in Florida Statutes Chapter 215. The investment policy defined in the statutes attempts to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local units of governments while limiting the risk to which the funds are exposed.

The State Board of Administration (SBA) administers the Florida PRIME (formerly known as the Local Government Surplus Funds Trust Fund (LGIP)), and the Fund B Surplus Funds

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Trust Fund (Fund B), both of which are governed by Chapter 19-7 of the Florida Administrative Code and Chapters 215 and 218 of the Florida Statutes. These rules provide guidance and establish the policies and general operating procedures for the administration of the PRIME and Fund B. The Florida PRIME is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund, which permits money market funds to use amortized cost to maintain a constant net asset value (NAV) of \$1 per share. The fair value of the position in the Florida PRIME is equal to the value of the pool shares. The Fund B is accounted for as a fluctuating NAV pool. As of September 30, 2009, the fair value factor for Fund B was \$.54915 per share. The Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME. The investments in the Florida PRIME and Fund B are not insured by FDIC or any other governmental agency.

As of September 30, 2009, the Village had the following investments:

<u>Investment</u>	Fair	Weighted
	<u>Value</u>	<u>Average Maturity</u>
Florida PRIME	\$ 45,495	33 days
Fund B	<u>125,551</u>	6.69 years
	<u>\$ 171,046</u>	

INTEREST RATE RISK

The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to market value losses arising from increasing interest rates. To mitigate risk, the Village primarily invests in investments with maturities of 12 months or less.

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

CREDIT RISK

The Village does not have a formal investment policy that limits investments to the highest ratings by a nationally recognized statistical rating organization (NRSRO) (Standard and Poor's and Moody's investment services). In order to mitigate credit risk, the Village does limit investments to the highest ratings by a NRSRO. The Florida PRIME is rated AAAM by Standard and Poor's. The Fund B is not rated by an NRSRO.

CONCENTRATION OF CREDIT RISK

The Village diversifies its portfolio in such a way to control the risk of loss resulting from concentration of assets to a specific maturity, instrument, issue, dealer, or bank through which these securities are bought and sold. As of September 30, 2009, the value of each position held in the Village's portfolio is less than 5% in any one issuer.

NOTE 4 - RECEIVABLES

Receivables for the Village's funds including the applicable allowances for uncollectible accounts as of September 30, 2009 are as follows:

	General	Other	Total
	<u>General</u>	<u>Funds</u>	<u>Total</u>
Receivables			
Customers billed	\$ --	\$ 101,889	\$ 101,889
Property taxes	156,965	--	156,965
Utility taxes	190,902	--	190,902
Intergovernmental	721,972	--	721,972
Other	<u>56,910</u>	--	<u>56,910</u>
Gross Receivables	1,126,749	101,889	1,228,638
Less Allowance for Uncollectibles	--	--	--
Net Total Receivables	<u>\$ 1,126,749</u>	<u>\$ 101,889</u>	<u>\$ 1,228,638</u>

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at September 30, 2009 are as follows:

Receivable Fund	Payable Fund					Total
	General	Grants Fund	Transportation Fund	Capital Projects Fund	Nonmajor Governmental Funds	
General Fund	\$ --	\$ 112,947	\$ 79,976	\$ 1,607,822	\$ 22,013	\$ 1,822,758
Capital Project	95,405	874,185	25,064	--	5,636	1,000,290
Transportation	165,234	--	--	--	--	165,234
Grants Fund	11,502	--	--	--	--	11,502
	<u>\$ 272,141</u>	<u>\$ 987,132</u>	<u>\$ 105,040</u>	<u>\$ 1,607,822</u>	<u>\$ 27,649</u>	<u>\$ 2,999,784</u>

Outstanding balances between funds result mainly from the time lag between the dates (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

TRANSFERS

There were transfers totaling \$1,193,404 from the general fund to other funds. This is made up of transfers to the transportation fund in the amount of \$76,694 and capital projects fund in the amount of \$1,116,710 which were used to transfer unrestricted general fund revenues to finance various projects in accordance with budgetary authorizations.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 19,603,469	\$ 4,086,185	\$ --	\$ 23,689,654
Construction in progress	2,305,363	--	1,049,927	1,255,436
Total Capital Assets not Being Depreciated	<u>21,908,832</u>	<u>4,086,185</u>	<u>1,049,927</u>	<u>24,945,090</u>

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated:				
Furniture and equipment	975,809	551,193	3,196	1,523,806
Buildings	1,126,674	3,984,575	--	5,111,249
Improvements other than buildings	10,165,385	231,326	8,100	10,388,611
Infrastructure	3,431,841	667,337	--	4,099,178
Total Capital Assets Being Depreciated	<u>15,699,709</u>	<u>5,434,431</u>	<u>11,296</u>	<u>21,122,844</u>
Less Accumulated Depreciation for:				
Furniture and equipment	470,048	227,454	2,650	694,853
Buildings	154,184	170,375	--	324,559
Improvements other than buildings	578,755	517,711	405	1,096,061
Infrastructure	213,839	136,681	--	350,520
Total Accumulated Depreciation	<u>1,416,826</u>	<u>1,052,221</u>	<u>3,055</u>	<u>2,465,993</u>
Total Capital Assets, Being Depreciated, Net	<u>14,282,883</u>	<u>4,382,210</u>	<u>8,241</u>	<u>18,656,851</u>
Governmental Activities Capital Assets, Net	<u>\$ 36,191,715</u>	<u>\$ 8,468,395</u>	<u>\$ 1,058,168</u>	<u>\$ 43,601,941</u>

Depreciation expense charged to the functions or programs of the Village as follows:

General Government	\$ 128,333
Public Safety	17,077
Transportation	196,071
Culture and Recreation	710,740
Total Depreciation Expense - Governmental Activities	<u>\$ 1,052,221</u>

NOTE 7 – LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bond and loans payable:					
FMLC Bonds	\$ 1,435,000	\$ --	\$ 30,000	1,405,000	\$ 30,000
Add deferred amounts:					
Issuance premium	3,729	--	138	3,591	--
Total Bonds Payable	<u>1,438,729</u>	<u>--</u>	<u>30,138</u>	<u>1,408,591</u>	<u>30,000</u>

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 7 – LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Promissory note, 2006	5,780,492	--	103,838	5,676,654	112,601
Promissory note, 2007	2,333,213	--	173,388	2,159,825	180,249
Promissory note, 2009	--	2,500,000	100,615	2,399,385	208,254
Total Bond and Notes Payable	<u>9,552,434</u>	<u>2,500,000</u>	<u>407,979</u>	<u>11,644,455</u>	<u>531,104</u>
Other liabilities:					
Capital leases	7,926	--	7,926	--	--
Compensated absences	66,486	99,302	66,486	99,302	99,302
Total other liabilities	74,412	99,302	74,412	99,302	99,302
Long-Term Liabilities	<u>\$ 9,626,846</u>	<u>\$ 2,599,302</u>	<u>\$ 482,391</u>	<u>\$ 11,743,757</u>	<u>\$ 630,406</u>

CAPITAL LEASES

The Village has entered into lease agreements for the financing of equipment. These lease agreements qualify as capital leases for accounting purposes.

The assets acquired through capital leases are as follows:

Assets

Machinery and equipment	\$ 198,298
Less accumulated depreciation	(152,936)
	<u>\$ 45,362</u>

These capital leases were paid off during the fiscal year ended September 30, 2009.

FLORIDA MUNICIPAL LOAN COUNCIL REVENUE BONDS SERIES 2005D

During fiscal year 2005, the Village issued Florida Municipal Loan Council Revenue Bonds, Series 2005D in the principal amount of \$1,495,000. The bonds carry a premium of \$4,143. The proceeds were used for the purpose of constructing a library building and funding the interest on the bonds until April 1, 2006. The bonds are collateralized by a pledge of the Village's library rent revenue. The total principal and interest remaining on the bonds is \$2,444,619. Total pledged rent revenue over the life of the bonds is expected to be approximately \$3,000,000. For the current year, debt service and pledged revenues were \$92,683 and \$-0-, respectively. The library was completed in the current year and will generate revenues next year. The bonds are payable over 30 years with principal amounts ranging from \$30,000 to \$90,000 and interest payments ranging from 3% to 5% and the final maturity date is October 1, 2035.

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

NOTE 7 – LONG-TERM DEBT (CONTINUED)

FLORIDA MUNICIPAL LOAN COUNCIL REVENUE BONDS SERIES 2005D (CONTINUED)

Debt service requirements to maturity are as follows:

Fiscal Year Ending September 30:	Principal	Interest	Total
2010	\$ 30,000	\$ 61,708	\$ 91,708
2011	30,000	60,755	90,755
2012	35,000	59,802	94,802
2013	35,000	58,724	93,724
2014	35,000	57,539	92,539
2015-2019	190,000	267,566	457,566
2020-2024	235,000	223,225	458,225
2025-2029	300,000	159,400	459,400
2030-2034	340,000	82,912	422,912
2035-2036	175,000	7,988	182,988
	<u>\$ 1,405,000</u>	<u>\$ 1,039,619</u>	<u>\$ 2,444,619</u>

PROMISSORY NOTE, SERIES 2006

During fiscal year 2006, the Village issued a Promissory Note, Series 2006 in the principal amount of \$6,000,000. The proceeds were used for land purchases and park improvements. The note is due in 15 years with a 30 year amortization. The Village has an option to refinance the note for another fifteen years. Payments of principal and interest of \$91,150 are due quarterly through June 2021 at which time a balloon payment of approximately \$3,900,000 is due. Payments include interest at 4.48%.

Debt service requirements to maturity are as follows:

Fiscal Year Ending September 30:	Principal	Interest	Total
2010	\$ 112,601	\$ 252,001	\$ 364,602
2011	117,731	246,870	364,601
2012	123,094	241,507	364,601
2013	128,702	235,899	364,601
2014	134,566	230,035	364,601
2015-2019	770,569	1,052,438	1,823,007
2020-2021	4,289,391	320,673	4,610,064
	<u>\$ 5,676,654</u>	<u>\$ 2,579,423</u>	<u>\$ 8,256,077</u>

NOTE 7 – LONG-TERM DEBT (CONTINUED)

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

PROMISSORY NOTE, SERIES 2007

During fiscal year 2007, the Village issued a Promissory Note for the principal amount of \$2,500,000. The proceeds will be used for the manufacture and installation of street signs throughout the Village. The note is collateralized by a pledge of the Village's portion of the County's half cent transportation surtax. The total principal and interest remaining on the bonds is \$2,618,669. Total pledged revenue over the life of the note is expected to be approximately \$5,000,000. For the current year, debt service and pledged revenues were \$261,868 and \$558,202, respectively. The note is due in 12 years and requires quarterly principal and interest payments of \$66,467 through August 2019 at which time it will be paid in full. Payments include interest of 3.90%.

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal Year Ending September 30:			
2010	\$ 180,249	\$ 81,617	\$ 261,866
2011	187,383	74,484	261,867
2012	194,798	67,069	261,867
2013	202,507	59,361	261,868
2014	210,521	51,364	261,885
2015-2019	<u>1,184,367</u>	<u>124,949</u>	<u>1,309,316</u>
	<u>\$ 2,159,825</u>	<u>\$ 458,844</u>	<u>\$ 2,618,669</u>

PROMISSORY NOTE, SERIES 2009

During fiscal year 2009, the Village issued a Promissory Note in the principal amount of \$2,500,000. The proceeds were used for the land purchase and Village Hall construction. The note is due in 10 years and requires quarterly principal and interest payments of \$77,606 through March 2019 at which time it will be paid in full. Payments include interest of 4.34%.

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal Year Ending September 30:			
2010	\$ 208,254	\$ 102,170	\$ 310,424
2011	217,570	92,854	310,424
2012	227,067	83,357	310,424
2013	237,461	72,963	310,424
2014	248,084	62,340	310,424
2015-2019	<u>1,260,949</u>	<u>135,951</u>	<u>1,396,900</u>
	<u>\$ 2,399,385</u>	<u>\$ 549,635</u>	<u>\$ 2,949,020</u>

NOTE 8 – DEFINED CONTRIBUTION PLAN

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

The Village provides retirement benefits for full time employees through a money purchase plan (a defined contribution plan). The Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of the employees are tax deferred until the time of withdrawal. The Plan is administered by ICMA Retirement Corporation. Amendments to the Plan are authorized by the Village Council. The plan was established pursuant to Resolution 03-82 adopted on October 7, 2003 by the Village Council.

Plan benefits depend solely on amounts contributed to the Plan, plus investment earnings, less administrative expenses. The Village's contribution for participating employees is 6% of the employees' gross salary. Plan members may contribute up to 6% of the Plan member's gross salary and receive matching from the Village for a total Village contribution of up to 12% of the member's salary. Employees are fully vested after 5 years of service. Employees contributed \$95,120 and the Village contributed \$199,239 to the Plan for the year ended September 30, 2009.

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended September 30, 2009, expenditures exceeded appropriations in the General Fund in other general government and debt service functions by \$1,085,080 and \$155,069, respectively. These overexpenditures were funded by greater than anticipated revenues and by available fund balance.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

MUNICIPAL SERVICE TRUST FUND

The Village is required to contribute municipal property tax revenues into a municipal service Trust Fund (MSTF) of the County. The MSTF will be utilized by the County to (1) maintain police services in the unincorporated areas proximate to the Village; and (2) to provide a municipal assistance retainer enabling the Village to obtain certain advice, expertise, training, financial planning and technological services, and other assistance from the County. The contribution ("Mitigation Payment") will vary yearly and is based on the Consumer Price Index and other calculations. During fiscal year 2008-2009, the Village and Miami Dade County came to a settlement for the litigation involving the legality of the mitigation payment. According to the settlement, the mitigation payment totaling \$4,631,723 for fiscal year 2006-2007, fiscal year 2007-2008 and fiscal year 2008-2009 was paid to an escrow account which was held by the County Attorney and was released to the County on June 25, 2009.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

G-18

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

QUALITY NEIGHBORHOOD IMPROVEMENT PROGRAM (QNIP)

The Village is required to pay the County its pro rata share for the Public Service Tax Revenue Bonds, Series 1999 issued prior to the Village's incorporation. The payment for the period ended September 30, 2009 was approximately \$190,000. The balance of the remaining payments is estimated to be relatively the same per year until the debt is liquidated in fiscal year 2023-2024.

GRANTS

Grant monies received and disbursed by the Village are for specific purposes and may be subject to audit by the grantor agencies. Such audits may result in requests for reimbursements due to disallowed expenditures or other actions by grantor agencies. Based upon prior experience, the Village does not believe that such disallowances or other actions taken by the grantor agencies, if any, would have a material effect on the financial position of the Village.

LITIGATION

The Village is involved in several lawsuits incidental to its operations, the outcome of which, in the opinion of management and legal counsel, should not have a material adverse effect on the financial position of the Village.

RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Village carries commercial insurance. There was no reduction 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.

AGREEMENT WITH MIAMI-DADE COUNTY FOR LOCAL POLICE PATROL SERVICES

On May 5, 2003, the Village executed an agreement with Miami-Dade County for local police patrol services. The Village makes regular monthly installments to the County. Payments are adjusted to accrue labor costs incurred and deducted from the gross revenues due the Village from Miami-Dade County. Payments for the services provided by the County are based on the level of staffing services requested by the Village utilizing the

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

AGREEMENT WITH MIAMI-DADE COUNTY FOR LOCAL POLICE PATROL SERVICES

VILLAGE OF PALMETTO BAY, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

(CONTINUED)

actual personnel costs of officers and equipment. The initial term of the agreement expired on June 30, 2006 and a new agreement for three years was entered into on March 6, 2007 effective June 30, 2006. Payments for patrol services totaled approximately \$5,864,000 during fiscal year ended September 30, 2009.

OPERATING LEASE

On March 14, 2003, the Village executed a lease agreement for office space from May 1, 2003 for a period of ten years. An addendum to this agreement was executed on August 29, 2003 to provide for additional office space starting November 1, 2003. The Village is paying a base rent of \$12,161 per month; the current monthly payment is \$14,714. The lease is subject to a 10% rental increase on each three year anniversary. Utilities are not included in the rent.

The future minimum lease payments for this lease are as follows:

Fiscal Year Ending September 30:	
2010	\$ 176,573
2011	176,573
2012	183,930
2013	194,230
2014	<u>213,653</u>
	<u>\$ 944,959</u>

Total rental expense for the fiscal year ended September 30, 2009 was approximately \$167,000.

