

NOTICE RE OFFICIAL STATEMENT

FOR

\$18,145,000

**FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE REFUNDING BONDS,
SERIES 2005B**

Date of Notice: May 20, 2005

The "Ratings" section in the final official statement (the "OS") dated May 5, 2005 for the above-referenced bonds misstates the underlying rating assigned to the bonds by S&P. The OS should state that S&P has assigned a rating of "A-" to the Bonds without regard to the insurance policy. Set out below is a revised "Ratings" section which replaces the "Ratings" section which appears on page 23 of the OS.

RATINGS

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that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of either or both of the rating agencies, circumstances so warrant.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

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

\$18,145,000
FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE REFUNDING BONDS,
SERIES 2005B

Dated: Date of Delivery

Due: November 1, as shown on the inside cover

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

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

The proceeds to be received by the Issuer from the sale of the Bonds will be used by the Issuer to make loans (the "Loans") to six State of Florida municipalities (City of Destin, Town of Eatonville, City of Haines City, Town of Melbourne Beach, City of Plant City, and City of Seminole) (collectively referred to as the "Borrowers") pursuant to loan agreements between the Issuer and each of the Borrowers (the "Loan Agreements") for the purposes of (i) providing funds to refinance a portion of certain loans made to the Borrowers by the Issuer and thereby refund a portion of the Issuer's Revenue Bonds, Series 1999B and (ii) paying costs and expenses related to the issuance of the Bonds, including the premiums for the municipal bond insurance policy and debt service reserve fund surety bond.

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

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

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



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

The Bonds are offered when, as, and if issued and received by the Underwriter, subject to the approval of legality and tax-exempt status by Bryant Miller & Olive P.A., Tampa, Florida, Bond Counsel. Certain legal matters will be passed upon for the Issuer by its counsel Craig A. Conn, Esq. counsel to the Issuer, as assistant general counsel to the Florida League of Cities, Inc., for the Insurer by its counsel Kutak Rock, LLP, Omaha, Nebraska, and for the Underwriter by its counsel, Moyle, Flanigan, Katz, Raymond & Sheehan, P.A., West Palm Beach, Florida. Waters and Company, LLC, Birmingham, Alabama has served as financial advisor to the Issuer in connection with the Bonds. Florida League of Cities, Inc. is the administrator of the Issuer's Bond program. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about May 26, 2005.

Banc of America Securities LLC

AMOUNTS, MATURITIES, INTEREST RATES AND PRICES

\$6,785,000 Serial Bonds

Maturity (November 1)	<u>Amount</u>	Interest <u>Rate</u>	<u>Price</u>
2005	\$ 70,000	3.000%	100.082%
2006	160,000	3.000	100.207
2007	165,000	3.000	100.138
2008	165,000	3.250	100.612
2009	185,000	3.500	101.435
2010	1,260,000	3.250	99.702
2011	1,295,000	3.375	99.626
2012	1,055,000	3.400	98.961
2013	805,000	3.500	98.703
2014	830,000	3.600	98.503
2015	795,000	4.000	100.847

\$4,210,000 5.000% Term Bonds Due November 1, 2020 - Price 106.872%

\$3,560,000 5.000% Term Bonds Due November 1, 2025 - Price 105.229%

\$3,590,000 5.000% Term Bonds Due November 1, 2029 - Price 104.122%

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

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

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

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

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

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OFFICIAL STATEMENT

Relating To

\$18,145,000

FLORIDA MUNICIPAL LOAN COUNCIL

Revenue Refunding Bonds

Series 2005B

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 \$18,145,000 Florida Municipal Loan Council Revenue Refunding Bonds, Series 2005B (the "Bonds") to be issued by the Florida Municipal Loan Council (the "Issuer").

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

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

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

The Bonds are being issued to provide funds to make loans to six municipalities of the State of Florida further described herein. The proceeds to be received by the Issuer from the sale of the Bonds will be loaned to the State of Florida municipalities of the City of Destin, the Town of Eatonville, the City of Haines City, the Town of Melbourne Beach, the City of Plant City, and the City of Seminole (collectively, the "Borrowers," and individually, a "Borrower") pursuant to Loan Agreements, dated as of May 1, 2005, between the Issuer and each Borrower (collectively, the "Loan Agreements"). Each Borrower will use proceeds of the loan made to it by the Issuer (a "Loan") to refinance a portion of a loan previously made to it by the Issuer from the proceeds of the Issuer's Revenue Bonds, Series 1999B (the "1999B Bonds"), and thereby provide for the refunding of the Refunded Bonds (hereinafter defined) and to pay a proportionate share of the costs of issuance of the Bonds. The "Refunded Bonds" are those 1999B Bonds maturing on and after November 1, 2010. After the issuance of the Bonds, a portion of the 1999B Bonds will remain outstanding in the principal amount of \$4,660,000, and each of the Borrowers will remain obligated for its portion of the debt service thereon pursuant to its loan agreement with the Issuer executed in connection with the 1999B Bonds.

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

or any other amount payable with respect to, a Loan made to a different Borrower. The Basic Payments for each Borrower are set forth herein under the caption "Debt Service Requirements."

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

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

Each Borrower 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.

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

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

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

There follow in this Official Statement descriptions of the Bonds, the Issuer, the Insurer, the Borrowers and certain other matters. The descriptions and information contained herein do not purport to be complete, comprehensive, or definitive, and all references herein to documents or reports are qualified in their entirety by reference to the complete text of such documents or reports. Copies of documents and reports referred to herein that are not included in their entirety herein may be obtained from the Underwriter at 1640 Gulf-to-Bay Boulevard, FL2-020-01-04, Clearwater, Florida 33755 prior to delivery of the Bonds and thereafter from the Trustee upon payment of any required fee. Unless otherwise defined herein, terms used in capitalized form in this Official Statement shall have the same meanings as in the Indenture. See Appendices C and D for definitions of certain terms used in this Official Statement.

THE BONDS

General Description

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

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

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

Redemption Provisions

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

Scheduled Mandatory Redemption. The Bonds maturing on November 1, 2020 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 November 1, 2016 and on each November 1 thereafter, in the following principal amounts in the following years:

Year	Principal Amount
2016	\$835,000
2017	870,000
2018	920,000
2019	965,000
2020*	620,000

*Maturity, not a redemption.

The Bonds maturing on November 1, 2025 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 November 1, 2021 and on each November 1 thereafter, in the following principal amounts in the following years:

Year	Principal Amount
2021	\$645,000
2022	675,000
2023	715,000
2024	740,000
2025*	785,000

*Maturity, not a redemption.

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

Year	Principal Amount
2026	\$830,000
2027	875,000
2028	915,000
2029*	970,000

*Maturity, not a redemption.

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

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

To the extent that one or more Loan or Loans, but not all Loans, are being accelerated, the Bonds to be redeemed shall be selected by the Trustee by lot or in such other manner as the Issuer in its discretion may deem appropriate, provided, however, that only such Bonds which correspond in terms of amount and

scheduled maturity date to the principal loan payment obligations of the Loan or Loans being accelerated are subject to such extraordinary mandatory redemption, and provided further that, in the event the Liquidation Proceeds are not sufficient to redeem all such corresponding Bonds, the portion of the corresponding Bonds to be so redeemed shall be selected on a pro-rata basis based upon the ratio of Liquidation Proceeds to the total amount of Bonds which corresponds to the Loan or Loans being accelerated.