CONSTRUCTION COMMITMENTS

The Village had construction commitments outstanding at September 30, 2009 in the amount of approximately \$609,000 for park renovations and \$53,000 for monument signs.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX H

FINANCIAL INFORMATION REGARDING CITY OF VALPARAISO

[THIS PAGE INTENTIONALLY LEFT BLANK]

City of Valparaiso, Florida
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances/Equity
 General Fund
 For the Fiscal Years Ended September 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>
REVENUES:			
Property taxes	649,250	681,302	790,603
Franchise tax	480,629	379,653	404,466
Communication taxes	179,570	183,828	200,331
Sales taxes	530,528	485,736	437,059
Excise taxes	47,660	0	0
Utility taxes	241,554	238,079	234,826
Licenses and permits	74,144	58,098	55,880
Intergovernmental	226,544	220,690	174,414
Federal and state grants	351,188	534,496	197,250
Fines and forfeits	27,881	40,232	25,112
Charges for services	252,017	287,186	275,709
Interest	34,208	32,579	21,183
Rents	41,049	42,538	46,151
Miscellaneous	13,861	2,869	18,992
Sales of Fixed Assets	<u>6,861</u>	<u>3,766</u>	<u>2,525</u>
Total Revenues	3,156,944	3,191,052	2,884,501
EXPENDITURES:			
Current:			
General government	755,925	648,554	931,035
Public safety	1,189,171	1,135,974	1,127,703
Public works	137,736	135,784	169,255
Cemetery	72,682	85,081	75,128
Culture and recreation	461,833	374,607	413,374
Debt Service:			
Principal	5,903	0	0
Interest and Fiscal Charges	83	0	0
Capital outlay	<u>578,962</u>	<u>450,831</u>	<u>220,288</u>
Total expenditures	<u>3,202,295</u>	<u>2,830,831</u>	<u>2,936,783</u>
Excess (Deficiency) of revenues over (under) expenditures	(45,351)	360,221	(52,282)
OTHER FINANCING SOURCES (USES):			
Operating transfers out	<u>(33,890)</u>	<u>(33,890)</u>	<u>(33,890)</u>
Total other financing sources (uses)	<u>(33,890)</u>	<u>(33,890)</u>	<u>(33,890)</u>
Net change in fund balances	(79,241)	326,331	(86,172)
Fund balances - beginning	<u>1,311,851</u>	<u>1,232,610</u>	<u>1,647,492</u>
Prior Period Adjustments	<u>0</u>	<u>88,551</u>	<u>0</u>
Fund balances - ending	<u><u>1,232,610</u></u>	<u><u>1,647,492</u></u>	<u><u>1,561,320</u></u>



Carr, Riggs & Ingram, LLC
4507 Highway 20 East
Suite 4
Niceville, FL 32578

(850) 671-4632
(850) 667-4638 (fax)
www.cri-riggs.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Commission
City of Valparaiso, 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 Valparaiso, Florida (hereinafter referred to as "City"), as of and for the year ended September 30, 2009, 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 the 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, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

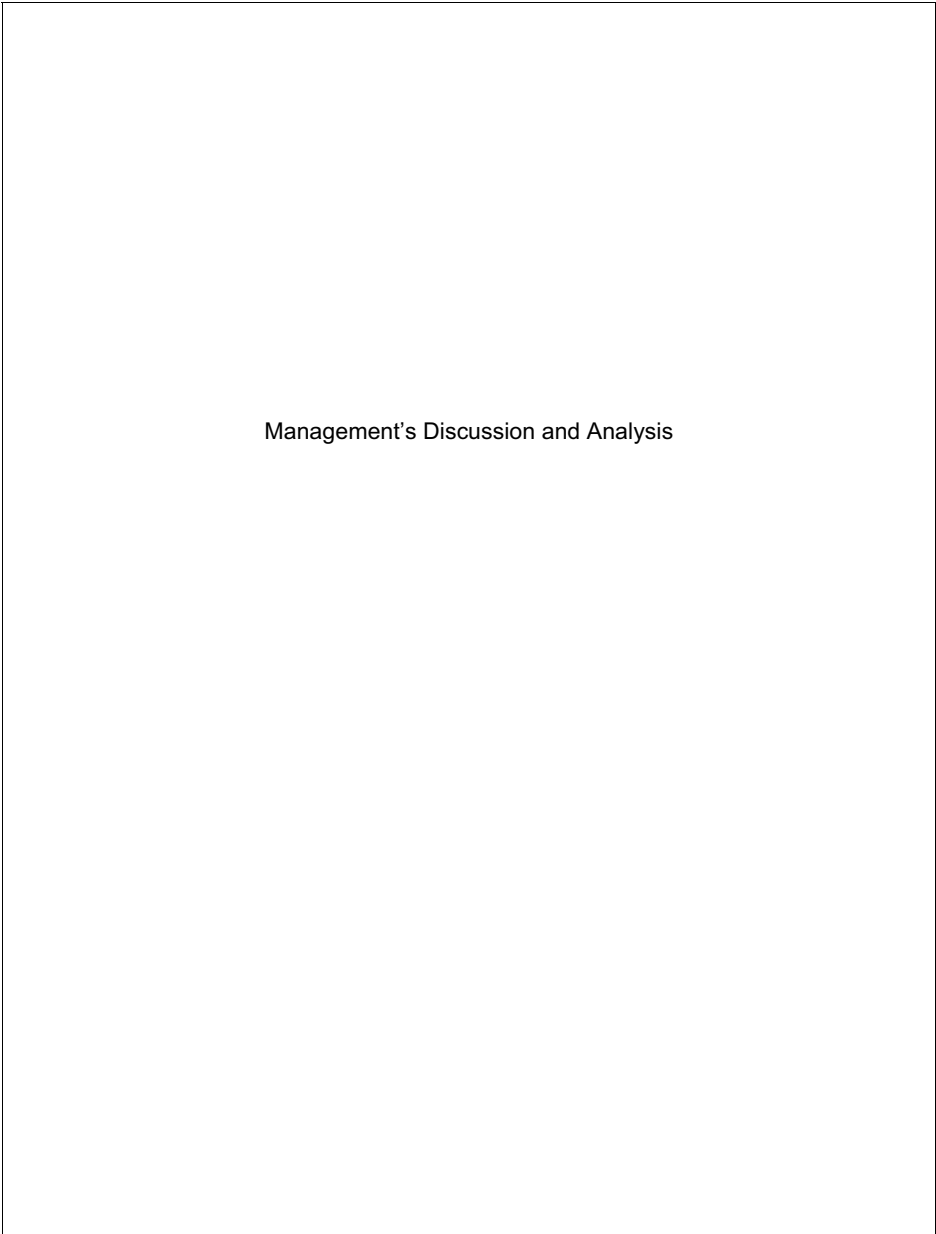
In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 7 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Carr, Riggs & Ingram, LLC

Niceville, Florida
June 1, 2010

H-2



Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis (MD&A) of the City of Valparaiso, Florida's (the "City") financial performance provides an overview of financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues for the fiscal year ended September 30, 2009. The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements.

HIGHLIGHTS

Financial Highlights

- Total assets decreased \$474,361.
- Net assets decreased by \$188,450.
- Total revenues decreased by 4% or \$248,256 and total expenses increased by 8% or \$462,809.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement 37. The Statement of Net Assets and the Statement of Activities (on pages 8 and 9) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a whole

Government – Wide Statements

Our analysis of the City as a whole begins on page 4. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer that question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets - the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- *Governmental activities* – Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Taxes and intergovernmental revenues finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help it cover the costs of certain services it provides. The City's utility, communication, and sanitation systems are included here.

Reporting the City's Funds

Fund Financial Statements

Our analysis of the City's funds begins on page 6. The fund financial statements begin on page 10 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in the reconciliations on pages 11 and 13.
- **Proprietary funds** – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's proprietary fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for its employees' pension plan. All of the City's fiduciary activities are reported in separate Statements of Pension Trust Fund Net Assets and Changes in Pension Trust Fund Net Assets on pages 20 and 21.

We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT – WIDE FINANCIAL ANALYSIS)

The following table reflects the net assets of the City's governmental activities and business-type activities and is compared to the prior year.

	Governmental Activities		Business-type Activities		Total Primary Government		Total percentage change 2009-2008
	2009	2008	2009	2008	2009	2008	
Assets							
Current and other assets	\$ 1,922,620	\$ 1,961,185	\$ 2,222,148	\$ 3,528,360	\$ 4,144,768	\$ 5,489,545	-24.50%
Capital assets, net	3,338,466	3,346,495	5,265,167	4,386,722	8,603,633	7,733,217	11.26%
Total assets	\$ 5,261,086	\$ 5,307,680	\$ 7,487,315	\$ 7,915,082	\$ 12,748,401	\$ 13,222,762	-3.59%
Liabilities							
Current liabilities	\$ 50,945	\$ 15,203	\$ 1,073,677	\$ 1,349,205	\$ 1,124,622	\$ 1,364,408	-17.57%
Other liabilities	155,811	148,914	4,062,680	4,115,702	4,218,491	4,264,616	-1.08%
Total liabilities	206,756	164,117	5,136,357	5,464,907	5,343,113	5,629,024	-5.08%
Net assets							
Invested in capital assets, net of debt	3,338,466	3,346,495	2,135,610	3,071,722	5,474,076	6,418,217	-14.71%
Restricted	8,752	8,706	1,098,223	2,279,479	1,106,975	2,288,185	-51.62%
Unrestricted	1,707,112	1,788,362	(882,875)	(2,901,026)	824,237	(1,112,664)	-174.08%
Total net assets	5,054,330	5,143,563	2,350,958	2,450,175	7,405,288	7,593,738	-2.48%
Total liabilities and net assets	\$ 5,261,086	\$ 5,307,680	\$ 7,487,315	\$ 7,915,082	\$ 12,748,401	\$ 13,222,762	-3.59%

For more detailed information, see the accompanying Statement of Net Assets.

Total assets decreased by \$474,361 during the fiscal year ended September 30, 2009. This decrease primarily was due to the use of current assets to reduce liabilities. Total liabilities decreased by \$285,911 at September 30, 2009 primarily due to payment of amounts owed for construction costs from the previous year. The City's combined net assets decreased by \$188,450.

The following table reflects the changes in net assets of the City's governmental activities and business-type activities and compares the current and previous fiscal year.

	Governmental Activities		Business-type Activities		Total Primary Government		Total percentage change 2009-2008
	2009	2008	2009	2008	2009	2008	
Program revenues:							
Charges for services	\$ 356,701	\$ 387,659	\$ 2,780,981	\$ 2,685,991	\$ 3,137,682	\$ 3,073,650	2%
Operating grants and contributions	-	113,869	42,522	43,763	42,522	157,632	-73%
Capital grants and contributions	196,250	420,627	-	-	196,250	420,627	-53%
Total program revenues	552,951	922,155	2,823,503	2,729,754	3,376,454	3,651,909	-8%
General revenues:							
Property taxes	790,603	681,302	-	-	790,603	681,302	16%
Public service taxes & franchise fees	1,435,029	1,452,834	-	-	1,435,029	1,452,834	-1%
State shared revenues	295,774	329,105	-	-	295,774	329,105	-10%
Investment earnings	27,557	38,882	61,369	166,378	88,926	205,260	-57%
Sale of fixed assets	-	-	75,290	-	75,290	-	-
Miscellaneous	68,668	52,143	74,243	80,690	142,911	132,833	8%
Total general revenues	2,617,631	2,554,266	210,902	247,068	2,828,533	2,801,334	1%
Total revenues	3,170,582	3,476,421	3,034,405	2,976,822	6,204,987	6,453,243	-4%
Governmental activities:							
General government	965,174	688,796	-	-	965,174	688,796	40%
Public safety	1,242,759	1,281,517	-	-	1,242,759	1,281,517	-3%
Public works	174,624	145,924	-	-	174,624	145,924	20%
Transportation	266,464	285,330	-	-	266,464	285,330	-7%
Cemetery	81,376	77,786	-	-	81,376	77,786	5%
Culture and recreation	481,456	443,596	-	-	481,456	443,596	9%
Total governmental activities	3,211,853	2,922,949	-	-	3,211,853	2,922,949	10%
Business-type activities:							
Utility	-	-	1,044,321	986,641	1,044,321	986,641	6%
Communication	-	-	1,499,248	1,323,198	1,499,248	1,323,198	13%
Sanitation	-	-	638,015	697,840	638,015	697,840	-9%
Total business-type activities	-	-	3,181,584	3,007,679	3,181,584	3,007,679	6%
Total expenses	3,211,853	2,922,949	3,181,584	3,007,679	6,393,437	5,930,628	8%
Increase (decrease) in net assets	(41,271)	553,472	(147,179)	(30,857)	(188,450)	522,615	-136%
Transfers	(47,962)	(73,695)	47,962	73,695	-	-	0%
Change in net assets	(89,233)	479,777	(99,217)	42,838	(188,450)	522,615	-136%
Net assets beginning of year	5,143,563	4,554,680	2,450,175	2,407,337	7,593,738	6,962,017	9%
Prior period adjustment	-	109,106	-	-	-	109,106	-100%
Net assets beginning of year, as restated	5,143,563	4,663,786	2,450,175	2,407,337	7,593,738	7,071,123	7%
Net assets end of year	\$ 5,054,330	\$ 5,143,563	\$ 2,350,958	\$ 2,450,175	\$ 7,405,288	\$ 7,593,738	-2%

For more detailed information, see the accompanying Statements of Activities.

The City's total revenues decreased by 4% or \$248,256 and total expenses increased by 8% or \$462,809. The overall results were a \$188,450 decrease in net assets for fiscal year 2009. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The City's revenue for governmental activities decreased by 9%, or \$305,839, while expenses for the governmental activities increased by 10% or \$288,904. Overall, the City's revenues were consistent with prior year. However, during the year, the City experienced higher tax revenues that were offset by lower grant revenues. The increase in expenses can be attributed to increases in operating and capital expenditures in the general fund. Specifically, expenditure increases were noted in general government.

Business-type Activities

Revenues of the City's business – type activities show an increase of 2% or \$57,583 from the previous fiscal year, while expenses increased 6% or \$173,905. The increase in expense was due to higher programming costs, internet subscriber costs, sewer operating costs and depreciation expense. The increase in revenues is due primarily to an increase in the business activity rates in the current fiscal year.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a *combined* fund balance of \$1,790,763, which is \$78,957 lower than last year's total of \$1,869,720. The decrease in fund balance is the result of a decrease in revenues and an increase in operating and capital expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised the City budget by approximately \$228,000. The reason for these budget increases were primarily to account for the increase in legal expenditures related to the City's litigation with the United States Air Force and Okaloosa County regarding the Joint Strike fighter squadron coming to Eglin Air Force Base.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2009, the City had approximately \$8,604,000 invested in capital assets (net of depreciation). This amount represents a net increase (including additions and deductions) of \$870,416 or 11% over the fiscal year 2008 total. See note 4 for additional information. A listing of capital assets of governmental and business-type activities by major category, net of depreciation, for the current and prior year follows:

	Governmental Activities		Business-type Activities		Total Primary Government		Total percentage change
	2009	2008	2009	2008	2009	2008	2009-2008
Land	\$ 451,387	\$ 451,387	\$ 90,603	\$ 114,139	\$ 541,990	\$ 565,526	-4%
Construction in progress	-	288,003	-	1,184,076	-	1,472,079	-100%
Infrastructure	948,414	963,596	-	-	948,414	963,596	-2%
Buildings and improvements	1,228,948	986,695	2,676,665	2,715,877	3,905,613	3,702,572	5%
Furniture, vehicles, & equipment	577,745	496,508	2,300,207	275,756	2,877,952	772,264	273%
Assets under capital leases	131,972	160,306	197,692	96,874	329,664	257,180	28%
Totals	\$ 3,338,466	\$ 3,346,495	\$ 5,265,167	\$ 4,386,722	\$ 8,603,633	\$ 7,733,217	11%

Debt

At September 30, 2009, the City had \$4,117,360 in bonds outstanding, net of unamortized discount and deferred refunding expenses, versus \$4,312,847 in the prior year, a decrease of \$195,487 as shown below. The City also had \$142,780 in lease obligations versus \$87,011 in the prior year, an increase of \$55,769 due to a new lease for a truck and lease payments throughout the year as shown below.

	Governmental Activities		Business-type Activities		Total Primary Government		Total percentage change
	2009	2008	2009	2008	2009	2008	2009-2008
Lease obligations	\$ -	\$ -	\$ 142,780	\$ 87,011	\$ 142,780	\$ 87,011	64.09%
Bonds and notes	-	-	4,117,360	4,312,847	4,117,360	4,312,847	-4.53%
Totals	\$ -	\$ -	\$ 4,260,140	\$ 4,399,858	\$ 4,260,140	\$ 4,399,858	-3.18%

The last payment on the debt is due in fiscal year 2026. The maximum debt service in any one year on this debt is estimated to be \$377,388 in 2019. The minimum debt service is estimated to be \$230,119 in 2021. The City pledged as security for payment of the principal and interest on the Water and Sewer Revenue Bonds all non-ad valorem revenues.

For additional information on debt, see note 6 in the accompanying financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Amounts available for appropriation in the general fund budget are \$3.2 million, a decrease of 6% over the final FY 2009 budget of \$3.4 million. Property taxes, municipal revenue sharing and sales tax revenues were decreased. The 2010 appropriations include \$62,500 from unrestricted reserves.

Budgeted expenditures are expected to remain somewhat constant at \$3.2 million. The City has added no major new programs to the FY 2010 budget. However, the City has approximately \$1 million in a project fund from bond proceeds received in FY 2007 that are available to finance capital projects.