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

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

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

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

Effect of Calling for Redemption. On the redemption date, the principal amount of each Bond to be redeemed, together with the accrued interest thereon to such date, shall become due and payable; and from and after such date, notice (if required) having been given and moneys available for such redemption being on deposit with the Trustee in accordance with the provisions of the Indenture, then notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any of such Bonds or portions thereof to be redeemed. From and after such date of redemption (such notice having been given and moneys available solely for such redemption being on deposit with the Trustee), the Bonds or portions thereof to be redeemed shall not be deemed to be Outstanding under the Indenture and the Issuer shall be under no further liability in respect thereof.

Book-Entry Only System

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

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

registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC or with the Trustee on behalf of DTC.

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

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

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

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

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults and proposed

amendments to Bond documents. Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

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

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

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

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

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

THE ISSUER

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

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

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

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

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

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

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

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

THE ADMINISTRATOR AND THE ADMINISTRATION AGREEMENT

The Administrator

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

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

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

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

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

The Administration Agreement

The Issuer and the Administrator have entered into an ongoing Administration Agreement (the "Administration Agreement"). Under the terms of the Administration Agreement, the Administrator agrees to receive and review applications of municipalities and counties to participate in the Program and to forward the same to any institutions as may be providing credit support for the Program. The Administrator agrees to meet with representatives of applicants and to aid applicants in determining whether to participate in the Program. The Administrator agrees to abide by the terms of the Indenture and to use its best efforts to ensure that the Loans comply with the terms of the Indenture. Under the terms of the Administration Agreement, the Administrator is to be paid a semi-annual fee based upon the principal balance of all Loans outstanding. The annual amount of the fee does not exceed 1/10 of one percent of the par amount of the Loans outstanding, and based upon the original par amount at issuance for each individual Loan, the fee decreases as a percentage as the par amount increases above certain levels.

THE BORROWERS

CERTAIN OF THE INFORMATION HEREIN REGARDING THE BORROWERS IS BEYOND THE KNOWLEDGE OF THE ISSUER. WHILE THE ISSUER HAS NO REASON TO BELIEVE THAT SUCH INFORMATION IS INCOMPLETE OR INACCURATE, THE ISSUER HAS NOT INDEPENDENTLY INVESTIGATED OR CONFIRMED THE ACCURACY OR COMPLETENESS

THEREOF AND HAS INCLUDED SUCH INFORMATION IN THIS OFFICIAL STATEMENT IN RELIANCE UPON THE REPRESENTATION AND WARRANTY OF THE RESPECTIVE BORROWERS THAT SUCH INFORMATION DOES NOT CONTAIN ANY UNTRUE STATEMENT OF A MATERIAL FACT AND DOES NOT OMIT TO STATE ANY MATERIAL FACT NECESSARY IN ORDER TO MAKE THE STATEMENTS MADE HEREIN, IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY ARE MADE, NOT MISLEADING.

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

The City of Destin - The City of Destin is located in Okaloosa County, Florida and was incorporated in 1984. The City of Destin has an estimated population of approximately 12,000 people.

The Town of Eatonville - The Town of Eatonville is located in Orange County, Florida and was incorporated in 1887. The Town of Eatonville has an estimated population of approximately 2,600 people.

The City of Haines City - The City of Haines City is located in Polk County, Florida and was incorporated in 1914. The City of Haines City has an estimated population of approximately 13,500 people.

The Town of Melbourne Beach - The Town of Melbourne Beach is located in Brevard County, Florida and was incorporated in 1883. The Town of Melbourne Beach has an estimated population of approximately 3,000 people.

The City of Plant City - The City of Plant City is located in Hillsborough County, Florida and was incorporated in 1927. The City of Plant City has an estimated population of approximately 30,000 people.

The City of Seminole - The City of Seminole is located in Pinellas County, Florida and was incorporated in 1970. The City of Seminole has an estimated population of approximately 18,000 people.

PURPOSE OF THE BONDS

In General

The proceeds to be received by the Issuer from the sale of the Bonds will be used by the Issuer to make Loans to the Borrowers for the purpose of providing funds to (i) refinance portions of loans previously made to the Borrowers by the Issuer from the proceeds of the Issuer's Revenue Bonds, Series 1999B (the "1999B Bonds"), and thereby provide for the refunding of the Refunded Bonds and (ii) pay costs and expenses related to the issuance of the Bonds, including the premiums for the Bond Insurance Policy and the Debt Service Reserve Fund Surety Bond described below.

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

City of Destin - The City of Destin is borrowing the proceeds of \$6,875,000.00 principal amount of the Bonds (which inclusive of net original issue premium is \$7,147,146.40). The Destin Loan is expected to be repaid over a period of 24 years.

Town of Eatonville - The Town of Eatonville is borrowing the proceeds of \$1,405,000.00 principal amount of the Bonds (which inclusive of net original issue premium is \$1,445,111.90). The Eatonville Loan is expected to be repaid over a period of 24 years.

City of Haines City - The City of Haines City is borrowing the proceeds of \$3,355,000.00 principal amount of the Bonds (which inclusive of net original issue premium is \$3,488,907.35). The Haines City Loan is expected to be repaid over a period of 24 years.

Town of Melbourne Beach - The Town of Melbourne Beach is borrowing the proceeds of \$1,620,000.00 principal amount of the Bonds (which inclusive of net original issue premium is \$1,684,704.20). The Melbourne Beach Loan is expected to be repaid over a period of 24 years.

City of Plant City - The City of Plant City is borrowing the proceeds of \$3,180,000.00 principal amount of the Bonds (which inclusive of net original issue premium is \$3,265,629.70). The Plant City Loan is expected to be repaid over a period of 14 years.

City of Seminole - The City of Seminole is borrowing the proceeds of \$1,710,000.00 principal amount of the Bonds (which inclusive of net original issue discount is \$1,705,532.85). The Seminole Loan is expected to be repaid over a period of 7 years.

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

The Refunding Program

A portion of the proceeds derived from the sale of the Bonds, together with certain funds on deposit in various funds and accounts established in connection with the Refunded Bonds, will be used to refund all of the Refunded Bonds. The Bonds are being issued for the purpose of achieving present value debt service savings.

The money required to refund the Refunded Bonds will be deposited in a trust fund (the "Escrow Deposit Trust Fund") created under an escrow deposit agreement (the "Escrow Deposit Agreement") to be entered into between the Issuer and Wachovia Bank, National Association (the "Escrow Agent"). Amounts in the Escrow Deposit Trust Fund shall be applied by the Escrow Agent to the purchase of certain direct obligations of the United States of America, the maturing principal of and interest on which, together with any cash balance, will provide money sufficient to pay the maturing principal of, redemption premium and interest on the Refunded Bonds and to redeem on their respective first callable dates, all of the Refunded Bonds. Upon making the deposit of such funds with the Escrow Agent, the Issuer will have effected the defeasance of the Refunded Bonds. Amounts held in the Escrow Deposit Trust Fund will be used only to pay the Refunded Bonds, and will not be available for payment of debt service on the Bonds.