The City has settled its litigation with the United States Air Force and Okaloosa County regarding the Joint Strike fighter squadron coming to Eglin Air Force Base. One suit involving a private individual remains outstanding with the potential outcome unknown.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office, 190 Valparaiso Parkway, Valparaiso, Florida 32578.

Basic Financial Statements

City of Valparaiso, Florida

Statement of Net Assets

<i>September 30,</i>	2009		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 892,855	\$ 1,052,773	\$ 1,945,628
Investments	244,756	-	244,756
Accounts receivable, net	105,701	185,862	291,563
Inventories	-	77,059	77,059
Taxes receivable, net	6,175	-	6,175
Interest receivable	17,160	-	17,160
Internal balances	645,411	(645,411)	-
Prepaid items	1,810	9,721	11,531
Restricted assets - cash and cash equivalents	8,752	1,228,673	1,237,425
Investment in joint venture	-	236,493	236,493
Bond issue costs, net	-	76,978	76,978
Capital assets			
Nondepreciable	451,387	90,603	541,990
Depreciable, net	2,887,079	5,174,564	8,061,643
Total assets	5,261,086	7,487,315	12,748,401
Liabilities			
Accounts payable	50,945	119,576	170,521
Contingency payable	-	302,949	302,949
Taxes payable	-	555	555
Accrued payroll	137,195	7,570	144,765
Accrued interest - contingency	-	314,955	314,955
Customer deposits - restricted	-	98,725	98,725
Payroll deductions and withholdings	13,595	-	13,595
Deposits from others	1,250	-	1,250
Deferred revenue	3,771	-	3,771
Noncurrent liabilities:			
Due within one year	-	229,347	229,347
Due in more than one year	-	4,062,680	4,062,680
Total liabilities	206,756	5,136,357	5,343,113
Net assets			
Invested in capital assets, net of related debt	3,338,466	2,135,610	5,474,076
Restricted for:			
Capital projects	-	1,098,223	1,098,223
Public safety	8,752	-	8,752
Unrestricted	1,707,112	(882,875)	824,237
Total net assets	\$ 5,054,330	\$ 2,350,958	\$ 7,405,288

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Activities

Year ended September 30,

2009

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 965,174	\$ 286,894	\$ -	\$ -	\$ (678,280)	\$ -	\$ (678,280)
Public safety	1,242,759	28,223	-	121,499	(1,093,037)	-	(1,093,037)
Public works	174,624	-	-	-	(174,624)	-	(174,624)
Transportation	266,464	-	-	-	(266,464)	-	(266,464)
Cemetery	81,376	38,945	-	-	(42,431)	-	(42,431)
Culture and recreation	481,456	2,639	-	74,751	(404,066)	-	(404,066)
Total governmental activities	3,211,853	356,701	-	196,250	(2,658,902)	-	(2,658,902)
Business-type activities:							
Utility	1,044,321	873,338	4,649	-	-	(166,334)	(166,334)
Communication	1,499,248	1,180,809	37,873	-	-	(280,566)	(280,566)
Sanitation	638,015	726,834	-	-	-	88,819	88,819
Total business-type activities	3,181,584	2,780,981	42,522	-	-	(358,081)	(358,081)
Total primary government	\$ 6,393,437	\$ 3,137,682	\$ 42,522	\$ 196,250	(2,658,902)	(358,081)	(3,016,983)
General revenues							
Property taxes, levied for operational purposes					790,603	-	790,603
Public service taxes and franchise fees					1,435,029	-	1,435,029
State shared revenues					295,774	-	295,774
Investment earnings					27,557	61,369	88,926
Sale of fixed assets					-	75,290	75,290
Miscellaneous					68,668	74,243	142,911
Transfers					(47,962)	47,962	-
Total general revenues and transfers					2,569,669	258,864	2,828,533
Change in net assets					(89,233)	(99,217)	(188,450)
Net assets, October 1, 2008					5,143,563	2,450,175	7,593,738
Net assets, September 30, 2009					\$ 5,054,330	\$ 2,350,958	\$ 7,405,288

See accompanying notes to financial statements.

[THIS PAGE INTENTIONALLY LEFT BLANK]

City of Valparaiso, Florida

Balance Sheet
Governmental Funds

<u>September 30,</u>		<u>2009</u>		
	<u>General Fund</u>	<u>Streets Fund</u>	<u>Total Governmental Funds</u>	
Assets:				
Cash and cash equivalents	\$ 290,957	\$ 1,980	\$ 292,937	
Cash and cash equivalents, reserved	441,088	158,830	599,918	
Accounts receivable, net	79,442	17,658	97,100	
Taxes receivable, net	6,175	-	6,175	
Interest receivable	10,815	-	10,815	
Interest receivable - reserved	-	6,345	6,345	
Prepaid items	1,810	-	1,810	
Due from other funds	645,411	47,339	692,750	
Restricted assets - cash and cash equivalents	8,752	-	8,752	
Investments	244,756	-	244,756	
Total assets	\$ 1,729,206	\$ 232,152	\$ 1,961,358	
Liabilities and fund balances:				
Liabilities				
Accounts payable	\$ 48,783	\$ 2,262	\$ 51,045	
Accrued salaries and benefits	66,743	447	67,190	
Deferred revenue	3,771	-	3,771	
Other payables	1,250	-	1,250	
Due to other funds	47,339	-	47,339	
Total liabilities	167,886	2,709	170,595	
Fund balances				
Reserved for restricted purposes	449,840	165,175	615,015	
Reserved for advances to other funds	645,411	47,339	692,750	
Unreserved	466,069	16,929	482,998	
Total fund balances	1,561,320	229,443	1,790,763	
Total liabilities and fund balances	\$ 1,729,206	\$ 232,152	\$ 1,961,358	

8-H

See accompanying notes to financial statements.
- 10 -

City of Valparaiso, Florida

Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Assets

<u>September 30,</u>	<u>2009</u>
Total fund balances - governmental funds	\$ 1,790,763
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,338,466
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(83,500)
Revenues not collected within 60 days of the fiscal year end in the governmental funds do not meet the requirements of the availability for revenue recognition.	8,601
Total net assets - governmental activities	\$ 5,054,330

See accompanying notes to financial statements.
- 11 -

City of Valparaiso, Florida

Statements of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

City of Valparaiso, Florida

Reconciliation of Governmental Funds Statements of Revenues,
Expenditures, and Changes in Fund Balances With the Statement of
Activities

<i>Year Ended September 30,</i>	2009		
	General Fund	Streets Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 790,603	\$ -	\$ 790,603
Franchise taxes	404,466	-	404,466
Communication taxes	200,331	-	200,331
Gasoline taxes	-	158,347	158,347
Sales taxes	437,059	-	437,059
Utility taxes	234,826	-	234,826
Licenses and permits	55,880	-	55,880
Intergovernmental	174,414	121,360	295,774
Federal and state grants	197,250	-	197,250
Fines and forfeits	25,112	-	25,112
Charges for services	275,709	-	275,709
Interest	21,183	6,374	27,557
Rents	46,151	-	46,151
Miscellaneous	18,992	-	18,992
Sales of fixed assets	2,525	-	2,525
Total revenues	2,884,501	286,081	3,170,582
Expenditures			
General government	931,035	-	931,035
Public safety	1,127,703	-	1,127,703
Public works	169,255	-	169,255
Transportation	-	215,403	215,403
Cemetery	75,128	-	75,128
Culture and recreation	413,374	-	413,374
Capital outlay	220,288	49,391	269,679
Total expenditures	2,936,783	264,794	3,201,577
Excess (deficiency) of revenues over (under) expenditures	(52,282)	21,287	(30,995)
Other financing sources (uses)			
Transfers out	(33,890)	(14,072)	(47,962)
Total other financing sources (uses)	(33,890)	(14,072)	(47,962)
Net change in fund balances	(86,172)	7,215	(78,957)
Fund balances, October 1, 2008	1,647,492	222,228	1,869,720
Fund balances, September 30, 2009	\$ 1,561,320	\$ 229,443	\$ 1,790,763

See accompanying notes to financial statements.
- 12 -

<i>Year Ended September 30,</i>	2009
Net change in fund balances - total governmental funds	\$ (78,957)
Capital outlay, reported as expenditures in governmental funds, is shown as capital assets in Statement of Net Assets. This is the amount by which capital outlays (\$287,251) exceeds depreciation (\$295,280) in the current period.	(8,029)
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.	(2,247)
Change in net assets of governmental activities	\$ (89,233)

See accompanying notes to financial statements.
- 13 -

City of Valparaiso, Florida

Statement of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual – General Fund

	2009			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 775,947	\$ 775,947	\$ 790,603	\$ 14,656
Franchise taxes	362,500	362,500	404,466	41,966
Communication taxes	232,493	232,493	200,331	(32,162)
Sales taxes	496,111	496,111	437,059	(59,052)
Utility taxes	242,125	242,125	234,826	(7,299)
Licenses and permits	56,100	56,150	55,880	(270)
Intergovernmental	325,023	325,023	174,414	(150,609)
Federal and state grants	138,489	123,489	197,250	73,761
Fines and forfeits	36,000	36,000	25,112	(10,888)
Charges for services	276,680	276,680	275,709	(971)
Interest	25,000	25,000	21,183	(3,817)
Rents	43,000	43,000	46,151	3,151
Miscellaneous	3,100	3,100	18,992	15,892
Sales of fixed assets	3,150	3,150	2,525	(625)
Total revenues	3,015,718	3,000,768	2,884,501	(116,267)
Expenditures				
General government	780,739	1,049,239	931,035	118,204
Public safety	1,305,171	1,303,371	1,127,703	175,668
Public works	145,612	169,412	169,255	157
Cemetery	135,353	135,353	75,128	60,225
Culture and recreation	453,853	391,403	413,374	(21,971)
Capital outlay	89,750	89,750	220,288	(130,538)
Total expenditures	2,910,478	3,138,528	2,936,783	201,745
Excess (deficiency) of revenues over (under) expenditures	105,240	(137,760)	(52,282)	85,478
Other financing sources (uses)				
Transfers out	(197,790)	(197,790)	(33,890)	163,900
Total other financing sources (uses)	(197,790)	(197,790)	(33,890)	163,900
Net change in fund balances	(92,550)	(335,550)	(86,172)	249,378
Fund balances, October 1, 2008	1,647,492	1,647,492	1,647,492	-
Fund balances, September 30, 2009	\$ 1,554,942	\$ 1,311,942	\$ 1,561,320	\$ 249,378

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual – Streets Fund

	2009			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gasoline taxes	\$ 182,130	\$ 182,130	\$ 158,347	\$ (23,783)
Intergovernmental	569,388	569,388	121,360	(448,028)
Interest	4,250	4,250	6,374	2,124
Total revenues	755,768	755,768	286,081	(469,687)
Expenditures				
Transportation	310,558	310,558	215,403	95,155
Capital outlay	-	-	49,391	(49,391)
Total expenditures	310,558	310,558	264,794	45,764
Excess of revenues over expenditures	445,210	445,210	21,287	(423,923)
Other financing sources (uses)				
Transfers out	-	-	(14,072)	(14,072)
Total other financing sources (uses)	-	-	(14,072)	(14,072)
Net change in fund balances	445,210	445,210	7,215	(437,995)
Fund balances, October 1, 2008	222,228	222,228	222,228	-
Fund balances, September 30, 2009	\$ 667,438	\$ 667,438	\$ 229,443	\$ (437,995)

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Net Assets – Proprietary Funds

City of Valparaiso, Florida

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

September 30,	2009			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 282,614	\$ 688,415	\$ 81,744	\$ 1,052,773
Accounts receivable, net	113,755	7,605	64,502	185,862
Prepaid items	-	9,721	-	9,721
Inventories	47,079	29,980	-	77,059
Total current assets	443,448	735,721	146,246	1,325,415
Restricted assets				
Cash and cash equivalents	130,450	1,098,223	-	1,228,673
Total restricted assets	130,450	1,098,223	-	1,228,673
Bond issue costs, net	26,269	50,709	-	76,978
Investment in joint venture	236,493	-	-	236,493
Capital assets, net	2,808,479	2,240,133	216,555	5,265,167
Total assets	3,645,139	4,124,786	362,801	8,132,726
Liabilities				
Current Liabilities				
Accounts payable	46,330	58,149	15,097	119,576
Contingency payable	-	302,949	-	302,949
Customer deposits - restricted	98,725	-	-	98,725
Taxes payable	-	555	-	555
Interest payable - contingency	8,408	305,648	899	314,955
Salaries and benefits payable	1,722	2,653	3,195	7,570
Current portion of capital leases	-	-	34,347	34,347
Bonds payable - current	90,000	105,000	-	195,000
Due to other funds	197,760	331,669	115,982	645,411
Total current liabilities	442,945	1,106,623	169,520	1,719,088
Non-current liabilities:				
Bonds and leases payable	1,135,000	2,755,000	108,433	3,998,433
Accrued compensated absences	2,461	14,898	14,528	31,887
Unamortized bond premium	30,559	26,585	-	57,144
Deferred bond refunding costs	(24,784)	-	-	(24,784)
Total non-current liabilities	1,143,236	2,796,483	122,961	4,062,680
Total liabilities	1,586,181	3,903,106	292,481	5,781,768
Net assets				
Invested in capital assets, net of related debt	1,583,479	478,356	73,775	2,135,610
Restricted for capital projects	-	1,098,223	-	1,098,223
Unrestricted	475,479	(1,354,899)	(3,455)	(882,875)
Total net assets	\$ 2,058,958	\$ 221,680	\$ 70,320	\$ 2,350,958

Year Ended September 30,	2009			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Revenues				
Charges for service	\$ 868,535	\$ 1,177,013	\$ 726,834	\$ 2,772,382
Miscellaneous	4,803	3,796	-	8,599
Total revenues	873,338	1,180,809	726,834	2,780,981
Operating expenses				
Advertising	-	1,665	-	1,665
Salaries and benefits	252,930	288,456	398,912	940,298
Internal services	72,976	99,964	55,714	228,654
Utilities	88,329	25,759	-	114,088
Depreciation	169,509	150,186	34,222	353,917
Bad debts	1,852	866	1,496	4,214
Lease	-	40,032	3,336	43,368
Landfill costs	-	-	94,410	94,410
Repairs and maintenance	39,951	14,232	12,939	67,122
Professional services	10,488	35,020	1,465	46,973
Program costs	-	506,853	-	506,853
Regional plant operation	175,868	-	-	175,868
Insurance	8,034	11,983	2,693	22,710
Services and supplies	158,924	80,897	32,828	272,649
Telephone and internet	8,660	67,231	-	75,891
Total expenditures	987,521	1,323,144	638,015	2,948,680
Operating income (loss)	(114,183)	(142,335)	88,819	(167,699)
Non-operating revenues (expenses)				
Tap on fees	4,649	-	-	4,649
Sales of fixed assets	-	75,290	-	75,290
Sales taxes	-	37,873	-	37,873
Investment earnings	1,768	30,842	255	32,865
Rents	74,243	-	-	74,243
Interest expense	(54,258)	(173,150)	-	(227,408)
Amortization of bond costs	(2,542)	(2,954)	-	(5,496)
Income from joint venture	28,504	-	-	28,504
Total non-operating revenues (expenses)	52,364	(32,099)	255	20,520
Income (loss) before operating transfers	(61,819)	(174,434)	89,074	(147,179)
Other financing sources (uses)				
Operating transfers to other funds	-	(139,055)	-	(139,055)
Operating transfers from other funds	172,945	14,072	-	187,017
Change in net assets	111,126	(299,417)	89,074	(99,217)
Net assets, October 1, 2008	1,947,832	521,097	(18,754)	2,450,175
Net assets, September 30, 2009	\$ 2,058,958	\$ 221,680	\$ 70,320	\$ 2,350,958

H-11

City of Valparaiso, Florida

Statement of Cash Flows – Proprietary Funds

	2009			
	Enterprise Funds			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Cash flows from operating activities				
Receipts from customers	\$ 858,247	\$ 1,173,512	\$ 718,976	\$ 2,750,735
Payments to employees	(253,775)	(294,305)	(398,011)	(946,091)
Payments to suppliers	(495,437)	(1,022,703)	(137,545)	(1,655,685)
Payments for internal services	(72,976)	(99,964)	(55,714)	(228,654)
Net cash provided (used) by operating activities	36,059	(243,460)	127,706	(79,695)
Cash flows from non-capital financing activities				
Receipts from sales taxes	-	37,873	-	37,873
Receipts from rents	74,243	-	-	74,243
Receipts (payments) on interfund loan	150,992	(171,217)	(11,363)	(31,588)
Net cash provided (used) by non-capital financing activities	225,235	(133,344)	(11,363)	80,528
Cash flows from capital and related financing activities				
Proceeds from tap on fees	16,220	-	-	16,220
Proceeds from sale of assets	-	98,826	-	98,826
Purchase and construction of capital assets	(184,182)	(972,663)	(43,283)	(1,200,128)
Principal paid on bonds	(90,000)	(105,000)	-	(195,000)
Interest paid on bonds	(53,683)	(125,486)	-	(179,169)
Net cash used by capital and related financing activities	(311,645)	(1,104,323)	(43,283)	(1,459,251)
Cash flows from investing activities				
Interest income	1,768	30,842	255	32,865
Net cash provided by investing activities	1,768	30,842	255	32,865
Net increase (decrease) in cash and cash equivalents	(48,583)	(1,450,285)	73,315	(1,425,553)
Cash and cash equivalents, beginning of year	461,647	3,236,923	8,429	3,706,999
Cash and cash equivalents, end of year	\$ 413,064	\$ 1,786,638	\$ 81,744	\$ 2,281,446
Displayed as:				
Cash and cash equivalents	\$ 282,614	\$ 688,415	\$ 81,744	\$ 1,052,773
Restricted assets - cash and cash equivalents	130,450	1,098,223	-	1,228,673
Total	\$ 413,064	\$ 1,786,638	\$ 81,744	\$ 2,281,446

(continued)

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Cash Flows – Proprietary Funds (Continued)

	2009			
	Enterprise Funds			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (114,183)	\$ (142,335)	\$ 88,819	\$ (167,699)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Bad debts	1,852	866	1,496	4,214
Depreciation and amortization	169,509	150,186	34,222	353,917
Change in operating assets and liabilities:				
Accounts receivable, net	(10,074)	(7,160)	(7,858)	(25,092)
Prepaid items	-	(5,834)	-	(5,834)
Inventories	-	(988)	-	(988)
Accounts payable	(5,183)	(265,733)	10,126	(260,790)
Contingency payable	-	33,524	-	33,524
Customer deposits - restricted	1,085	-	-	1,085
Taxes payable	-	(137)	-	(137)
Deferred revenue	(6,102)	-	-	(6,102)
Salaries and benefits payable	(569)	(1,003)	(890)	(2,462)
Accrued compensated absences	(276)	(4,846)	1,791	(3,331)
Net cash provided (used) by operating activities	\$ 36,059	\$ (243,460)	\$ 127,706	\$ (79,695)
Non-cash investing, capital and financing activities:				
Income from joint venture	\$ 28,504	\$ -	\$ -	\$ 28,504
Amortization of bond issue costs, discounts, premiums, and deferred amounts	\$ 2,542	\$ 2,954	\$ -	\$ 5,496
Retirement of out of service fixed assets	\$ -	\$ 454,903	\$ 51,833	\$ 506,736

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Net Assets – Fiduciary Funds

<i>September 30,</i>	2009
Assets	
Cash and cash equivalents	\$ 8,177
Due from State of Florida	60,995
Employer receivable	5,596
Plan member receivable	573
Investments	626,051
Total assets	\$ 701,392
Net assets	
Held in trust for pension benefits	\$ 701,392

City of Valparaiso, Florida

Statement of Changes in Net Assets – Fiduciary Funds

<i>Year ended September 30,</i>	2009
Additions	
Employer contributions	\$ 37,995
Member contributions	7,593
State contributions	60,995
Investment gains (losses)	16,966
Total additions	123,549
Deductions	
Pension benefits	9,486
Administrative expense	1,225
Total deductions	10,711
Change in net assets	112,838
Net assets, October 1, 2008	588,554
Net assets, September 30, 2009	\$ 701,392

H-13

NOTE 1 – NATURE OF ORGANIZATION

The City of Valparaiso (hereinafter referred to as "City") was incorporated on May 6, 1921 under the provisions of the Laws of Florida, ch. 9101 (1921). The City operates under a Commission-Mayor form of government and provides the following services: public safety (law enforcement and fire control), streets, utilities, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include, or exclude, a potential component unit in the reporting entity was made by applying the criteria set forth in Government Accounting Standards Board Statement 14. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon the application of these criteria, the City of Valparaiso Cable Authority, established on June 11, 2007 by Ordinance No. 564 qualifies as a blended component unit and is designated as the Communication Fund in the Proprietary Fund financial statements. The City does not issue a separate financial statement for this component unit.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental and financial reporting principles. The City's business-type activities apply Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 governments' financial statements as they are not considered to be part of the financial reporting entity. The only entity meeting these criteria is the Valparaiso Employees Internal Revenue Code (IRC) Section 457 deferred compensation plan. This plan 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-wide Financial Statements – Government-wide financial statements, including the statement of net assets and statement of activities, present information about the City as a whole. These statements include the non-fiduciary financial activity of the primary government.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

The effects of interfund activity have been eliminated from the government-wide financial statements.

The government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

Fund Financial Statements

Governmental Funds are used to account for the general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following major funds:

The General Fund is the City's primary operating fund. This fund accounts for all financial resources of the general government, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The Streets Fund is a special revenue fund used to account for state revenues restricted for the use and expenditures of transportation.

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The following is a description of the enterprise funds of the City:

- Utility Fund is used to account for the operations associated with potable water supply, treatment, transmission and distribution services to area residents and 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.
- Communication Fund is used to account for the operating activities of the City's cable television, internet, and security services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales of water, sewer, and communication services. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement.

Pension Trust Fund is custodial in nature and does not present results of operations or have a measurement focus. Pension Trust Funds are accounted for using the modified accrual basis of accounting. The Pension Trust Fund accounts for the assets of the City's Police Officers' Retirement Trust Fund and the Firefighters' Retirement Trust Fund.

New Accounting Pronouncements

The Governmental Accounting Standards Board issued Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" which becomes effective for the City for its fiscal year beginning October 1, 2009.

The City is analyzing the effects of this pronouncement and plans to adopt it by the effective date as required. The City does not anticipate a material impact with the adoption of this standard.

See note 8 for additional information.

Cash and Cash Equivalents

The City'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.

The City maintains its deposits with banks that are qualified public depositories under Florida law. All deposits are insured by Federal depository insurance and/or collateralized pursuant to the Public Depository Security Act of the State of Florida.

Under this method, all the City's deposits are fully insured or collateralized at the highest level of security as defined by *Governmental Accounting Standards Board, Statement Number 40, Deposits and Investment Disclosures (An Amendment of Governmental Accounting Standards Board, Statement Number 3)*.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The City's investment policy, in compliance with state statutes, authorizes the Treasurer to invest in the following:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Chapter 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest bearing time deposits or savings accounts in qualified public depositories as defined in Chapter 280.02, Florida Statutes.
- Direct obligations of the U.S. Treasury.
- Obligations of federal agencies and instrumentalities.

The City believes that by adhering to the above deposits and investments policy credit risk and custodial risk will be minimal. The City does not have a policy related to interest rate risk.

The police and firefighters pension trust funds are allowed to invest in corporate stocks and bonds subject to certain limitations. The police and firefighter pension plan investments consist primarily of mutual funds: Bond Fund, Growth Fund, Index Fund, Small Cap Equity and an International Fund. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. These investments are part of a local government investment pool and therefore, are considered an external investment pool for GASB reporting requirements.

Receivables and Payables

Internal Balances

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (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 "internal balances."

Advances between funds, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables in governmental funds are shown net of an allowance for uncollectibles. At September 30, 2009, accounts receivable totaled \$97,100 net of an allowance of doubtful accounts of \$1,000.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

Property Taxes

The City's ad valorem taxes are assessed by the Okaloosa County Property Appraiser and collected by the Okaloosa County Tax Collector in accordance with Florida Statutes. The City retains the right and duty to set millage rates. Property taxes are not recorded as receivables at September 30th because, though legally assessed as of January 1, they are not due and payable until after the close of the fiscal year ended the following September 30th.

The following is the current property tax calendar.

Assessment date	January 1, 2008
Levy date	November 1, 2008
Due date	November 1, 2008
Delinquency date	April 1, 2009

Discounts of 1% for each month taxes are paid prior to March are granted.

Revenue recognition criteria for property taxes under GASB requires that only property taxes expected to be collected within 60 days of the current period be accrued. Property 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 at the balance sheet date.

Enterprise Fund Receivables

Accounts receivable from customers are reported at the outstanding balance due from customers, net of any allowance for doubtful accounts. The City provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. At September 30, 2009, accounts receivable totaled \$185,862 net of an allowance for doubtful accounts of \$3,500.

City of Valparaiso, Florida
Notes to Financial Statements

City of Valparaiso, Florida
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepays

Inventories in proprietary funds consist of expendable supplies held for consumption. They are reported at cost on a first-in, first-out basis or, in instances where cost is not determinable, at an approximate cost based upon current invoice prices. Maintenance and operation supplies are expensed when purchased rather than when consumed.

Prepays record payments to vendors that benefit future reporting periods. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

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

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.

Proprietary Funds

Water and sewer meter deposits received from customers of the water and sewer system are placed in a Meter Deposit Account in the utility fund. The money is restricted to use as payment the final customer bill or returned to the customer upon settlement of final bill.

Certain resources set aside for capital improvements are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "project" account is used to segregate bond proceeds for capital improvements in the communication fund.

<i>As of</i>	September 30, 2009
General Fund	
Police	\$ 8,752
Total General Fund	\$ 8,752
Proprietary Funds	
<i>Utility Fund</i>	
Meter Deposits	\$ 130,450
Total Utility Fund	130,450
<i>Communication Fund</i>	
Project	1,098,223
Total Communication Fund	1,098,223
Total Proprietary Funds	\$ 1,228,673

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, 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 individual cost of more than \$1,000 and an useful life in excess of one year. Such assets meeting these criteria are capitalized at historical cost, if purchased, while others are charged to expense. Donated assets are stated at fair value on the date donated.

The City's infrastructure asset records include only those infrastructure assets categorized during the past ten years. An estimation of infrastructure costs before this period has not been made. The City elected not to retroactively report major infrastructure assets before this time under GASB Statement No. 34. 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. Computer software costs are expensed as incurred. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 - 50
Building improvements	15 - 25
Infrastructure	20 - 50
Vehicles	5 - 10
Office equipment	5 - 10
Machinery and equipment	5 - 15
CATV system	5 - 15
Water and sewer systems	20 - 50

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Vested or accumulated leave (annual, personal and sick) 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. All vested or accumulated leave is accrued when incurred in the government-wide and proprietary fund financial statements. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay or personal leave benefits.

The policy of the City for sick leave is that all full-time, permanent employees accrue sick and vacation leave benefits in varying amounts to a maximum of 30 days depending on tenure and age. The estimated liabilities include required salary-related payments. Governmental funds report only matured compensated absences payable to currently terminating employees.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are recorded as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

Long-Term Obligations

Long-term debt and other obligations financed by the proprietary funds are reported as liabilities in the fund and in the government-wide statement of net assets. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges net of accumulated amortization at September 30, 2009 of \$20,233.

Deferred Revenues

Revenues collected in advance are deferred and recognized as revenue in the period earned.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for the 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. In the government-wide financial statements, equity is classified as net assets and displayed in three components:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 consist of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments or law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets consist of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Capital Contributions

Capital contributions in proprietary fund financial statements arise from grants or outside contributions of resources restricted to capital acquisition and construction.

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 and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/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 others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements 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.

Budgetary Information

Annual appropriated budgets are adopted for the General Fund, Streets Fund, and Proprietary Funds. The annual budgets for the General Fund and Streets Fund are adopted using the cash basis of accounting, which is not in accordance with U.S. GAAP required for governmental fund types. The budgets for the Proprietary Funds also are adopted on the cash basis, which is not consistent with U.S. GAAP for proprietary fund types. Every appropriation, except an appropriation for a capital expenditure, lapses at the end of the year to the extent it has not been expended or encumbered.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The budget is adopted by resolution for all City funds on or before October 1 of each year as required by state statute. 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. All budget amounts presented in the accompanying supplementary information have been adjusted for legally authorized amendments.

Budgets for all funds are prepared on the cash receipts and disbursements basis of accounting 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 funds as the budget includes capital outlay and debt principal repayments as expense and does not include depreciation. Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year that the applicable purchase orders are expected to be issued. Occasionally, a portion of the unreserved fund balance from the previous year will be included as budgeted source for the current year.

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: personnel services, other services and charges, supplies, capital outlay, transfers, and debt service. Expenditures are not to exceed appropriations at the fund level.

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, 2009, no individual fund had a deficit fund balance or net assets deficit.
- C. Excess of Expenditures Over Budget Appropriations in Individual Funds – For the year ended September 30, 2009, no budgetary fund had an excess of expenditures over appropriations.

Subsequent events

The City evaluates subsequent events through the date the financial statements are issued.

NOTE 3 – CASH AND INVESTMENTS

The City has a beneficial interest in shares in a local government investment pool and not the individual securities held within each portfolio. As of September 30, 2009, the asset allocation for the defined benefit plan investment pool was as follows:

Investment Asset Allocation	Asset Allocation Percentage
Cash	1.29%
FMIvT Broad Market High Quality Bond Portfolio	41.29%
FMIvT High Quality Growth Portfolio	7.38%
FMIvT Russell 1000 Index Portfolio	22.55%
FMIvT Diversified Small Cap Equity Portfolio	10.49%
FMIvT International Blend Portfolio	9.26%
FMIvT Large Cap Diversified Value Portfolio	7.74%
Total	100.00%

Concentration risk – Investments issued or explicitly guaranteed by the U. S. government and investments in mutual funds or pools are excluded from the concentration of credit risk disclosure requirements.

Custodial credit risk – For an investment, custodial credit risk is the risk that the City will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial credit risk since all of its bank deposits and certificate of deposits are held with qualified public depositories or insured by the federal depository insurance.

Investment in money market, open-end mutual funds, and external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Credit Risk – State law limits investments in money market funds and mutual bond funds to funds with the highest credit quality rating from nationally recognized statistical rating organizations. As of September 30, 2009, the City's investments were rated as follows:

Fixed Income Funds:	Credit Risk for Investment Pool	
	Fitch Rating	S&P Rating
FMIvT 0-2 Year High Quality Bond Portfolio		AAA+/S1
FMIvT Broad Market High Quality bond Portfolio	AA+/V4	
Equity Funds:	Rating	
FMIvT High Quality Growth Portfolio		Not Rated
FMIvT Russell 1000 Index Portfolio		Not Rated
FMIvT Diversified Small Cap Equity Portfolio		Not Rated
FMIvT International Blend Portfolio		Not Rated
FMIvT Large Cap Diversified Value Portfolio		Not Rated

City of Valparaiso, Florida

Notes to Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Interest rate risk – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation mode.

Fixed Income Funds:	Rate Risk Information	
	Duration (Effective)	WAM
FMIvT 0-2 Year High Quality Bond Portfolio	0.57 years	0.85 years
FMIvT Broad Market High Quality Bond Portfolio	3.57 years	4.81 years

A reconciliation of cash and investments as shown on the balance sheet and statement of net assets is as follows:

Deposits	\$ 3,191,230
Investments	870,807
Total	\$ 4,062,037
Cash and cash equivalents, primary government	\$ 1,945,628
Investments, primary government	244,756
Restricted cash and equivalents, primary government	1,237,425
Total primary government	3,427,809
Cash and cash equivalents, fiduciary funds	8,177
Investment, fiduciary funds	626,051
Total fiduciary funds	634,228
Grand Total	\$ 4,062,037

H-20

City of Valparaiso, Florida

Notes to Financial Statements

NOTE 4 – CHANGES IN CAPITAL ASSETS

Changes in capital assets for the year ended September 30, 2009 are shown below:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 451,387	\$ -	\$ -	\$ -	\$ 451,387
Construction in progress	288,003	-	-	(288,003)	-
Total capital assets not being depreciated	739,390	-	-	(288,003)	451,387
<i>Capital assets being depreciated:</i>					
Buildings and improvements	1,683,597	24,625	-	288,003	1,996,225
Infrastructure	1,848,197	67,108	-	-	1,915,305
Assets under capital leases	360,023	-	(45,005)	-	315,018
Machinery, equipment and vehicles	1,478,082	195,518	(82,268)	-	1,591,332
Total capital assets being depreciated	5,369,899	287,251	(127,273)	288,003	5,817,880
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	696,902	70,375	-	-	767,277
Infrastructure	884,601	82,290	-	-	966,891
Assets under capital leases	199,717	19,333	(45,005)	-	174,045
Machinery, equipment and vehicles	981,574	123,282	(82,268)	-	1,022,588
Total accumulated depreciation	2,762,794	295,280	(127,273)	-	2,930,801
Total capital assets being depreciated, net	2,607,105	(8,029)	-	288,003	2,887,079
Governmental activities capital assets, net	\$ 3,346,495	\$ (8,029)	\$ -	\$ -	\$ 3,338,466

City of Valparaiso, Florida
Notes to Financial Statements

City of Valparaiso, Florida
Notes to Financial Statements

NOTE 4 – CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning				Ending
	Balance	Additions	Deletions	Transfers	Balance
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 114,139	\$ -	\$(23,536)	\$ -	\$ 90,603
Construction in progress	1,184,076	-	-	(1,184,076)	-
Total capital assets not being depreciated	1,298,215	-	(23,536)	(1,184,076)	90,603
<i>Capital assets being depreciated:</i>					
Buildings and improvements	6,013,524	256,482	-	-	6,270,006
Assets under capital leases	180,962	96,072	-	-	277,034
Machinery, equipment and vehicles	1,919,227	903,344	(506,736)	1,184,076	3,499,911
Total capital assets being depreciated	8,113,713	1,255,898	(506,736)	1,184,076	10,046,951
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	3,430,510	154,722	-	8,109	3,593,341
Assets under capital leases	56,442	22,900	-	-	79,342
Machinery, equipment and vehicles	1,538,254	176,295	(506,736)	(8,109)	1,199,704
Total accumulated depreciation	5,025,206	353,917	(506,736)	-	4,872,387
Total capital assets being depreciated, net	3,088,507	901,981	-	1,184,076	5,174,564
Business-type activities capital assets, net	\$ 4,386,722	\$ 901,981	\$(23,536)	\$ -	\$ 5,265,167

Land with a cost of approximately \$100,000 was being leased out as of September 30, 2009.