Estimated Sources and Uses

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

SOURCES OF FUNDS:	
Par Amount	\$18,145,000.00
Net Original Issue Premium	592,032.40
Equity Contribution by City of Seminole	<u>1,018,283.87</u>
 TOTAL SOURCES:	 \$19,755,316.27
USES OF FUNDS:	
Deposit to Escrow Deposit Trust Fund	\$19,364,178.19
Costs of Issuance(1)	<u>\$391,138.08</u>
 TOTAL USES:	 \$19,755,316.27

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

SECURITY AND SOURCES OF PAYMENT

Limited Obligations; Trust Estate

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

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

Each Borrower 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.

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

Reserve Fund

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

The Debt Service Reserve Fund Surety Bond also serves as the reserve fund for the Issuer's (i) Revenue Bonds, Series 2001A, issued November 15, 2001, and outstanding as of the date of this Official Statement in the principal amount of \$80,895,000, (ii) Revenue Bonds, Series 2002A, issued May 17, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$45,330,000, (iii) Revenue Bonds, Series 2002B, issued August 15, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$66,385,000, (iv) Revenue Bonds, Series 2002C, issued November 22, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$25,235,000, (v) Revenue Bonds, Series 2003A, issued May 16, 2003, and outstanding as of the date of this Official Statement in the principal amount of \$73,910,000, (vi) Revenue Bonds, Series 2003B, issued December 17, 2003, and outstanding as of the date of this Official Statement in the principal amount of \$45,545,000 (vii) Revenue Bonds, Series 2004A-1, issued July 14, 2004, and outstanding as of the date of this Official Statement in the principal amount of \$15,585,000, (viii) Revenue Bonds, Series 2004A-2, issued July 14, 2004, and outstanding as of the date of this Official Statement in the principal amount of \$15,650,000 and (ix) Revenue Bonds, Series 2005A, issued February 15, 2005, and outstanding as of the date of this Official Statement in the principal amount of \$55,630,000. The Insurer has also issued financial guaranty insurance policies with respect to these prior bonds of the Issuer.

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

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

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

for Payment presented by the Issuer or the Trustee to the Insurer, the Insurer will make a deposit of funds in an account with the Trustee sufficient for the payment of amounts which are then due to the Trustee (as specified in the Demand for Payment, subject to the Debt Service Reserve Fund Surety Bond coverage).

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

Under the terms of the Agreement, the Trustee is required to reimburse the Insurer, from the funds supplied to the Trustee, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated. No optional redemption of Bonds corresponding to a Loan with respect to which a draw has been made under the Debt Service Reserve Fund Surety Bond may be made until the Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond is provided as an alternative to the Issuer depositing funds in the Reserve Fund. The Debt Service Reserve Fund Surety Bond has already been issued in the face amount of \$15,917,250 and the premium therefor has been previously paid. At the time of issuance of the Bonds, the face amount of the Debt Service Reserve Fund Surety Bond will be increased by \$907,250 to \$16,824,500, and the premium for such increase will be paid by the Issuer at the time of delivery of the Bonds.

Anti-Dilution Covenant

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

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

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

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

Additional Bonds; Permitted Parity Indebtedness

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

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

The Covenants to Budget and Appropriate

In General. In each 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.

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.

Financial Statements of the Borrowers

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

FINANCIAL GUARANTY INSURANCE

General

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

Financial Guaranty Insurance

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

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

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

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

Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

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

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

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and

(iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2004, MBIA had admitted assets of \$10.3 billion (unaudited), total liabilities of \$6.9 billion (unaudited), and total capital and surplus of \$3.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

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

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

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

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

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

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

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DEBT SERVICE REQUIREMENTS

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

Year Ending November 1 (Inclusive)	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Debt Service</u>
2005	\$ 70,000.00	\$345,335.15	\$415,335.15
2006	160,000.00	799,968.80	959,968.80
2007	165,000.00	795,168.80	960,168.80
2008	165,000.00	790,218.80	955,218.80
2009	185,000.00	784,856.30	969,856.30
2010	1,260,000.00	778,381.30	2,038,381.30
2011	1,295,000.00	737,431.30	2,032,431.30
2012	1,055,000.00	693,725.00	1,748,725.00
2013	805,000.00	657,855.00	1,462,855.00
2014	830,000.00	629,680.00	1,459,680.00
2015	795,000.00	599,800.00	1,394,800.00
2016	835,000.00	568,000.00	1,403,000.00
2017	870,000.00	526,250.00	1,396,250.00
2018	920,000.00	482,750.00	1,402,750.00
2019	965,000.00	436,750.00	1,401,750.00
2020	620,000.00	388,500.00	1,008,500.00
2021	645,000.00	357,500.00	1,002,500.00
2022	675,000.00	325,250.00	1,000,250.00
2023	715,000.00	291,500.00	1,006,500.00
2024	740,000.00	255,750.00	995,750.00
2025	785,000.00	218,750.00	1,003,750.00
2026	830,000.00	179,500.00	1,009,500.00
2027	875,000.00	138,000.00	1,013,000.00
2028	915,000.00	94,250.00	1,009,250.00
2029	<u>970,000.00</u>	<u>48,500.00</u>	<u>1,018,500.00</u>
Total	\$18,145,000.00	\$11,923,670.45	\$30,068,670.45

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

Year Ending November 1 (inclusive)	City of <u>Destin</u>	Town of <u>Eatonville</u>	City of <u>Haines City</u>	Town of Melbourne <u>Beach</u>	City of <u>Plant City</u>	City of <u>Seminole</u>
2005	\$ 167,749.25	\$ 26,430.19	\$ 67,367.95	\$ 32,533.32	\$ 56,973.80	\$ 64,280.64
2006	349,033.76	71,386.26	171,467.50	80,561.26	157,326.26	130,193.76
2007	348,133.76	71,086.26	171,017.50	80,411.26	156,576.26	132,943.76
2008	347,233.76	70,786.26	170,567.50	80,261.26	155,826.26	130,543.76
2009	351,258.76	70,461.26	170,080.00	85,098.76	160,013.76	132,943.76
2010	535,033.76	150,111.26	259,555.00	129,748.76	388,963.76	574,968.76
2011	532,883.76	152,186.26	261,142.50	127,961.26	385,513.76	572,743.76
2012	535,290.00	153,980.00	262,430.00	126,105.00	386,570.00	284,350.00
2013	532,300.00	150,580.00	263,520.00	124,235.00	392,220.00	
2014	533,900.00	152,080.00	259,320.00	127,310.00	387,070.00	
2015	534,900.00	88,300.00	260,000.00	125,150.00	386,450.00	
2016	534,500.00	86,500.00	265,000.00	127,750.00	389,250.00	
2017	531,000.00	84,250.00	263,250.00	129,500.00	388,250.00	
2018	532,000.00	87,000.00	266,250.00	126,000.00	391,500.00	
2019	532,250.00	84,500.00	263,750.00	127,500.00	393,750.00	
2020	536,750.00	82,000.00	261,000.00	128,750.00		
2021	535,250.00	79,500.00	258,000.00	129,750.00		
2022	533,000.00	82,000.00	259,750.00	125,500.00		
2023	535,000.00	84,250.00	261,000.00	126,250.00		
2024	531,000.00	81,250.00	261,750.00	121,750.00		
2025	536,250.00	83,250.00	262,000.00	122,250.00		
2026	535,250.00	85,000.00	261,750.00	127,500.00		
2027	538,250.00	86,500.00	261,000.00	127,250.00		
2028	535,000.00	82,750.00	264,750.00	126,750.00		
2029	<u>540,750.00</u>	<u>84,000.00</u>	<u>267,750.00</u>	<u>126,000.00</u>		
Total	\$12,253,966.81	\$2,330,137.75	\$5,993,467.95	\$2,891,875.88	\$4,576,253.86	\$2,022,968.20