Depreciation expense was charged to functions of the primary government as follows:

Government activities:	
General government	\$ 40,673
Public safety	110,886
Public works	6,845
Transportation	64,203
Cemetery	6,145
Culture and recreation	66,528
Total depreciation expense, governmental activities	\$ 295,280
Business-type activities:	
Utility	\$ 169,509
Communication	150,186
Sanitation	34,222
Total depreciation expense, business-type activities	\$ 353,917

NOTE 5 – 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 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, 2009, was \$310,859. The City's portion of the equity in the joint venture is \$236,493.

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. is 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, 2009. The Regional Sewer Board's audited financial statements can be obtained from the City Clerk's office.

Summary of Assets, Liabilities and Net Assets	
Assets	
Current assets	\$ 511,710
Restricted assets	211,793
Capital assets - net of accumulated depreciation	496,503
Other assets	2,166
Total assets	\$ 1,222,172
Liabilities and net assets	
Liabilities	\$ 126,859
Net assets	1,095,313
Total liabilities and net assets	\$ 1,222,172
Summary of Operating Results	
Sewer operating revenues	\$ 1,680,222
Operating expenses	1,554,297
Operating income (loss)	125,925
Non-operating revenues (expenses)	16,594
Net Income	\$ 142,519

NOTE 6 – LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended September 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities					
Compensated absences	\$ 86,880	\$ -	\$ (3,380)	\$ 83,500	\$ 83,500
Governmental activities liabilities	\$ 86,880	\$ -	\$ (3,380)	\$ 83,500	\$ 83,500
Business-type Activities					
Compensated absences	\$ 35,218	\$ -	\$ (3,331)	\$ 31,887	\$ -
Capital lease payable	87,011	96,072	(40,303)	142,780	34,347
Notes payable	4,280,000	-	(195,000)	4,085,000	195,000
Note premium	61,650	-	(4,506)	57,144	-
Deferred refunded costs	(28,803)	4,019	-	(24,784)	-
Business-type activities liabilities	\$ 4,435,076	\$ 100,091	\$ (243,140)	\$ 4,292,027	\$ 229,347

Florida Municipal Loan Council – Notes Payable

Series 2005A Note Payable

On February 1, 2005, the City entered into a loan agreement with the Florida Municipal Loan Council to borrow \$1,555,000 from the proceeds of the Florida Municipal Loan Council Revenue Bonds, Series, 2005A to current refund two prior bond issues. The note was issued at a premium of \$44,360 of which the net proceeds of \$1,561,227 (after payment of \$38,133 in underwriting fees, insurance and other issuance costs) were used to refund these prior issues. The loan has an outstanding balance of \$1,135,000 and calls for semi-annual payments due on February 1, and August 1, through February 1, 2020, and bears interest at varying rates ranging from 3% to 5%. This note is accounted for in the utility fund.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$43,539. This difference, reported in the accompanying financial statements as a deduction from notes payable, is being charged to operations through the year 2015 using the effective interest method.

The City has pledged all non-ad valorem revenues as collateral under these loans. Annual principal and interest payments on the bonds are 4% of pledged revenue. The total principal and interest remaining to be paid on the bond is \$1,569,568. Principal and interest paid for the current year and total pledged revenues were \$141,908 and \$3,357,018, respectively.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Series 2006 Note Payable

On January 9, 2007 the City entered into a loan agreement with the Florida Municipal Loan Council to borrow \$2,965,000 from the proceeds of the Florida Municipal Loan Council Revenue Bonds, Series, 2006. The note was issued at a premium of \$30,972 of which the net proceeds of \$2,936,893 (after payment of \$59,079 in underwriting fees, insurance and other issuance costs) is to be used for the purposes of rebuilding a CATV distribution plant and updating technology fiber to the plant. The loan has an outstanding balance of \$2,755,000 and calls for semi-annual payments due on April 1, and October 1, through October 1, 2026, and bears interest at varying rates ranging from 4% to 5%. This note is accounted for in the communication fund.

Redemption Provisions

Optional Redemption: The bonds maturing on or before the October 1, 2016 are not subject to optional redemption prior to maturity. The bonds maturing after October 1, 2016 are subject to redemption at the option of the issuer on or after October 1, 2016 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.

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.

The City has pledged all non-ad valorem revenues as collateral under these loans. Annual principal and interest payments on the bonds are 7% of pledged revenue. The total principal and interest remaining to be paid on the bond is \$4,045,669. Principal and interest paid for the current year and total pledged revenues were \$228,388 and \$3,357,018, respectively.

The City is required to meet certain financial ratios under this loan agreement. As of September 30, 2009, the City was in compliance with such requirements. The City established reserve funds required under the loan covenants by funding surety bonds at issuance.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Debt Service Requirement to Maturity

The annual debt service requirements to maturity for the Florida Municipal Council notes as of September 30, 2009, are as follows:

Year ending September 30,	Business-type Activities		
	Principal	Interest	Total
2010	\$ 195,000	\$ 173,833	\$ 368,833
2011	205,000	166,933	371,933
2012	215,000	158,733	373,733
2013	220,000	150,883	370,883
2014	230,000	141,833	371,833
2015-2019	1,325,000	551,480	1,876,480
2020-2024	1,050,000	255,894	1,305,894
2025-2027	645,000	54,038	699,038
Total	\$ 4,085,000	\$ 1,653,624	\$ 5,738,627

Specific years for payments of internal balances and compensated absences are not determinable and are not included in the table above.

Capital Leases Payable

The City's outstanding lease agreements include the acquisition of a sanitation vehicle at a cost of \$78,990 and a garbage truck at a cost of \$101,972. These leases qualify as capital leases. As of September 30, 2009, the outstanding balance owed on the above capital lease assets totaled \$142,780.

The cost and accumulated depreciation for capital leases are:

	Business-Type Activities	
	Sanitation Fund	
Cost of assets	\$	198,044
Accumulated depreciation	\$	20,100

The annual debt service requirements to maturity for the capital leases as of September 30, 2009, are as follows:

Year ending September 30,	Principal	Interest	Total
2010	\$ 34,347	\$ 4,049	\$ 38,396
2011	35,165	3,231	38,396
2012	36,348	2,048	38,396
2013	21,283	954	22,237
2014	15,637	477	16,114
Total	\$ 142,780	\$ 10,759	\$ 153,539

NOTE 7 – PENSIONS

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, to 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. Beginning in 2002, a defined contribution plan alternative to the existing defined benefit plan known as the Public Employee Optional Retirement Program or the FRS Investment became available to FRS members. The complete financial report of the FRS may be obtained by writing the State of Florida Division of Retirement, 1317 Winewood Blvd., 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 percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability reemerges as an unfunded actuarial liability would be amortized over 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 9.63% of the annual salary of regular class employees and 22.11% of special risk class employees. Required contributions and contribution percentages are presented below:

	2009	2008	2007
Required Contributions	\$ 46,532	\$ 75,476	\$ 70,084
Regular Class Contribution %	9.63%	9.63%	8.69%
Special Risk Class Contribution	22.11%	22.11%	19.76%
Percentage Contribution	100.00%	100.00%	100.00%

NOTE 7 – PENSIONS (CONTINUED)

Police Officers and Firefighters Retirement Plan

Plan Description

The Police Officers and Firefighters Retirement Plan is a single-employer defined benefit plan, established under Chapters 185 and 175 of the Florida Statutes, which covers all police officers and firefighters hired on or after January 1, 1996. The City of Valparaiso Board of Trustees assigns the authority to establish and amend benefit provisions to this plan. The City's payroll for employees covered by this plan applicable to the October 1, 2007, actuarial valuation was approximately \$316,269. As of October 1, 2007, employee membership data related to the plan was as follows:

Retirees and beneficiaries currently receiving benefits	0
Terminated employee entitled to benefits but not yet receiving them	3
Disabled employees currently receiving benefits	1
Current active employees	
Vested	0
Nonvested	9
<hr/>	
Total	13

The Police Officers and Firefighters Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. 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 an annual retirement benefit, payable monthly for life, in an amount equal to 3% of average rate of pay for the highest five years of the last ten years worked or the career average, whichever is greater. Employees with ten years of service may retire at or after age 50 and receive reduced retirement benefits. The normal form of benefit is a ten year contain and life annuity.

Funding Policy

The City's plan is funded by employer contributions at actuarially determined rates which expressed as percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The employees of the plan contribute at a rate of 2% of their annual salary. For 2009, the City contributed a total of \$37,995 to the plan and \$60,995 was contributed by the State. The employees' contributions to the plan for the current year totaled \$7,593. The contributions are deposited with the Florida Municipal Pension Trust Fund where they are invested in mutual funds. Administration costs of this plan are financed through investment earnings.

NOTE 7 – PENSIONS (CONTINUED)

Actuarial Assumptions

<u>Actuarial Assumptions</u>	
Valuation date	October 1, 2007
Actuarial cost method	Aggregate cost method
Amortization method	N/A
Amortization period	N/A
Asset valuation method	Market Value
Investment rate of return	7.50%
Salary increases	5.00%
Inflation rate	3.75%
Cost-of-living adjustments	0.00%

The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

Three Year Trend Information

<u>Year Ended September 30,</u>	<u>Employer Contribution</u>				Percentage of APC Contributed	Net Pension Obligation (Asset)
	Employer Annual Pension Cost (APC)	City	State	State		
2009	\$ 102,297	\$ 37,995	\$ 60,995		97%	\$ 3,307
2008	97,072	38,072	123,299		166%	(64,299)
2007	42,806	36,381	47,660		196%	(41,235)

The City does not issue a stand-alone financial report for the plan.

A schedule of funding progress is not presented since the plan uses the aggregate actuarial cost method. The schedule of employer contributions is listed below:

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2001	\$ 8,911	100%
2002	18,263	100%
2003	15,897	100%
2004	14,879	100%
2005	24,697	100%
2006	41,516	49%
2007	42,806	100%
2008	97,072	100%
2009	102,297	97%

City of Valparaiso, Florida
Notes to Financial Statements

City of Valparaiso, Florida
Notes to Financial Statements

NOTE 7 – PENSIONS (CONTINUED)

Deferred Compensation Plan

The City established on January 8, 1996, a contributory deferred compensation plan pursuant to Internal Revenue Code Section 457. The City contributes 9% of an employee's compensation and the employees may elect to make voluntary contributions of up to 9% of compensation. Regular class employees who are hired after plan effective date are eligible to participate in the plan. The Plan's assets are not considered part of the reporting entity and are not included in these financial statements. Vesting rights vary according to years of service. The City contributed \$81,742 and the employees contributed \$28,302 to this plan during the fiscal year.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City provides health insurance to its active and retired employees (the OPEB Plan). Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Currently, the City funds the OPEB Plan on a pay-as-you-go basis as a current operating expense, and reflects the expense in its financial statements in the fiscal year in which the payments are made. Pursuant to the provisions of GASB 43, Financial Reporting for Postemployment Benefits Other Than Pensions, and GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, governments who provide post employment benefits other than pensions will be required to begin showing all or a portion of the liabilities associated with their OPEB Plans in their financial statements and whether, and to what extent, progress is being made in funding those liabilities. The City intends to implement the requirements of GASB 45.

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables reported in the fund financial statements:

<i>September 30, 2009</i>	Interfund	
	Receivables	Payables
<i>Governmental funds:</i>		
General Fund	\$ 645,411	\$ 47,339
Streets Fund	47,339	-
<i>Proprietary funds:</i>		
Utility Fund	-	197,760
Communication Fund	-	331,669
Sanitation Fund	-	115,982
Total	\$ 692,750	\$ 692,750

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Other governmental fund interfund amounts represent monies from the general fund used to fund capital improvement expenditures in the proprietary funds.

The following is a summary of interfund transfers as reported in the fund financial statements:

<i>September 30, 2009</i>	Interfund	
	Transfers In	Transfers Out
<i>Between governmental and business-type columns:</i>		
General Fund	\$ -	\$ 33,890
Streets Fund	-	14,072
Utility Fund	172,945	-
Communication Fund	14,072	139,055
Total	\$ 187,017	\$ 187,017

NOTE 10 – BENEFITS FUNDED BY THE STATE OF FLORIDA

For 2009, the State of Florida contributed on-behalf payments for City employees as follows:

Plan	Amount
Valparaiso Police Retirement Plan	\$ 36,614
Valparaiso Firefighters Retirement Plan	24,381
Total	\$ 60,995

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.

NOTE 11 – LEASE EXPENSE

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, 2009 was \$6,508 which is \$33,524 less than the amount billed under a disputed rate. The City has recorded the difference as a contingent rental expense. See note 14 for contingent liability for pole attachment fees.

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.

H-25

NOTE 12 – LEASE REVENUE

Governmental Funds

The City leases certain property predominantly to wireless telecommunications companies. These are non-cancelable operating leases.

Minimum rentals on non-cancelable leases for the next five years are as follows:

	2010	2011	2012	2013	Total
Utility Fund	\$ 76,926	\$ 79,922	\$ 82,904	\$ 82,904	\$ 322,656
General Fund	\$ 42,749	\$ 43,653	\$ 44,302	\$ 44,302	\$ 175,006

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. There was no unearned rent at September 30, 2009.

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 2008. 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 two telecommunication companies 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 increases by two percent (2-3%) per year. The General Fund received a total of \$46,151 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 rent at September 30, 2009 was \$3,771.

Rental income for the current fiscal year received on proprietary fund leases was \$74,243. No contingent rental revenue was earned during fiscal year 2009.

NOTE 13 – FUND EQUITY

Reservation of Fund Balance

Reserve for Restricted Purposes – An account used to segregate a portion of fund balance for the excess of restricted assets over liabilities payable from restricted assets. The following is a description of what is included in the governmental funds reserved for restricted purposes at September 30, 2009.

NOTE 13 – FUND EQUITY (CONTINUED)

Funds	Purpose	Amount
General Fund		
Fire	Impact fees	\$ 7,676
Cemetery	Beautification and perpetual care	154,108
Library	Library expansion	14,104
Police	Fines and forfeitures	8,752
Parks	Future capital expenditures	74,811
Streets	Future capital expenditures	190,389
Total General Fund		\$ 449,840
Streets Fund	Future capital expenditures	\$ 165,175

Reserve for Advances to Other Funds – An account used to segregate a portion of fund balance to indicate that interfund receivable over interfund payable to other funds do not represent available, spendable resources.

Unreserved Fund Balance

Unreserved Fund Balance – An account used to indicate the balance of a fund that represents available, spendable resources.

Net Asset Restrictions

The government-wide statement of net assets governmental activities reports \$8,752 of restricted net assets, all of which is restricted by enabling legislation. Business-type activities reports \$1,098,223 of restricted net assets, all of which is restricted by enabling legislation.

NOTE 14 – 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 \$328,175 in savings in case of an unfavorable ruling. \$33,524 has been accrued for the current year in accordance with U.S. GAAP. In addition, the City has been accruing interest on this liability. The total accrued interest for this liability at September 30, 2009 is \$305,648.

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.

City of Valparaiso, Florida

Notes to Financial Statements

NOTE 15 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for all other risks of loss, including fidelity bond, accidental death and dismemberment and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 16 – 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, for 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX I

FINANCIAL INFORMATION REGARDING CITY OF WEST MELBOURNE

[THIS PAGE INTENTIONALLY LEFT BLANK]

City of West Melbourne, Florida
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances/Equity
 General Fund
 For the Fiscal Years Ended September 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Revenues:			
Taxes	5,529,274	5,641,047	5,909,509
Licenses and Permits	1,092,328	1,328,754	1,108,439
Intergovernmental	1,582,099	1,509,439	1,490,373
Charges for Services	174,601	382,255	235,362
Fines and forfeitures	143,477	136,102	196,373
Interest and other	576,785	193,037	121,828
Miscellaneous:	<u>15,077</u>	<u>21,870</u>	<u>29,193</u>
Total Revenues	<u>9,113,641</u>	<u>9,212,504</u>	<u>9,091,077</u>
Expenditures:			
Current:			
General government	1,597,507	2,189,442	1,698,567
Public safety	4,219,822	5,078,154	5,252,830
Public works	1,233,407	1,123,419	1,096,948
Recreation	314,032	399,741	359,165
Community development	243,971	353,376	307,528
Capital outlay	478,099	1,125,719	311,722
Debt Service:			
Principal retired	32,496	11,564	32,557
Interest	<u>3,529</u>	<u>1,628</u>	<u>3,567</u>
Total expenditures	<u>8,122,863</u>	<u>10,283,043</u>	<u>9,062,884</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>990,778</u>	<u>(1,070,539)</u>	<u>28,193</u>
Other financing sources (uses):			
Operating transfers in	0	0	420,000
Operating transfers out	(2,000,000)	(420,000)	(1,343,890)
Capital lease obligations	<u>0</u>	<u>0</u>	<u>183,015</u>
Net other financing sources (uses)	<u>(2,000,000)</u>	<u>(420,000)</u>	<u>(740,875)</u>
Net change in fund balances	(1,009,222)	(1,490,539)	(712,682)
Fund balances - beginning	<u>8,895,261</u>	<u>7,886,039</u>	<u>6,395,500</u>
Fund balances - ending	<u><u>7,886,039</u></u>	<u><u>6,395,500</u></u>	<u><u>5,682,818</u></u>

CITY OF WEST MELBOURNE, FLORIDA
Basic Financial Statements

CITY OF WEST MELBOURNE, FLORIDA
Statement of Net Assets
September 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalent:	\$ 5,971,772	\$ 3,417,954	\$ 9,389,726
Investments	1,830,000	977,441	2,807,441
Receivables, net	852,494	1,192,330	2,044,824
Inventory	-	57,697	57,697
Prepays	34,755	1,072	35,827
Interfund balances:	1,902,227	(1,902,227)	-
Overfunded pension costs:	64,877	-	64,877
Restricted assets:			
Cash and cash equivalent:	292,852	1,986,239	2,279,091
Investments	-	192,559	192,559
Unamortized bond issuance cost:	-	266,440	266,440
Capital assets (net of accumulated depreciation):			
Land	939,086	129,481	1,068,567
Construction in progress:	5,926,657	2,441,621	8,368,278
Buildings	1,676,501	9,627	1,686,128
Improvements other than building:	1,005,980	40,033,474	41,039,454
Machinery and equipment:	1,742,515	3,703,237	5,445,752
Infrastructure	5,185,910	-	5,185,910
Total assets	<u>27,425,626</u>	<u>52,506,945</u>	<u>79,932,571</u>
LIABILITIES			
Accounts and contracts payable	427,039	373,543	800,582
Accrued liabilities	233,455	46,438	279,893
Unearned revenue	151,720	-	151,720
Accrued interest payable	-	188,033	188,033
Customer and developer escrow deposit:	292,857	953,839	1,246,696
Noncurrent liabilities:			
Due within one year:	260,645	164,944	425,589
Due in more than one year:	112,521	16,744,613	16,857,134
Total liabilities	<u>1,478,237</u>	<u>18,471,410</u>	<u>19,949,647</u>
NET ASSETS			
Invested in capital assets, net of related debt:	16,315,773	29,455,192	45,770,965
Restricted for:			
Renewal and replacement:	-	402,216	402,216
Construction	3,380,240	183,552	3,563,792
Building code enforcement:	953,846	-	953,846
Recreation	800,118	-	800,118
Stormwater	1,263,468	-	1,263,468
Other	211,346	213,404	424,750
Unrestricted	3,022,598	3,781,171	6,803,769
Total net assets	<u>\$ 25,947,389</u>	<u>\$ 34,035,535</u>	<u>\$ 59,982,924</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA
Statement of Activities
Year Ended September 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,849,272	\$ 1,264,487	\$ 20,049	\$ 307,297	\$ (257,439)	\$ -	\$ (257,439)
Public safety	5,427,339	169,232	1,585	-	(5,256,522)	-	(5,256,522)
Public works	1,568,208	-	296,478	1,281,651	9,921	-	9,921
Recreation	413,426	145,388	-	-	(268,038)	-	(268,038)
Community development	308,491	75,465	-	-	(233,026)	-	(233,026)
Interest on long term debt	3,567	-	-	-	(3,567)	-	(3,567)
Total governmental activities	<u>9,570,303</u>	<u>1,654,572</u>	<u>318,112</u>	<u>1,588,948</u>	<u>(6,008,671)</u>	<u>-</u>	<u>(6,008,671)</u>
Business-type activities:							
Water and sewer	8,139,455	8,825,930	-	1,340,958	-	2,027,433	2,027,433
Total business-type activities	<u>8,139,455</u>	<u>8,825,930</u>	<u>-</u>	<u>1,340,958</u>	<u>-</u>	<u>2,027,433</u>	<u>2,027,433</u>
Total government	<u>\$ 17,709,758</u>	<u>\$ 10,480,502</u>	<u>\$ 318,112</u>	<u>\$ 2,929,906</u>	<u>(6,008,671)</u>	<u>2,027,433</u>	<u>(3,981,238)</u>
General revenues:							
Property taxes					1,964,629	-	1,964,629
Franchise taxes					1,483,964	-	1,483,964
Public utility taxes					2,345,478	-	2,345,478
Shared revenues not restricted to specific programs					1,084,702	-	1,084,702
Unrestricted investment earnings					158,477	68,003	226,480
Miscellaneous					43,483	-	43,483
Transfers, net					420,000	(420,000)	-
Total general revenues					<u>7,500,733</u>	<u>(351,997)</u>	<u>7,148,736</u>
Change in net assets					1,492,062	1,675,436	3,167,498
Net assets, beginning					24,455,327	32,360,099	56,815,426
Net assets, ending					<u>\$ 25,947,389</u>	<u>\$ 34,035,535</u>	<u>\$ 59,982,924</u>

1-3

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA
 Balance Sheet - Governmental Funds
 September 30, 2009

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash	\$ 2,559,563	\$ 2,077,828	\$ 1,334,381	\$ 5,971,772
Receivables, net	577,784	-	-	577,784
Investments	1,000,000	-	830,000	1,830,000
Long term receivable	89,289	-	-	89,289
Due from other governments	185,421	-	-	185,421
Due from other funds	1,902,227	-	-	1,902,227
Prepaid items	34,755	-	-	34,755
Restricted cash	233,485	-	59,367	292,852
Total assets	<u>\$ 6,582,524</u>	<u>\$ 2,077,828</u>	<u>\$ 2,223,748</u>	<u>\$ 10,884,100</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 191,882	\$ 134,492	\$ 100,665	\$ 427,039
Accrued liabilities	233,325	-	130	233,455
Unearned revenue	241,009	-	-	241,009
Developer escrow deposits	233,490	-	59,367	292,857
Total liabilities	899,706	134,492	160,162	1,194,360
Fund balances:				
Reserved for:				
Prepaid items	34,755	-	-	34,755
Long-term advance	1,902,227	-	-	1,902,227
Police education	22,829	-	-	22,829
Confiscated funds	8,678	-	-	8,678
Transportation	1,436,904	1,943,336	-	3,380,240
Emergency communications	145,084	-	-	145,084
Building code enforcement	953,846	-	-	953,846
Unreserved, reported in:				
General fund	1,178,495	-	-	1,178,495
Special revenue funds	-	-	2,063,586	2,063,586
Total fund balances	<u>5,682,818</u>	<u>1,943,336</u>	<u>2,063,586</u>	<u>9,689,740</u>
Total liabilities and fund balances	<u>\$ 6,582,524</u>	<u>\$ 2,077,828</u>	<u>\$ 2,223,748</u>	

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 funds.	16,476,649
Negative pension obligation resulting from overfunding of the City's defined benefit pension plan.	64,877
Long-term liabilities (including capital lease obligations and the noncurrent portion of accrued compensated absences) are not due and payable in the current period and therefore are not reported in the funds.	(373,166)
Deferred revenue in the governmental funds susceptible to full accrual on the entity-wide statements	89,289
Net assets of governmental activities	<u>\$ 25,947,389</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA
 Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 Year Ended September 30, 2009

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 5,909,509	\$ -	\$ 317,823	\$ 6,227,332
Licenses and permits	1,108,439	-	-	1,108,439
Intergovernmental	1,490,373	-	-	1,490,373
Charges for services	235,362	-	141,522	376,884
Fines and forfeitures	196,373	-	-	196,373
Interest and other	121,828	14,725	21,941	158,494
Miscellaneous	29,193	-	-	29,193
Total revenues	<u>9,091,077</u>	<u>14,725</u>	<u>481,286</u>	<u>9,587,088</u>
EXPENDITURES				
Current:				
General government	1,698,567	25,453	-	1,724,020
Public safety	5,252,830	-	-	5,252,830
Public works	1,096,948	-	109,451	1,206,399
Recreation	359,165	-	1,120	360,285
Community developmen	307,528	-	-	307,528
Capital outlay	311,722	3,282,044	677,671	4,271,437
Debt service:				
Principal retirec	32,557	-	-	32,557
Interest	3,567	-	-	3,567
Total expenditures	<u>9,062,884</u>	<u>3,307,497</u>	<u>788,242</u>	<u>13,158,623</u>
Excess (deficiency) of revenues over (under) expenditures	<u>28,193</u>	<u>(3,292,772)</u>	<u>(306,956)</u>	<u>(3,571,535)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	420,000	1,343,890	-	1,763,890
Transfers out	(1,343,890)	-	-	(1,343,890)
Capital lease obligator	183,015	-	-	183,015
Net other financing sources (uses)	<u>(740,875)</u>	<u>1,343,890</u>	<u>-</u>	<u>603,015</u>
Net change in fund balances	(712,682)	(1,948,882)	(306,956)	(2,968,520)
Fund balances, beginning of yea	6,395,500	3,892,218	2,370,542	12,658,260
Fund balances, end of year	<u>\$ 5,682,818</u>	<u>\$ 1,943,336</u>	<u>\$ 2,063,586</u>	<u>\$ 9,689,740</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2009

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (2,968,520)
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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,762,183
Overfunded pension contributions are reported as expenditures in the fund financial statements and recorded as a net pension asset on the statement of net assets. This is the amount by which the net pension asset increased and the net pension liability decreased in the current year.	99,740
The issuance of long-term debt (e.g. capital 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. This is the amount that the issuance of capital leases exceeds the current year repayments of the principal on long-term debt.	(150,458)
Compensated absences 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.	(24,492)
Because certain receivables will not be collected for several months after the close of the City's fiscal year end, they are not considered as "available" revenues in the governmental funds. In the statement of activities, presented on the accrual basis, these revenues are recognized in the year they are earned.	(226,391)
Change in net assets of governmental activities	<u>\$ 1,492,062</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA

Statement of Net Assets
Proprietary Fund
September 30, 2009

	Business-type Activities Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,417,954
Restricted cash and cash equivalents:	
Customer and developer deposit accounts	868,334
Other	85,504
Accounts receivable, net	600,489
Assesment revenue receivable	246,643
Accrued unbilled revenues	345,198
Inventory	57,697
Prepaid expense	1,072
Total current assets	<u>5,622,891</u>
Noncurrent assets:	
Investments	<u>977,441</u>
Restricted cash and cash equivalents:	
Renewal and replacement account	702,443
Construction account	843
Capital improvement trust account	62,786
Bond debt service account	266,329
Restricted investments	
Capital fees trust account	183,552
Wastewater reuse trust account	9,007
Total restricted assets	<u>1,224,960</u>
Capital assets:	
Land	129,481
Construction in progress	2,441,621
Buildings	2,044,992
Improvements other than buildings	52,574,489
Machinery and equipment	6,316,821
Less accumulated depreciation	(17,189,964)
Total capital assets, net of accumulated depreciation	<u>46,317,440</u>
Unamortized bond issue costs	266,440
Total noncurrent assets	<u>48,786,281</u>
Total assets	<u>54,409,172</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA
Statement of Net Assets, continued
Proprietary Fund
September 30, 2009

	Business-type Activities Enterprise Fund
LIABILITIES	
Current liabilities (payable from current assets):	
Accounts and contracts payable	\$ 373,543
Accrued liabilities	46,438
Accrued interest payable	188,033
Current portion of note payable	120,000
Current portion of compensated absences	44,944
Current liabilities payable from restricted assets:	
Customer and developer escrow deposits	953,839
Due to/from funds	<u>1,902,227</u>
Total current liabilities	<u>3,629,024</u>
Noncurrent liabilities:	
Note payable, net of current portion	125,000
Loan payable, net of current portion and loan premium	4,269,909
Revenue bonds payable, net of current portion, unamortized bond discount, and deferred amount on refunding	12,347,339
Compensated absences	<u>2,365</u>
Total noncurrent liabilities	<u>16,744,613</u>
Total liabilities	<u>20,373,637</u>
NET ASSETS	
Invested in capital assets, net of related debt	29,455,192
Restricted for:	
Renewal and replacement	402,216
Construction	183,552
Waste water reuse	150,618
Sewer capital improvement	62,786
Unrestricted	<u>3,781,171</u>
Total net assets	<u>\$ 34,035,535</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
Year Ended September 30, 2009

	Business-type Activities Enterprise Fund
Operating revenues:	
Charges for services	\$ 8,414,006
Other charges and fees	<u>411,924</u>
Total operating revenues	<u>8,825,930</u>
Operating expenses:	
Personal services	1,245,956
Contractual services	1,939,251
Supplies and other expenses	2,503,273
Depreciation	<u>1,610,615</u>
Total operating expenses	<u>7,299,095</u>
Operating income (loss)	<u>1,526,835</u>
Nonoperating revenues (expenses):	
Interest income	68,003
Special assessment revenue	400,412
Interest expense	(760,318)
Amortization of bond issue costs	<u>(80,042)</u>
Total nonoperating revenues	<u>(371,945)</u>
Income before transfers and contributions	1,154,890
Capital contributions	940,546
Transfers out	<u>(420,000)</u>
Change in net assets	1,675,436
Net assets, beginning of year	<u>32,360,099</u>
Net assets, end of year	<u>\$ 34,035,535</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2009

	Business-type Activities Enterprise Fund
Cash flows from operating activities:	
Cash received from customers and users	\$ 8,887,960
Cash paid to suppliers for goods and services	(3,747,472)
Cash paid to employees for services	(1,188,757)
Net cash provided by operating activities	<u>3,951,731</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	(420,000)
Net cash used by noncapital financing activities	<u>(420,000)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5,273,332)
Special assessment revenue	148,979
Principal paid on revenue bonds	(535,000)
Principal paid on notes payable	(115,000)
Principal payments on loan payable	(190,000)
Interest paid	(760,318)
Net cash used in capital and related financing activities	<u>(6,724,671)</u>
Cash flows from investing activities:	
Interest received on investments	68,003
Redemption of investments	1,000,000
Purchase of investments	(1,170,000)
Net cash provided by investing activities	<u>(101,997)</u>
Net decrease in cash and cash equivalents	<u>(3,294,937)</u>
Cash and cash equivalents, beginning of year	<u>8,699,130</u>
Cash and cash equivalents, end of year	<u>\$ 5,404,193</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA
Statement of Cash Flows, continued
Proprietary Fund
Year Ended September 30, 2009

	Business-type Activities Enterprise Fund
Adjustment to reconcile operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 1,526,835
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,610,615
(Increase) decrease in assets:	
Accounts receivable	(83,481)
Assesment revenue receivable	(241,834)
Due from other governments	142,886
Accrued unbilled revenues	(51,948)
Inventory	29,120
Prepays	(372)
Increase (decrease) in liabilities:	
Accounts and contracts payable	(1,235,923)
Accrued expenses	46,438
Accrued compensated absences	10,761
Unearned revenue	239,607
Customer and developer deposits	56,800
Due to/from funds	1,902,227
Total adjustments	<u>2,424,896</u>
Net cash provided by operating activities	<u>\$ 3,951,731</u>
Noncash capital and related financing activities:	
Amortization of bond issue costs	<u>\$ 38,708</u>
Amortization of bond discount, premium and deferred loss on refunding	<u>\$ 41,333</u>
Contributed property from developers and customers	<u>\$ 940,546</u>

The accompanying notes are an integral part of this financial statement.

CITY OF WEST MELBOURNE, FLORIDA

Statement of Fiduciary Net Assets - Pension Trust Funds
September 30, 2009

	Pension Trust Funds
ASSETS	
Interest receivable	\$ 15,971
Contribution receivable:	
Plan members	7,847
Employer	155,242
Investments:	
Mutual funds	5,984,273
Participant loans	<u>136,867</u>
Total assets	6,300,200
LIABILITIES	
	<u>-</u>
NET ASSETS	
Assets held in trust for pension benefits	<u>\$ 6,300,200</u>

CITY OF WEST MELBOURNE, FLORIDA

Statement of Changes in Fiduciary Net Assets - Pension Trust Funds
Year Ended September 30, 2009

	Pension Trust Funds
ADDITIONS	
Contributions:	
Plan members	\$ 152,540
Employer (including \$94,583 contributed by the State of Florida)	<u>392,591</u>
Total contributions	545,131
Investment income earnings:	
Net depreciation in fair value of investments	(103,011)
Interest	<u>135,914</u>
Total investment earnings	32,903
Total additions (reductions)	<u>578,034</u>
DEDUCTIONS	
Benefit payments	355,768
Administrative expenses	<u>12,562</u>
Total deductions	368,330
Change in net assets	<u>209,704</u>
Net assets, beginning of year	<u>6,090,496</u>
Net assets, end of year	<u>\$ 6,300,200</u>

The accompanying notes are an integral part of this financial statement.