TAX MATTERS

General

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

In the opinion of Bond Counsel, assuming compliance with the aforementioned covenants, under existing laws, regulations, judicial decisions and rulings, interest on the Bonds is excluded from gross income for purposes of Federal income taxation. Interest on the Bonds is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals or corporations; however, interest on the Bonds may be subject to the alternative minimum tax when any Bond is held by a corporation. The alternative minimum taxable income of a corporation must be increased by 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (before this adjustment

and the alternative tax net operating loss deduction). "Adjusted Current Earnings" will include interest on the Bonds. In addition, in the opinion of Bond Counsel the Bonds are exempt from all present intangible personal property taxes imposed pursuant to Chapter 199, Florida Statutes.

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

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

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

Tax Treatment of Bond Premium

The Bonds maturing in the years 2005 through 2009, 2015, 2020 2025 and 2029, were offered at a price in excess of the principal amount thereof. Under the Code, the excess of the cost basis of a bond over the principal amount of the bond (other than for a bondholder who holds a bond as inventory, stock in trade, or for sale to customers in the ordinary course of business) is generally characterized as "bond premium." For federal income tax purposes, bond premium is amortized over the term of the bonds. A bondholder will therefore be required to decrease his basis in the Bonds by the amount of the amortizable bond premium attributable to each taxable year he holds such Bond. The amount of the amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes.

In addition, the Bonds maturing in the years 2020, 2025 and 2029 were offered at prices in excess of the principal amount thereof to achieve a yield based upon the date on which such Bonds are subject to optional redemption by the Issuer (the "Call Date") rather than the maturity date (the "Callable Premium Bonds"). Under the Code, the excess of the cost basis of a Callable Premium Bond over the amount payable at the Call Date of the Callable Premium Bond that minimizes the yield to a purchaser of a Callable Premium Bond (the "Lowest Yield Call Date") (other than for a bondholder who holds a bond as inventory, stock in

trade, or for sale to customers in the ordinary course of business) is generally characterized as “bond premium.” For federal income tax purposes, bond premium is amortized over the period to the Lowest Yield Call Date of a Callable Premium Bond. A bondholder will therefore be required to decrease his basis in the Callable Premium Bond by the amount of the amortizable bond premium attributable to each taxable year he holds such Callable Premium Bond. The amount of the amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes.

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

Tax Treatment of Original Issue Discount

Under the Code, the difference between the principal amount of the Bonds maturing in the years 2010 through 2014 and the initial offering price to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers, at which price a substantial amount of the Bonds of the same maturity was sold is “original issue discount.” Original issue discount will accrue over the term of such Bonds at a constant interest rate compounded periodically. A purchaser who acquires such Bonds in the initial offering at a price equal to the initial offering price thereof to the public will be treated as receiving an amount of interest excludable from gross income for federal income tax purposes equal to the original issue discount accruing during the period he holds such Bonds, and will increase his adjusted basis in such Bonds by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Bonds. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of the Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those above. Owners of such Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale, redemption or other disposition of Bonds and with respect to the state and local tax consequences of owning and disposing of such Bonds.

LITIGATION

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

On the date of delivery of the Bonds, counsel to the Issuer will render an opinion that there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending, or to the best of his knowledge, after due inquiry of the Issuer, threatened against or affecting the Issuer, wherein an unfavorable decision, ruling or finding would adversely affect the validity of the Bonds, the Indenture, the Escrow Deposit Agreement or the Loan Agreements.

VALIDATION

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

LEGAL MATTERS

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

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

RATINGS

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

UNDERWRITING

Banc of America Securities LLC, the Underwriter, has agreed, subject to certain customary conditions precedent, to purchase the Bonds at a price of \$18,628,343.85 (which includes net original issue premium of \$592,032.40 and underwriter's discount of \$108,688.55), and to reoffer the Bonds at the prices shown on the inside cover hereof. If obligated to purchase any of the Bonds, the Underwriter will be obligated to purchase all of the Bonds. The initial public offering prices may be changed from time to time by the Underwriter.

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds. Depending upon prevailing market conditions, including the financial condition or market positions of firms

which may make the secondary market, evaluation of the Borrowers' capabilities and the financial condition and results of their operations, there may not be a secondary market for the Bonds from time to time, and investors in the Bonds may be unable to divest themselves of their interests therein.

FINANCIAL ADVISOR TO THE ISSUER

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of (i) the mathematical computation of the adequacy of the maturing principal amount of and interest on the investments and cash, if any, to be held by the Escrow Agent to pay, when due, the principal of, premium and interest on the Refunded Bonds to the dates of their maturities or earlier redemption and (ii) the mathematical computation of yields on the Bonds and the proceeds thereof has been verified by Causey, Demgem & Moore, Inc., independent certified public accountants, whose report with respect thereto will be available upon delivery of the Bonds.

CONTINUING DISCLOSURE

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

ENFORCEABILITY OF REMEDIES

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

MISCELLANEOUS

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

FLORIDA MUNICIPAL LOAN COUNCIL

By: /s/ Raul Martinez
Its Chairman

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APPENDIX A

CONTINUING DISCLOSURE AGREEMENT FOR BORROWERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Insurer" means MBIA Insurance Corporation.

"Issuer" means Florida Municipal Loan Council.

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

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

"MSRB" means the Municipal Securities Rulemaking Board.

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

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

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

"Participating Underwriter" means Banc of America Securities LLC.

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

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

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

"SEC" means the Securities and Exchange Commission.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

_____, as Borrower

By: _____

Its: _____

FLORIDA LEAGUE OF CITIES, INC.,
as Dissemination Agent

By: _____

Its: _____

EXHIBIT A

Form of Annual Report Certificate

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

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

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

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

_____, as Borrower

By: _____

Its: _____

Acknowledgment of Receipt:

as Dissemination Agent

By: _____

Its: _____

EXHIBIT B

Form of Section 5(a) Continuing Disclosure Certificate

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

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

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

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

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

(a) Financial Information _____

(b) Operating Data _____

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

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

_____, as Borrower

By: _____

Its: _____

Acknowledgment of Receipt:

Florida League of Cities, Inc., as
Dissemination Agent

By: _____

Its: _____

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APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT FOR THE ISSUER

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Insurer" means MBIA Insurance Corporation.