The accompanying notes are an integral part of this financial statement.

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

The City of West Melbourne, Florida ("the City") was originally chartered as a Town on September 11, 1959. On July 2, 1970, the City was incorporated as a political subdivision of the State of Florida with a six member Council, including a Mayor and Deputy-Mayor. In November 1989, a seventh Council member was added and the Mayor became a voting member. The Mayor and Council are elected by the registered voters of the City of West Melbourne, with the entire Council selecting the Deputy-Mayor. The Council appoints the City Manager, who in turn functions as the administrator of the everyday operations of the City. The City provides a full range of municipal services as directed by the City Charter including general government, public safety, public improvements, planning and zoning, water and sewer service, refuse collection, a recycling program, and related general and administrative services to its residents.

In evaluating the City as a reporting entity, management has reported all component units in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "Defining the Financial Reporting Entity". No potential component units were found that required consideration in defining the government's reporting entity.

2. 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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 are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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. 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.

6-I

THIS PAGE IS INTENTIONALLY LEFT BLANK

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. 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.

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 City'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 *Capital Projects Fund* accounts for the proceeds from the Transportation Fee Trust Fund disbursement agreements between the City of West Melbourne and Brevard County. These monies are to be used to fund the acquisition and construction of certain capital assets.

The City reports the following major proprietary fund:

- The *Water and Sewer Fund* accounts for water and sewer operations financed and operated in a manner similar to a private business enterprise. The fund is intended to be predominantly self supported from user charges.

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

Additionally, the City reports the following fund type:

- The *Pension Trust Fund* accounts for the activities of the City's pension and retirement system, which accumulates resources for pension benefit payments to qualified general and police employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in 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 the 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 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 revenues reported in 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 *nonoperating* items. Operating revenues and expenses generally result from providing services and providing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Assets, liabilities, and net assets or equity

Cash and investments

The City'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. Cash and cash equivalents for the purpose of the proprietary fund statement of cash flows include cash and investments in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration.

Investments are stated at fair value. The Local Government Surplus Funds Trust Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and payables

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 trade receivables are shown net of allowance for uncollectible accounts.

Property tax revenues are recognized in the fiscal year for which they are budgeted and also become due and payable. Virtually all unpaid taxes are collected via tax certificates sold on or prior to June 1; therefore, no material taxes are receivable at fiscal year end.

Inventories and prepaid items

All inventories are valued at cost using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The Governmental Funds did not have any inventories on hand at year end.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Assets, liabilities, and net assets or equity (continued)

Restricted assets

Certain assets of the City's proprietary funds are classified as restricted assets on the statement of net assets and balance sheet because their use is limited for specified purposes other than normal operations. Special restricted asset accounts have been established to account for the sources and uses of these limited use assets, as follows:

- Renewal and Replacement Account - Includes water and sewer connection fees to be used for improvements to and rehabilitation of the utility system.
- Capital Fees Trust Account - Includes water and sewer connection fees to be used to make future bond principal payments.
- Wastewater Reuse Trust Account - Includes reuse fees to be used for improvements to the reuse system.
- Construction Account - Includes proceeds from loan payable to be used to pay the costs of certain construction projects of the Water and Sewer System.
- Capital Improvement Trust Account - Includes capital grant proceeds and a portion of operating revenues to fund capital improvements to the sewer system.
- Customer and Developer Deposit Accounts - Deposited in non-interest bearing accounts and refunded upon termination of service with the City and satisfaction of all obligations due.
- Bond Debt Service Account - Includes proceeds from issuance of revenue bonds to be used to pay future debt service costs.

Capital assets

Capital assets, which include property, 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. Effective October 1, 2003, capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Prior to October 1, 2003, the capitalization threshold was \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 capital 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.

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Assets, liabilities, and net assets or equity (continued)

Capital assets (continued)

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings	10 to 50 years
Improvements other than buildings	2 to 50 years
Machinery and equipment	5 to 10 years
Infrastructure	10 to 40 years

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation is accrued when incurred in the government-wide and proprietary fund type financial statements. A liability for this amount is reported in governmental funds only if it has matured, for example, as a result of employee resignations and retirements or if they will be liquidated with expendable, available financial resources.

Unearned revenues

Unearned revenues include amounts collected before the revenue recognition criteria are met under both the modified and full accrual basis of accounting. The unearned items consist primarily of license and permit revenues collected in advance.

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, 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 and discount. Bond issuance costs are 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 the debt issued is 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.

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Assets, liabilities, and net assets or equity (continued)

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.

5. Income taxes

The City has followed the provisions of FSP FIN 48-3, which delays the implementation of FIN 48 (FASB ASC 740-10), Accounting for Income Taxes. The City will be required to implement those provisions for its year ended September 30, 2010. The City qualifies as a tax-exempt governmental entity. Accordingly, no provision for Federal or State income tax is required.

6. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. 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. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds". The details of this difference are as follows:

Capital leases payable	\$ (160,876)
Compensated absences	<u>(212,290)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ (373,166)</u>

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

2. 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 expense." The details of difference are as follows:

Capital outlay	\$ 4,258,468
Contributions of capital assets	1,281,651
Depreciation expense	<u>(777,936)</u>
Net adjustment to increase <i>net changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ 4,762,183</u>

NOTE C - DETAILED NOTES ON ALL FUNDS

1. Deposits and investments

Custodial credit risk for deposits is the risk in the event of the failure of a depository financial institution a government may not be able to recover deposits. Monies placed on deposit with financial institutions in the form of demand deposits, time deposits or certificate of deposits are defined as public deposits. The financial institutions in which the City places its deposits are certified as "qualified public depositories", as required under the Florida Security for Public Deposits Act.

At September 30, 2009, the carrying amount of cash deposits was \$2,868,770 and the combined bank balance was \$3,878,234. As noted above, Deposits are entirely insured by Federal depository insurance and/or entirely collateralized pursuant to Chapter 280, Florida Statutes. The City had cash on hand of \$3,450.

Deposits available within various funds, except pension trust funds, were consolidated for investment purposes. Interest earned was allocated to the various funds based on their average cash and investment balances. The trust funds are authorized to invest in corporate bonds and stocks, money markets funds, and mortgages and notes.

City of West Melbourne, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS

1. Deposits and investments (continued)

Interest rate risk

Interest rate risk is the possibility that interest rates will rise and reduce the market value of an investment. The City's investment policy limits interest rate risk by requiring that an attempt be made to match investment maturities with known cash needs and anticipated cash flow requirements. In addition, investments of current operating funds are required to have maturities of no longer than twelve months. The City's Police Officers' Plan does not address interest rate risk.

Credit risk

GASB Statement No. 40 requires that governments provide information about credit risk associated with their investments by disclosing the credit rating of investments in debt securities as described by nationally recognized statistical rating organizations. The City's investment policy and the investment policy for the City's Police Officers' Plan, limit investments to securities with specific ranking criteria.

Concentration risk

GASB Statement No. 40 requires disclosures of investments in any one issuer that represents five percent or more of total investments, excluding investments issued or explicitly guaranteed by the U.S government, investments in mutual funds, external investments pools, and other pooled investments. The City's investment policy and the investment policy for the City's Police Officers' Plan do not address concentration risk.

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

1. Deposits and investments (continued)

At September 30, 2009, the City had the following investments:

Investment type	Investment Maturities (in years)					Rating	Agency	Percent of portfolio
	Fair Value	Less than 1	1-5	6-10	More than 10			
Primary government:								
State Board of Administration								
Florida Prime	3,991	3,991	-	-	-	AAAm	S&P	0.03%
Fund B	10,211	1,940	8,271	-	-	Not rated		0.09%
Florida Municipal Investment								
Trust Enhanced Cash Portfolio	845	845	-	-	-	AAA	S&P	0.01%
Federated Government								
Obligations Fund	10,279,523	10,279,523	-	-	-	AAAm	S&P	87.15%
Federal Home Loan Bank	1,500,000	1,500,000	-	-	-	Aaa	Moody's	12.72%
	<u>\$ 11,794,570</u>	<u>\$ 11,786,299</u>	<u>\$ 8,271</u>	<u>\$ -</u>	<u>\$ -</u>			
Pension trust funds:								
Money market funds	\$ 489,608	\$ 489,608	\$ -	\$ -	\$ -	Not rated		8.18%
Mutual bond fund	40,205	40,205	-	-	-	Not rated		0.67%
Blended mutual fund	406,323	406,323	-	-	-	Not rated		6.79%
International mutual stock fund	76,388	76,388	-	-	-	Not rated		1.28%
Mutual US stock fund	510,343	510,343	-	-	-	Not rated		8.53%
Common stock	2,764,727	2,764,727	-	-	-	Not rated		46.20%
Corporate bond (AAA)	88,736	-	15,789	21,439	51,508	AAA	S&P	1.48%
Corporate bond (AA+)	34,663	-	-	34,663	-	AA+	S&P	0.58%
Corporate bond (AA-)	44,314	-	26,117	-	18,197	AA-	S&P	0.74%
Corporate bond (A+)	52,507	-	20,307	32,200	-	A+	S&P	0.88%
Corporate bond (A)	206,535	-	48,134	124,779	33,622	A	S&P	3.45%
Corporate bond (A-)	22,764	-	15,946	-	6,818	A-	S&P	0.38%
Corporate bond (BBB+)	150,539	-	33,707	59,724	57,108	BBB+	S&P	2.52%
Corporate bond (BBB)	82,691	-	-	60,388	22,303	BBB	S&P	1.38%
Corporate bond (BBB-)	26,662	-	15,420	11,242	-	BBB-	S&P	0.45%
Federal National Mortgage Association								
Federal Home Loan Mortgage Corporation	422,229	-	-	-	422,229	Aaa	Moody's	7.06%
US Treasury notes	66,528	-	-	-	66,528	Aaa	Moody's	1.11%
	<u>498,511</u>	<u>-</u>	<u>457,455</u>	<u>41,056</u>	<u>-</u>			<u>8.33%</u>
	<u>\$ 5,984,273</u>	<u>\$ 4,287,594</u>	<u>\$ 632,875</u>	<u>\$ 385,491</u>	<u>\$ 678,313</u>			

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

2. Receivables, net

Receivables as of year end for the government's individual major funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

Receivables:	Water and Sewer		Total
	General	Sewer	
Taxes	\$ 133,294	\$ -	\$ 133,294
State shared revenues	274,711	-	274,711
Utilities	-	1,020,128	1,020,128
Franchise fees	316,377	-	316,377
Special assessments	-	246,645	246,645
Employees	21,535	701	22,236
Other	106,646	12,587	119,233
Gross receivables	852,563	1,280,061	2,132,624
Less: allowance for uncollectible accounts	(69)	(87,731)	(87,800)
Net total receivables	<u>\$ 852,494</u>	<u>\$ 1,192,330</u>	<u>\$ 2,044,824</u>

The City's water and sewer utility conducts all of its business activity in Brevard County, Florida. Customers routinely receive services in advance during the ordinary course of business, however customers' deposits are available to be applied against amounts owed.

3. Restricted assets

The balances of the restricted asset accounts in the governmental and business-type activities are as follows:

Account	Utility		Deposit		Total
	Bond/Note Ordinances	Ordinances and Grants	Escrow And Other		
Renewal and replacement account	\$ 100,000	\$ 602,443	\$ -	\$ -	\$ 702,443
Capital fees trust account	183,552	-	-	-	183,552
Wastewater reuse trust account	-	9,007	-	-	9,007
Capital improvement trust account	-	62,786	-	-	62,786
Construction account	843	-	-	-	843
Customers and developer deposit accounts	207,760	-	1,038,930	-	1,246,690
Bond debt service account	266,329	-	-	-	266,329
Totals	<u>\$ 758,484</u>	<u>\$ 674,236</u>	<u>\$ 1,038,930</u>	<u>\$ -</u>	<u>\$ 2,471,650</u>

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

4. Property taxes

The millage rate levied by the City for the fiscal year ended September 30, 2009, was 1.5899 mills. Tax collections for the City were approximately 97% of the total tax levy.

The City is permitted to levy ad valorem taxes on assessed valuation by State law. However, Chapter 74-430, Laws of Florida, a special act applicable only to governmental units in Brevard County, limits the annual increase to 10% of tax revenues of the preceding year (exclusive of new construction and improvements not appearing in the previous year's tax roll) without voter approval by referendum.

Lien date - January 1
 Levy date - Prior to September 30
 Due date - November 1
 Delinquent date - April 1

5. Capital assets

Capital asset activity for the year ended September 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 939,086	\$ -	\$ -	\$ 939,086
Construction in progress	1,924,826	4,001,831	-	5,926,657
Total capital assets, not being depreciated	2,863,912	4,001,831	-	6,865,743
Capital assets, being depreciated:				
Buildings	2,526,790	-	-	2,526,790
Improvements other than buildings	1,436,125	2,754	-	1,438,879
Machinery and equipment	4,199,719	253,885	-	4,453,604
Infrastructure	4,938,550	1,281,651	-	6,220,201
Total capital assets being depreciated	13,101,184	1,538,290	-	14,639,474
Less accumulated depreciation for:				
Buildings	(794,344)	(55,945)	-	(850,289)
Improvements other than buildings	(365,925)	(66,974)	-	(432,899)
Machinery and equipment	(2,337,552)	(373,537)	-	(2,711,089)
Infrastructure	(752,809)	(281,482)	-	(1,034,291)
Total accumulated depreciation	(4,250,630)	(777,938)	-	(5,028,568)
Total capital assets being depreciated, net	8,850,554	760,352	-	9,610,906
Governmental activities capital assets, net	\$11,714,466	\$ 4,762,183	\$ -	\$16,476,649

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

5. Capital assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 129,481	-	\$ -	\$ 129,481
Construction in progress	15,557,235	4,678,450	(17,794,064)	2,441,621
Total capital assets, not being depreciated	15,686,716	4,678,450	(17,794,064)	2,571,102
Capital assets, being depreciated:				
Buildings	2,044,992	-	-	2,044,992
Improvements other than buildings	33,340,671	19,233,818	-	52,574,489
Equipment	6,221,147	95,674	-	6,316,821
Total capital assets being depreciated	41,606,810	19,329,492	-	60,936,302
Less accumulated depreciation for:				
Buildings	(2,033,833)	(1,532)	-	(2,035,365)
Improvements other than buildings	(11,214,238)	(1,326,777)	-	(12,541,015)
Equipment	(2,331,278)	(282,306)	-	(2,613,584)
Total accumulated depreciation	(15,579,349)	(1,610,615)	-	(17,189,964)
Total capital assets, being depreciated, net	26,027,461	17,718,877	-	43,746,338
Business-like activities capital assets, net	\$41,714,177	\$ 22,397,327	\$ (17,794,064)	\$46,317,440

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 121,751
Public safety	254,310
Public works	347,220
Recreation	54,657
Total depreciation expense - governmental activities	<u>\$ 777,938</u>
Business-type activities:	
Water and Sewer	<u>\$ 1,610,615</u>

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

6. Interfund balances and transfers

The composition of interfund balances as of September 30, 2009, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water & Sewer Fund	\$ 1,902,227

The advance is an interfund loan from the general fund to the water and sewer fund to cover the cost of several construction projects. The amounts will be repaid with interest by a schedule approved by the City Council when funds become available in the water and sewer fund.

The composition of interfund transfers during the year ended September 30, 2009, is as follows:

Transfers out:	Transfers in:		
	General Fund	Capital Projects Fund	Total transfers out
General Fund	\$ -	\$ 1,343,890	\$ 1,343,890
Water & Sewer Fund	420,000	-	420,000
Total transfers in	\$ 420,000	\$ 1,343,890	\$ 1,763,890

The amounts transferred to the various funds to cover the costs of various capital projects.

7. Capital leases

During the year ended September 30, 2009, the City entered into several three year lease agreements for five police vehicles and one tractor. Additionally, the City entered into a three year lease agreement as lessee in 2006 for financing the acquisition of two police vehicles. These lease agreements qualify as capital leases for accounting purposes, and, therefore have been recorded at the present value of future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

Asset:	
Machinery and equipment	\$ 183,015
Less: Accumulated depreciation	(13,381)
Total	<u>\$ 169,634</u>

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

7. Capital leases (continued)

The future minimum lease obligations and the net present value of these minimum future lease payments as of September 30, 2009, were as follows:

Year ending September 30,	
2010	\$ 65,739
2011	65,739
2012	40,608
Total minimum lease payments	172,086
Less: amount representing interest	(11,210)
Present value of minimum lease payments	<u>\$ 160,876</u>

8. Long-term debt

Revenue Bonds

The City issues revenue bonds to pay the costs of constructing certain capital projects and to refund all or a portion of previously issued revenue bonds. The bonds are secured by and payable from the gross revenues of the City's water and sewer system. The bond resolutions provide that revenues in excess of debt service requirements may be used for general operating purposes. Debt service sinking fund requirements, where applicable, on outstanding bonds have been met or exceeded, in accordance with the bond resolutions.

Revenue bonds outstanding at year end are as follows:

Business-type activities:

Water and Sewer Revenue Refunding Bonds, Series 2007, original issuance amount of \$8,015,000, due \$35,000 starting 4/1/17 to \$1,315,000 annually to 2027; interest at 4.49%	\$ 8,015,000
Water and Sewer Revenue Refunding Bonds, Series 2004, original issuance amount of \$4,545,000, due \$350,000 to \$445,000 annually to 2017; interest at 2.50% to 3.80% (less deferred amount on refunding of \$157,430, plus bond premium of \$2,841)	2,690,411
Water and Sewer Revenue Refunding Bonds, Series 1999, original issuance amount of \$2,730,000, due \$170,000 to \$255,000 annually to 2017; interest at 3.90% to 4.60% (less deferred amount on refunding of \$105,789 and bond discount of \$7,283)	1,641,928

Total \$ 12,347,339

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

8. Long-term debt (continued)

The series 2007 revenue bonds were issued as a qualified loan whose sole purchaser was SunTrust Bank. The loan provided \$5 million for improvements to the sewer plant; provided \$3 million for constructing a new 18" water line on Hollywood Blvd; and financed the cost of issue of \$15,000.

- The 2004 series revenue bonds were issued to defease the 1994 bond issue; make improvements to the effluent reuse system; and finance the cost of issuance.
- The 1999 series revenue bonds were issued to defease a portion of the 1994 bond issue and finance the issuance costs.

The 2007 revenue bonds, issued for \$8,015,000, exceeds the small issue requirement. Therefore, Federal guidelines require that the City compute federal arbitrage calculations every five years (beginning fiscal year 2012) to determine if the City has exceeded arbitrage thresholds as defined in the official statement of the 2007 bond issue.

Annual debt service requirements to maturity for revenue bonds outstanding are as follows:

Year ending September 30,	Business-type Activities	
	Principal	Interest
2010	\$ -	\$ 447,629
2011	555,000	526,181
2012	575,000	506,895
2013	595,000	485,962
2014	615,000	463,407
2015-2019	3,365,000	1,918,075
2020-2024	3,830,000	1,135,399
2025-2027	3,080,000	227,868
Totals	\$ 12,615,000	\$ 5,711,416

Loan Payable

During 2005, the Florida Municipal Loan Council (the Issuer) issued \$25,200,000 of Revenue Bonds, Series 2005D. The proceeds received by the Issuer were used to make loans to seven State of Florida municipalities (the Borrowers) for the purposes of 1) providing funds to finance various governmental undertakings of the Borrowers, and 2) to finance the costs of issuance of the Series 2005D bonds.

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

8. Long-term debt (continued)

As one of the seven municipalities, the City borrowed \$4,910,000 under a loan agreement with the Issuer. The City paid its pro rata portion of bond issuance costs, and received its pro rata portion of bond issue premium. Loan repayments are considered a limited obligation of the City, and are payable from and secured by the net revenues of the West Melbourne System. Loans payable outstanding at year end are as follows:

Business-type activities:

City of West Melbourne Loan Payable, original issuance amount of \$4,910,000, due \$180,000 to \$355,000 annually to 2026; interest at 3.00% to 5.00% (plus the City's portion of bond premium of \$69,909) \$ 4,269,909

Annual debt service requirements to maturity for revenue bonds outstanding are as follows:

Year ending September 30,	Business-type Activities	
	Principal	Interest
2010	\$ -	\$ 85,755
2011	195,000	173,383
2012	200,000	167,110
2013	210,000	160,316
2014	215,000	153,117
2015-2019	1,205,000	638,494
2020-2024	1,480,000	360,400
2025-2026	695,000	34,925
Totals	\$ 4,200,000	\$ 1,773,500

Notes payable

In October 2000, the City issued a note payable in the principal amount of \$1,000,000 in connection with capital improvements for the City's sewer system. The balance outstanding at year end was as follows:

Business-type activities:

Non-Ad Valorem Revenue Note, Series 2000, due \$115,000 to \$125,000 annually to 2011; interest at 5.28% \$ 245,000

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

8. Long-term debt (continued)

Annual debt service requirements to maturity for revenue bonds outstanding are as follows:

Year ending September 30,	Business-type Activities	
	Principal	Interest
2010	\$ 120,000	\$ 9,930
2011	125,000	3,373
Totals	\$ 245,000	\$ 13,303

Summary of Defeased Debt Outstanding

The following outstanding revenue bonds are legally defeased. Since governmental obligations are held in escrow for the payment of principal and interest, the bonds are not liabilities of the City.

	Outstanding at year end
Water and Sewer Revenue Bonds: Series 1978	\$ 607,000

Changes in Long-term Liabilities

Long-term liability activity governmental activities for the year ended September 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	\$ 10,418	\$ 183,015	\$ (32,557)	\$ 160,876	\$ 58,970
Compensated absences	187,798	184,519	(160,027)	212,290	201,680
Governmental activity Long-term liabilities	<u>\$ 198,216</u>	<u>\$ 367,534</u>	<u>\$ (192,584)</u>	<u>\$ 373,166</u>	<u>\$ 260,650</u>

Historically for the governmental activities, capital leases and compensated absences are generally liquidated by the General Fund.

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE C - DETAILED NOTES ON ALL FUNDS (continued)

8. Long-term debt (continued)

Long-term liability activity business-type activities for the year ended September 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
Revenue bonds payable	\$ 13,150,000	\$ -	\$(535,000)	\$12,615,000	\$ -
Less deferred amounts:					
For issuance discount	(8,254)	-	971	(7,283)	-
For issuance premium	3,410	-	(569)	2,841	-
On refunding	(308,809)	-	45,590	(263,219)	-
Total bonds payable	<u>12,836,347</u>	<u>-</u>	<u>(489,008)</u>	<u>12,347,339</u>	<u>-</u>
Loan payable:					
Loan payable	4,390,000	-	(190,000)	4,200,000	-
Plus issuance premium	74,568	-	(4,659)	69,909	-
Total loan payable	<u>4,464,568</u>	<u>-</u>	<u>(194,659)</u>	<u>4,269,909</u>	<u>-</u>
Note payable	360,000	-	(115,000)	245,000	120,000
Compensated absences	36,548	41,609	(30,848)	47,309	44,944
Business-type activity long-term liabilities	<u>\$17,697,463</u>	<u>\$ 41,609</u>	<u>\$(829,515)</u>	<u>\$16,909,557</u>	<u>\$164,944</u>

NOTE D - OTHER INFORMATION

1. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters. In order to limit its exposure to these risks, the City is a participant in the Florida League of Cities (a not-for-profit corporation) self insurance program for workers compensation, general and auto liability, and property insurance. The self-insurance program purchases excess and specific coverage from third party insurance carriers. Participants in the program are billed annually for their portion of the cost of the program adjusted for actual experience during the period of coverage. Participants are not assessed for unanticipated losses incurred by the program therefore, the City has no liability for future deficits, if any. There have been no significant reductions in insurance coverage during fiscal year 2009. Settled claims have not exceeded commercial excess coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE D - OTHER INFORMATION

2. Commitments and contingencies

In September 2000, the City entered into a contract for the management, operation and maintenance of the wastewater treatment, collection and disposal facility. The agreement is for a period of ten years, with the annual fee being \$1,776,547 for the year ended September 30, 2009. The City and the contractor shall negotiate an annual increase to the annual fee each year for the entire ten year initial term of this agreement.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally federal and state 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.

3. Employee retirement plans

General Employees' Retirement Plan

The City of West Melbourne General Employees' Retirement Plan is a defined contribution plan administered by ICMA Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All full time general employees are eligible to participate after six months of service. Employer contributions are vested according to the following schedule: 50% after three years of service; 75% after four years; 100% after five years.

Contributions under the plan were established by the Plan & Trust adoption agreement with ICMA Retirement Corporation and may be amended at the City's discretion. Required contributions are 2% and 8% of eligible earnings for employees and employer, respectively. Administrative costs are financed through investment earnings. Required and actual contributions for the year ended September 30, 2009 were \$13,116 from employees and \$52,465 from the employer.

Participant Loans. The Plan allows participants to borrow from their fund accounts the lesser of \$50,000 or 50% of their vested account balance. The loans are secured by the balance in the participant's account and bear interest at a fixed rate of prime plus 0.5%, as determined on the last day of the month preceding the month the loan is disbursed. Principal and interest are paid ratably through bi-weekly payroll deductions over a period not to exceed five years.

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE D - OTHER INFORMATION (continued)

3. Employee retirement plans (continued)

Florida Retirement System

Effective July 1, 2008, employees had the option to remain with ICMA or surrender their ICMA account to the City and join the Florida Retirement System (FRS). The FRS is a cost sharing, multiple employer, public employee defined benefit plan consisting of state agencies, county governments, district school boards, state universities, state community colleges, cities, independent special districts, metropolitan planning districts, and public charter schools and is administered by the State of Florida, Department of Administration, Division of Retirement.

FRS offers two plans to the employees: the FRS Pension plan and the FRS Investment plan. With the FRS Pension Plan, employees are considered vested after six years of service. With the FRS Investment Plan, employees are considered vested after one year of service. Employees are eligible for normal retirement at age 62. Early retirement may be taken any time after ten years of service (eight years for elected county officials); however, there is a 5 percent benefit reduction for each year prior to normal retirement. Benefits are computed on the basis of age, average final compensation and service credit. Average final compensation is the average of the five highest fiscal years of earnings. FRS also provides for death and disability benefits, which are established by state statutes.

Florida Statutes Chapter 121, which may be amended by Florida Legislature, determines contribution rates for the various membership classes of the FRS. The FRS issues a publicly available financial report that includes financial statements, ten-year historical trend information and other required supplementary information. 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 contacting Research & Education by email at rep@dms.myflorida.com, or by phone at 850-488-5706 or SUNCOM 278-5706.

For those employees choosing to join the FRS, the City will be making contributions to the plan. No contributions are required from the employee. Contributions are 9.85% of eligible employee earnings. A fee of 0.05% is included in the contribution to finance the administrative cost. The payroll for employees covered by FRS for the year ended September 30, 2009 totaled \$5,332,482. Contributions made by the City for its employees for the years ended September 30, 2009 and 2008 were \$274,577 and \$30,521, respectively.

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

NOTE D - OTHER INFORMATION (continued)

3. Employee retirement plans (continued)

Police Employees' Pension Plan

The City of West Melbourne Police Retirement Plan ("Police Employees' Plan") is a single-employer defined benefit pension plan. The Plan is administered by a five-member Board of Trustees (two West Melbourne citizens appointed by the City Council, two plan participants selected by the plan membership, and a fifth board member selected by the other four board members and confirmed by the City Council as a ministerial action). The Plan does not issue a stand-alone financial report.

Basis of Accounting. The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Description of Benefits. Benefits under the plan are established in accordance with requirements of City Ordinance and Florida Statutes Chapter 185. Benefit provisions may be amended by the City Council but may not be reduced below the minimum specified by statute. During the year, the City amended the plan to include overtime payments, with a limit of 300 hours of overtime per year, and differential wages for members deployed to active duty.

The Plan provides retirement, death and disability benefits to plan members and beneficiaries. Retirement benefits vest with the participants based on years of credited service at 20% per year after six years with full vesting provided after ten years. Employees qualifying for normal retirement are entitled to monthly benefits based on 3% of average final compensation times years of service plus \$10 per year of service. Generally, normal retirement occurs at attained age 55, or with 25 years of service, regardless of age. Early retirement benefits are available at attained age 50 and 10 years of service using reduced benefit formulas.

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
 September 30, 2009

NOTE D - OTHER INFORMATION (continued)

3. Employee retirement plans (continued)

Police Employees' Pension Plan (continued)

Service incurred disability benefits are available to employees with no vesting period and provide monthly income (as defined by the plan payable until death or recovery). Non-service incurred disability benefits (available to employees with ten years of plan participation) provide monthly income (as defined by the plan) payable until death or recovery. In the event of death, the Plan provides for a 10 year certain and life annuity benefit equal to the participant's contribution account on the date of death.

Optional forms of benefits are available and may be elected by the employee as provided in the Plan.

Employee Coverage. Membership in the Police Employees' Plan is comprised of the following as of September 30, 2009:

Group	Police Employee
Retirees and beneficiaries currently receiving benefits	6
Terminated employees entitled to benefits but not yet receiving them	2
Actively employed participants	35
Totals	<u>43</u>

Contributions. The contribution requirements of plan members and the City are established and may be amended by the City Council. Plan members are required to contribute 8.44% of gross pay for the year ended September 30, 2009 and thereafter. The City is required to contribute an actuarially determined amount which was \$294,210 and includes Chapter 185 revenue for the year ended September 30, 2009. The City actually contributed \$340,126, which includes \$94,583 contributed by the State of Florida and represents state shared revenue that is levied on property and casualty insurance premiums and collected by the State. The State contribution was recognized and recorded in the general fund and the corresponding expenditure was recorded as public safety expenditure. Administrative costs are financed through investment earnings.

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE D - OTHER INFORMATION (continued)

3. Employee retirement plans (continued)

Police Employees' Pension Plan (continued)

Annual Pension Cost and Net Pension Obligation. The annual required contribution for the current year was determined as part of the October 1, 2007, actuarial valuation using the frozen entry age cost method. The actuarial assumptions included (a) 8.25% investment rate of return net of administrative costs and (b) projected salary increase of 6.0% per year (including inflation at 4.0%). The actuarial value of assets was determined on a market value basis. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at October 1, 2007, was twenty-eight years. The annual pension cost for the year ended September 30, 2009 was \$296,845, which is calculated as the annual required contribution of \$294,210, less interest on the net pension obligation of \$3,799, plus an adjustment to the annual required contribution of \$6,434.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision based on actual experience.

Three Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
2009	296,845	106.30%	(64,302)
2008	292,521	99.60%	(46,051)
2007	252,690	99.80%	(47,302)

There is also a schedule of funding progress following the notes to financial statements that provides multi-year trend data to help determine whether net plan assets are increasing or decreasing overtime.

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE D - OTHER INFORMATION (continued)

3. Employee retirement plans (continued)

Combining Fund Information

	General Employees Pension Trust Fund	Police Employees Pension Trust Fund	Total
ASSETS			
Interest receivable	\$ -	\$ 15,971	\$ 15,971
Contribution receivable:			
Plan members	2,354	5,493	7,847
Employer	-	155,242	155,242
Investments:			
Mutual funds	1,522,869	4,461,404	5,984,273
Participant loans	136,867	-	136,867
Total assets	1,662,090	4,638,110	6,300,200
LIABILITIES			
NET ASSETS			
Held in trust for pension benefits	\$ 1,662,090	\$ 4,638,110	\$ 6,300,200
ADDITIONS			
Contributions:			
Plan members	\$ 13,116	\$ 139,424	\$ 152,540
Employer	52,465	340,126	392,591
Total contributions	65,581	479,550	545,131
Investment income earnings			
Net appreciation (depreciation) in fair value of investments	2,662	(105,673)	(103,011)
Interest	4,828	131,086	135,914
Total investment earnings	7,490	25,413	32,903
Total additions	73,071	504,963	578,034
DEDUCTIONS			
Benefit payments	211,365	144,403	355,768
Administrative expenses	8,409	4,153	12,562
Total deductions	219,774	148,556	368,330
Change in net assets	(146,703)	356,407	209,704
Net assets, beginning of year	1,808,793	4,281,703	6,090,496
Net assets, end of year	\$ 1,662,090	\$ 4,638,110	\$ 6,300,200

City of West Melbourne, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE D - OTHER INFORMATION (continued)

4. Concentration - water supply

The City purchases substantially all of its residents' water needs from the City of Melbourne, Florida under an agreement dated July 11, 1978 and amended February 4, 1997. Management believes it will be able to continue purchasing water from the City of Melbourne, Florida, sufficient to meet all of its residents' water needs, for the foreseeable future.

NOTE E - SUBSEQUENT EVENT

1. GASB 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

Many state and local governmental employers provide other postemployment benefits ("OPEB") as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits such as life insurance when provided separately from a pension plan. GASB 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Phase 3 governments, for the purpose of implementation, are those governments with total annual revenues of less than \$10 million. The phase 3 governments are required to implement GASB 45 in their financial statements for periods beginning after December 15, 2008. As of the date of the auditor's report, the effects of the new pronouncement are not quantifiable for disclosure purposes.

2. Bond Issuance

On June 1, 2010, the City Council adopted Resolution No. 2010-19 authorizing participating in a pooled bond issuance through the Florida League of Cities to finance the Minton Water Main Project for approximately \$3,800,000. The bonds were sold on August 13, 2010 with the close date occurring August 25, 2010.

3. Evaluating subsequent events

The City has evaluated subsequent events through August 19, 2010 the date which the financial statements were issued.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX J

SPECIMEN BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL
SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