"Issuer" means Florida Municipal Loan Council.

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

"MSRB" means the Municipal Securities Rulemaking Board.

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

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

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

"Participating Underwriter" means Banc of America Securities LLC.

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

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

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

"SEC" means the Securities and Exchange Commission.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FLORIDA MUNICIPAL LOAN COUNCIL,
as Issuer

By: _____
Its: Chairman

FLORIDA LEAGUE OF CITIES, INC.,
as Dissemination Agent

By: _____
Its: Executive Director

EXHIBIT A

Form of Annual Report Certificate

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

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

2. Annual Report. Accompanying this Annual Report Certificate is the Annual Report for the Fiscal Year ended _____.

3. Compliance with Continuing Disclosure Agreement. The Annual Report is being delivered to the Dissemination Agent herewith not later than 270 days after the end of the Fiscal Year to which the Annual Report relates. The Annual Report contains, or includes by reference, Financial Information and Operating Data of the types identified in the Continuing Disclosure Certificate most recently delivered to the Dissemination Agent pursuant to Section 5 of the Master Continuing Disclosure Agreement. To the extent any such Financial Information or Operating Data is included in the Annual Report by reference, any document so referred to has been previously provided to the Repositories or filed with the SEC or, in the case of a reference to a Final Official Statement, has been filed with the MSRB.

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

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

FLORIDA MUNICIPAL LOAN COUNCIL,
as Issuer

By: _____

Its: _____

Acknowledgment of Receipt:

as Dissemination Agent

By: _____

Its: _____

EXHIBIT B

Form of Section 5(a) Continuing Disclosure Certificate

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

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

1. Definitions. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Continuing Disclosure Agreement.
2. Purpose. The Issuer is delivering this Continuing Disclosure Certificate to the Dissemination Agent pursuant to Section 5(a) of the Continuing Disclosure Agreement.
3. Written Undertaking. On behalf of the Issuer, the Issuer hereby designates the Continuing Disclosure Agreement to be the written undertaking under paragraph (b)(5) of the Rule with respect to the \$ _____ Florida Municipal Loan Council Revenue Refunding Bonds, Series 2005B.
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 May, 2005.

FLORIDA MUNICIPAL LOAN COUNCIL,
as Issuer

By: _____
Its: Chairman

Acknowledgment of Receipt:

FLORIDA LEAGUE OF CITIES, INC.,
as Dissemination Agent

By: _____
Its: Executive Director

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APPENDIX C

FORM OF TRUST INDENTURE

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

WITNESSETH:

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

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

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

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

WHEREAS, the Council has previously issued its \$26,245,000 Florida Municipal Loan Council Revenue Bonds, Series 1999B; and

WHEREAS, the Council hereby desires to refund the Refunded Bonds; and

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

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

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

NOW, THEREFORE, THIS TRUST INDENTURE

WITNESSETH:

GRANTING CLAUSES

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

GRANTING CLAUSE FIRST

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

GRANTING CLAUSE SECOND

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

GRANTING CLAUSE THIRD

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

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

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

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

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

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

ARTICLE I

DEFINITIONS AND RULES OF INTERPRETATION

SECTION 1.01. Definitions.

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

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

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

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

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

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

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

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

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

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

“Authorized Representative” means, when used pertaining to the Council, the Chairman of the Council and such other designated members, agents or representatives as may hereafter be selected by Council resolution and, when used with reference to a Borrower which is a

municipality, means the person performing the functions of the Mayor or Deputy or Vice Mayor thereof and, when used with reference to a Borrower which is a County means the person performing the functions of the Chairman or Vice Chairman of the Board of County Commissioners of such Borrowers, and, when used with reference to an act or document, also means any other person authorized by resolution to perform such act or sign such document.

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

“Board” means the governing body of the Borrower.

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

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

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

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

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

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

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

“Bond Year” means a 12-month period beginning on _____, ending on and including the following _____ 1, except for the first period which begins on _____, 200__.

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

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

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

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

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

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

“Council” means the Florida Municipal Loan Council.

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

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

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

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

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

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

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

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

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

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

“Financial Guaranty Agreement” means the agreement of that name dated _____, 200__ between the Council and the Surety Bond Provider, as amended and supplemented from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Interest Payment Date" means May 1 and November 1 of each year, beginning November 1, 2005.

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

"Interlocal Act" means Chapter 163, Part I, Florida Statutes.

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

"Investment Securities" means any of the following investments:

- A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations, the principal of and interest on which are unconditionally guaranteed by the United States of America.
- B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are permitted only if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 2. Farmers Home Administration (FMHA)
Certificates of beneficial ownership
 3. Federal Financing Bank
 4. Federal Housing Administration Debentures (FHA)
 5. General Services Administration
Participation certificates
 6. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA-guaranteed mortgage-backed bonds
GNMA-guaranteed pass-through obligations
(not acceptable for certain cash-flow-sensitive issues.)
 7. U.S. Maritime Administration
Guaranteed Title XI financing
 8. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures-U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds-U.S. government guaranteed public housing notes and bonds
- C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are permitted only if they have been stripped by the agency itself):
1. Federal Home Loan Bank System
Senior debt obligations
 2. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation Certificates
Senior debt obligations
 3. Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations
 4. Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations
 5. Resolution Funding Corp. (REFCORP) obligations

6. Farm Credit System
Consolidated systemwide bonds and notes

- D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m,” or “AAA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2.”
- E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above, Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- F. Certificates of deposit, savings accounts, deposit accounts or money market deposits that are fully insured by FDIC, including BIF and SAIF.
- G. Investment Agreements, including GIC’s, acceptable to the Bond Insurer.
- H. Commercial paper rated, at the time of purchase, “Prime - 1 by Moody’s and “A-1” or better by S&P.
- I. Bonds or notes issued by any state or municipality that are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.
- J. Federal funds or bankers acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unwarranted obligation rating of “Prime - 1,” or “M” or better by Moody’s and “A- 1” or “A” or better by S&P.
- K. Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

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

- 1. Repos must be between the municipal entity and a dealer bank or securities firm
 - a. Primary dealers on the Federal Reserve reporting dealer list that are rated “A” or better by S&P and Moody’s, or
 - b. Banks rated “A” or above by S&P and Moody’s .

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

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

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

“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 October 20, 2005 and thereafter each April 20th and October 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.

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

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

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

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

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

- (a) Bonds canceled after purchase in the open market or because of payment at maturity or redemption prior to maturity;
- (b) Bonds deemed paid under Article VIII hereof; and

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

“Paying Agent” means the Trustee.

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

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

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

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

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

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

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

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

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

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

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

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

“Refunded Bonds” means a portion of the \$26,245,000 Florida Municipal Loan Council Revenue Bonds, Series 1999B Bonds and a portion of the \$30,878,847.50 Florida Municipal Loan Council Revenue Bonds, Series 2000A Bonds.

“Registrar” means the Trustee.

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

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

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

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

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

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

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

“State” means the State of Florida.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE II

THE BONDS

SECTION 2.01. Authorization; Book-Entry System.

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

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

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

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

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

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

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

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

\$ _____ Serial Bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bond Insurer's prior consent; provided however, such prohibition on the use of the Bond Insurer's name shall not relate to the use of the Bond Insurer's standard approved form of disclosure in public documents issued in connection with the current Bonds to be issued in accordance with the terms of the MBIA Commitment; and provided further such prohibition shall not apply to the use of the Bond Insurer's name in order to comply with public notice, public meeting or public reporting requirements.

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 2.10. Nonpresentment of Bonds. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, or if any interest check shall not be cashed, if funds sufficient to pay such Bond or interest shall have been made available by the Council to the Trustee or Paying Agent for the benefit of the Owner thereof, all liability of the Council to the Owner thereof for the payment of such Bond or interest, as the case may be, shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee or Paying Agent to hold such funds, uninvested and without liability for interest thereon, for the benefit of the Owner of such Bond or interest, as the case may be, who shall thereafter be restricted exclusively to such funds for any claim of whatever nature on his part under this Indenture or on, or with respect to, said Bond or interest, as the case may be, provided that any money deposited with the Trustee or Paying Agent for the payment of the principal of (and premium, if any) or interest on any Bond and remaining unclaimed for six years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Council, and the Owner of such Bond or interest, as the case may be, shall thereafter, as an unsecured general creditor, look only to the Council for payment thereof, and all liability of the Trustee or Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Trustee, before making any such payment to the Council, shall, at the expense of the Council, cause to be published once, in a Financial Newspaper or Journal, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be paid to the Council.

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

ARTICLE III

REDEMPTION OF BONDS

SECTION 3.01. Optional Redemption of the Bonds.

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

SECTION 3.02. Mandatory Redemption of Bonds.

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

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

*Maturity

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

<u>Year</u>	<u>Principal Amount</u>
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*Maturity

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

<u>Year</u>	<u>Principal Amount</u>
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*Maturity

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

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

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

redemption shall specify the numbers of the Bonds or portions thereof, including CUSIP identification numbers to be redeemed.

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

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

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

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

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

ARTICLE IV

REVENUES AND FUNDS

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

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

SECTION 4.03. Reserved.

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

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

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

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

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

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

SECTION 4.06. Cost of Issuance Fund. Moneys in the Cost of Issuance Fund shall be used to pay costs of issuing the Bonds to the extent not paid from other sources, which costs may include, all printing expenses in connection with this Indenture, the Loan Agreements, the preliminary and final Official Statements for the Bonds and the Bonds; the underwriter's

discount for the initial purchase of the Bonds; the initial Bond Insurance Policy and Surety Bond premiums; administrative expenses of the Council; and legal fees and expenses of counsel to the Council, bond counsel and counsel to the Bond Insurer and fees of the financial advisor to the Council; fees of the Program Administrator, any accounting expenses incurred in connection with determining that the Bonds are not arbitrage bonds, the Trustee's and the Paying Agent and Registrar's initial fees and expenses (including attorney's fees), upon the submission of requisitions by the Council signed by an officer of the Council stating the amount to be paid, to whom it is to be paid and the reason for such payment, and that the amount of such requisition is justly due and owing and has not been the subject of another requisition which was paid and is a proper expense of issuing such Bonds. Any monies remaining in the Cost of Issuance Fund on _____, 20__ shall be transferred to the Revenue Fund and be credited on a pro rata basis toward each Borrower's obligation to pay Loan interest, taking into consideration the discount at which such Loans were made as specified in Section 3.01 of each Loan Agreement.

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

- (i) In the Cost of Issuance Fund, the total sum of \$ _____; and
- (ii) In an Escrow Deposit Fund _____, the sum of \$ _____.

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

SECTION 4.08. Reserve Fund.

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

The Surety Bond shall secure and satisfy the Reserve Requirement and any other reserve requirement of bonds as listed on Annex A to the Surety Bond. The Trustee may deliver a Demand for Payment in an amount less than or equal to the limit of the Surety Bond. If a Demand for Payment is made on behalf of a Borrower which has an outstanding Loan Agreement relating to the Bonds and other loan agreements relating to the other series of the

Council's bonds, then the Council's reimbursement, from the payments received by such Borrower, to the Surety Bond Provider shall be applied pro-rata to the Reserve Fund and to each reserve fund which secures such other loans. Further, if the Demand for Payment relates to one or more reserve funds from more than one series of bonds, and such Demand for Payment exceeds the limit of the Surety Bond, then the Surety Bond shall be allocated on a pro-rata basis for each reserve fund from each series and for each Borrower.

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

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

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

(i) On the date of each required payment of principal of or interest in respect to the Bonds, moneys in the Reserve Fund or received from a draw on the Surety Bond shall be applied to cure any deficiency in the Principal Fund and the Revenue Fund. The Council agrees that any transfer from the Reserve Fund to the Principal Fund and the Revenue Fund or any proceeds from the Surety Bond deposited into such Funds pursuant to this paragraph shall not be construed as preventing, waiving or curing any nonpayment of any Loan Repayments required under each Loan Agreement until the amount of such deficiency has been restored; and

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

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

SECTION 4.09. Rebate Fund. In order to insure compliance with the rebate provisions of Section 148(f) of the Code, the Council shall create the Rebate Fund. Such Fund

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

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

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

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

ARTICLE V

LOANS

SECTION 5.01. Terms and Conditions of Loans. The Council will make Loans to Borrowers in order to refund or refinance debt incurred by Borrowers, 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.

ARTICLE VI

SERVICING OF LOANS

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

ARTICLE VII

INVESTMENT OF MONEYS

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

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

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

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

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

Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made pursuant to this Article VII.

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

ARTICLE VIII

DISCHARGE OF INDENTURE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IX

DEFAULT PROVISIONS AND REMEDIES OF TRUSTEE AND BONDHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Indenture, and all rights, remedies and powers of the Trustee, the Bond Insurer and Owners of Bonds shall continue as if no such proceedings had been taken.

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

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

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

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

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

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

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

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

ARTICLE X

THE TRUSTEE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 10.03. Notice to Bondholders if Default Occurs Under Indenture. If the Trustee becomes aware of an Event of Default, then the Trustee shall promptly give written notice thereof by registered or certified mail to the Bond Insurer and by first-class mail to the Owners of all Outstanding Bonds affected thereby, as shown by the bond registration books.

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

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

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

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

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

SECTION 10.08. Appointment of Successor Trustee. In case the Trustee hereunder shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by a resolution of the Council, with the consent of the Bond Insurer, or if the Council shall not have appointed a successor Trustee, by filing with the Council an instrument or concurrent instruments in writing signed by Owners of not less than a majority in principal amount of Bonds outstanding, or by their attorneys in fact, duly authorized. Nevertheless, in case of such vacancy, the Bond Insurer may appoint a temporary Trustee to fill such vacancy until a successor to the Trustee shall be appointed in the manner above prescribed; and any such temporary Trustee so appointed by the Bond Insurer shall immediately and without further act be superseded by any Trustee so appointed. Notice of the appointment of a successor Trustee shall be given by the successor Trustee in the same manner as provided by Section 10.06 hereof with respect to the resignation of a Trustee. Every such Trustee appointed pursuant to the provisions of this Section shall be a trust company or bank in good standing having a corporate trust office in the State, having a reported capital and surplus of not less than \$75,000,000 and subject to examination by federal or State authority, if there be such an institution willing, qualified and able to accept the trust upon reasonable or customary terms. The Bond Insurer shall be notified immediately upon the resignation or termination of the Trustee and the appointment of a successor Trustee.

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

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

SECTION 10.11. [Reserved]

SECTION 10.12. Paying Agent. The Council hereby appoints the Trustee as Paying Agent. The Council may, with the approval of the Trustee and the Bond Insurer appoint additional Paying Agents for the Bonds. Each Paying Agent shall designate to the Council and the Trustee its principal office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument of acceptance delivered to the Council under which such Paying Agent will agree, particularly:

(a) to hold all sums received by it for the payment of the principal of or interest on Bonds in trust for the benefit of the Owners of the Bonds until such sums shall be paid to such Owners of the Bonds or otherwise disposed of as herein provided;

(b) to keep such books and records as shall be consistent with prudent industry practice, to make such books and records available for inspection by the Council and the Trustee at all reasonable times; and

(c) upon the request of the Trustee, to forthwith deliver to the Trustee all sums so held in trust by the Paying Agent.

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

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

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

ARTICLE XI

SUPPLEMENTAL INDENTURES

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

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

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

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

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

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

ARTICLE XII

AMENDMENT OF LOAN AGREEMENTS

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

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

SECTION 12.02. Amendments, Etc., Requiring Consent of Bondholders. Except for amendments, changes or modifications provided for in Section 12.01 hereof, neither the Council nor the Trustee shall consent to any amendment, change or modification of any Loan Agreement without the mailing of notice and the written approval or consent of the Bond Insurer and Owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding given and procured as in this Section provided. If at any time the Council and a Borrower shall request the consent of the Trustee to any such proposed amendment, change or modification of a Loan Agreement, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be mailed in the same manner as provided by Section 11.02 hereof with respect to supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file with the Trustee for inspection by all Bondholders. Nothing contained in this Section shall permit, or be construed as permitting, a reduction of the aggregate principal amount of Bonds the Owners of which are required to consent to any amendment, change or modification of a Loan Agreement, a reduction in, or a postponement of, the payments under any Loan Agreement or any changes that affect the exclusion of interest on the Bonds from the gross income of the Holders thereof for purposes of Federal income taxation, without the consent of the Owners of all of the Bonds then Outstanding.

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

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

ARTICLE XIII

GENERAL COVENANTS

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

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

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

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

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

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

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

SECTION 13.07. Tax Covenants.

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

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

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

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

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

SECTION 13.08. Security Interest.

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

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

ARTICLE XIV

MISCELLANEOUS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Remainder of this page intentionally left blank)

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

FLORIDA MUNICIPAL LOAN COUNCIL

(SEAL)

By: _____
Name: Raul Martinez
Title: Chairman

ATTEST:

FLORIDA LEAGUE OF CITIES, INC.,
Program Administrator

By: _____
Name: Michael Sittig
Title: Executive Director

WACHOVIA BANK, NATIONAL
ASSOCIATION, as Trustee

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

APPENDIX D

FORM OF LOAN AGREEMENT

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

WITNESSETH:

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

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

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

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

WHEREAS, the Council has determined that the public interest will best be served and that the purposes of the Interlocal Act can be more advantageously obtained by the Council's issuance of revenue bonds in order to loan funds to the Borrowers to finance or refinance 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 previously entered into that certain Loan Agreement dated as of November 1, 1999; 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 May 1, 2005, between the Council and the Trustee (as defined herein) relating to the Bonds (as hereinafter defined), including any amendments and supplements thereto (the “Indenture”), will assist in the development and maintenance of the public welfare of the residents of the State and the areas served by the Borrower, and shall serve a public purpose by improving the health and living conditions, and providing adequate governmental services, facilities and programs and will promote the most efficient and economical development of such services, facilities and programs in the State; and

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

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

ARTICLE I

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

“Board” means the governing body of the Borrower.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Council” means the Florida Municipal Loan Council.

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

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

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

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

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

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

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

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

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

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

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

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

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

“Interest Payment Date” means May 1 and November 1 of each year, commencing November 1, 2005.

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

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

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

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

“Loan” means the Loan made to the Borrower from Bond proceeds to refinance 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 October 20, 2005, and thereafter each April 20th and October 20th, or if such day is not a Business Day, the next preceding Business Day.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Revenues” means all Loan Repayments paid to the Trustee for the respective accounts of the Borrowers for deposit in the Principal Fund and Revenue Fund to pay principal of, premium, if any, and interest on the Bonds upon redemption, at maturity or upon acceleration of maturity, or to pay interest on the Bonds when due, and all receipts of the Trustee credited to the Borrower under the provisions of this Loan Agreement.

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

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

“State” means the State of Florida.

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

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

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

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

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

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER AND COUNCIL

SECTION 2.01. Representations, Warranties and Covenants. The Borrower and the Council represent, warrant and covenant on the date hereof for the benefit of the Trustee, the Borrower, the Bond Insurer and Bondholders, as applicable, as follows:

(a) Organization and Authority. The Borrower:

(1) is a duly organized and validly existing municipality of the State and is a duly organized and validly existing Borrower; and

(2) has all requisite power and authority to own and operate its properties and to carry on its activities as now conducted and as presently proposed to be conducted.

(b) Full Disclosure. There is no fact that the Borrower knows of which has not been specifically disclosed in writing to the Council and the Bond Insurer that materially and adversely affects or, except for pending or proposed legislation or regulations that are a matter of general public information affecting State of Florida municipalities generally, that will materially affect adversely the properties, activities, prospects or condition (financial or otherwise) of the Borrower or the ability of the Borrower to perform its obligations under this Agreement.

The financial statements, including balance sheets, and any other written statement furnished by the Borrower to the Council, Banc of America Securities LLC, as underwriter of the Bonds and the Bond Insurer do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein or herein not misleading. There is no fact known to the Borrower which the Borrower has not disclosed to the Council, Banc of America Securities LLC, as underwriter of the Bonds and the Bond Insurer in writing which materially affects adversely or is likely to materially affect adversely the financial condition of the Borrower, or its ability to make the payments under this Agreement when and as the same become due and payable.

(c) Pending Litigation. To the knowledge of the Borrower there are no proceedings pending, or to the knowledge of the Borrower threatened, against or affecting the Borrower, except as specifically described in writing to the Council, Banc of America Securities LLC, as underwriter of the Bonds and the Bond Insurer, in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially and adversely affect the properties, prospects or condition (financial or otherwise) of the Borrower, or the existence or powers or ability of the Borrower to enter into and perform its obligations under this Agreement.

(d) Borrowing Legal and Authorized. The execution and delivery of this Agreement and the consummation of the transactions provided for in this Agreement and compliance by the Borrower with the provisions of this Agreement:

(1) are within the powers of the Borrower and have been duly and effectively authorized by all necessary action on the part of the Borrower; and

(2) do not and will not (i) conflict with or result in any material breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Borrower pursuant to any indenture, loan agreement or other agreement or instrument (other than this Agreement) or restriction to which the Borrower is a party or by which the Borrower, its properties or operations are bound as of the date of this Agreement or (ii) with the giving of notice or the passage of time or both, constitute a breach or default or so result in the creation or imposition of any lien, charge or encumbrance, which breach, default, lien, charge or encumbrance (described in (i) or (ii)) could materially and adversely affect the validity or the enforceability of this Agreement or the Borrower's ability to perform fully its obligations under this Agreement; nor does such action result in any violation of the provisions of the Act, or any laws, ordinances, governmental rules or regulations or court orders to which the Borrower, its properties or operations may be bound.

(e) No Defaults. No event has occurred and no condition exists that constitutes an Event of Default, or which, upon the execution and delivery of this Agreement and/or the passage of time or giving of notice or both, would constitute an Event of Default. The Borrower is not in violation in any material respect, and has not received notice of any claimed violation (except such violations as (i) heretofore have been specifically disclosed in writing to, and have been in writing specifically consented to by the Council and the Bond Insurer and (ii) do not, and shall not, have any material adverse effect on the transactions herein contemplated and the compliance by the Borrower with the terms hereof), of any terms of any agreement or other instrument to which it is a party or by which it, its properties or operations may be bound, which may materially adversely affect the ability of the Borrower to perform hereunder.

(f) [Reserved].

(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) 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.

(2) 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.

(3) 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.

(4) 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) Compliance with Interlocal Act and Interlocal Agreement. All agreements and transactions provided for herein or contemplated hereby are in full compliance with the terms of the Interlocal Agreement and the Interlocal Act.

SECTION 2.02. Covenants of Borrower. The Borrower makes the following covenants and representations as of the date first above written and such covenants shall continue in full force and effect during the Loan Term:

(a) Security for Loan Repayment. Subject to the provisions of Section 2.02(k) hereof, the Borrower covenants and agrees to appropriate in its annual budget, by amendment, if required, and to pay when due under this Loan Agreement as promptly as money becomes available directly to the Trustee for deposit into the appropriate Fund or Account created in the Indenture, amounts of Non-Ad Valorem Revenues of the Borrower sufficient to satisfy the Loan Repayment as required under this Loan Agreement. Such covenant is subject in all respects to the payment of obligations secured by a pledge of such Non-Ad Valorem Revenues heretofore or hereafter entered into. Such covenant and agreement on the part of the Borrower to budget and appropriate such amounts of Non-Ad Valorem Revenues shall be cumulative, and shall continue until such Non-Ad Valorem Revenues or other legally available funds in amounts sufficient to make all required Loan Repayments, including delinquent Loan Repayments, shall have been budgeted, appropriated and actually paid to the Trustee for deposit into the appropriate Fund or Account. The Borrower further acknowledges and agrees that the Indenture shall be deemed to be entered into for the benefit of the Holders of any of the Bonds and that the obligations of the Borrower to include the amount of any deficiency in Loan Repayments in each of its annual budgets and to pay such deficiencies from Non-Ad Valorem Revenues may be enforced in a court of competent jurisdiction in accordance with the remedies set forth herein and in the Indenture. Notwithstanding the foregoing or any provision of this Loan Agreement to the contrary, the Borrower does not covenant to maintain any services or programs now maintained by the Borrower which generate Non-Ad Valorem Revenues or to maintain the charges it presently collects for any such services or programs.

During such time as the Loan is outstanding hereunder, the Borrower agrees that, as soon as practicable upon the issuance of debt by the Borrower which is secured by its Non-Ad Valorem Revenues, it shall deliver to the Council and the Bond Insurer a certificate setting forth the calculations of the financial ratios provided below and certifying that it is in compliance with the following: (i) Non-Ad Valorem Revenues (average of actual receipts over the prior two years) must cover projected maximum annual debt service on debt secured by and/or payable solely from such Non-Ad Valorem Revenues by at least 1.5x; and (ii) projected maximum annual debt service requirements for all debt secured by and/or payable solely from such Non-Ad Valorem Revenues will not exceed 20% of Governmental Fund Revenues (defined as general fund, special fund, debt service fund and capital projects funds), exclusive of (i) ad valorem revenues restricted to payment of debt service on any debt and (ii) any debt proceeds, and based on the Borrower's audited financial statements (average of actual receipts of the prior two years). For the purposes of these covenants maximum annual debt service means the lesser of the actual maximum annual debt service on all debt or 15% of the original par amount of the debt, in each case, secured by Borrower Non-Ad Valorem Revenues.

(b) Delivery of Information to the Bond Insurer. Borrower shall deliver to the Bond Insurer and the Council as soon as available and in any event within 270 days after the end of each Fiscal Year an audited statement of its financial position as of the end of such Fiscal Year and the related statements of revenues and expenses, fund balances and changes in fund balances for such Fiscal Year, all reported by an independent certified public accountant, whose report shall state that such financial statements present fairly Borrower's financial position as of the end of such Fiscal Year and the results of operations and changes in financial position for such Fiscal Year.

(c) Information. Borrower's chief financial officer shall, at the reasonable request of the Bond Insurer, discuss Borrower's financial matters with the Bond Insurer or their designee and provide the Bond Insurer with copies of any documents reasonably requested by the Bond Insurer or its designee unless such documents or material are protected or privileged from disclosure under applicable Florida law.

(d) [Reserved].

(e) Further Assurance. The Borrower shall execute and deliver to the Trustee all such documents and instruments and do all such other acts and things as may be reasonably necessary to enable the Trustee to exercise and enforce its rights under this Loan Agreement and to realize thereon, and record and file and re-record and re-file all such documents and instruments, at such time or times, in such manner and at such place or places, all as may be reasonably necessary or required by the Trustee to validate, preserve and protect the position of the Trustee under this Loan Agreement.

(f) Keeping of Records and Books of Account. The Borrower shall keep or cause to be kept proper records and books of account, in which correct and complete entries will be made in accordance with generally accepted accounting principles, consistently applied (except for changes concurred in by the Borrower's independent auditors) reflecting all of its financial transactions.

(g) Payment of Taxes, Etc. The Borrower shall pay all legally contracted obligations when due and shall pay all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto, and all lawful claims, which, if unpaid, might become a lien or charge upon any of its properties, provided that it shall not be required to pay any such tax, assessment, charge, levy or claim which is being contested in good faith and by appropriate proceedings, which shall operate to stay the enforcement thereof.

(h) Compliance with Laws, Etc. Subject to an annual appropriation of legally available funds, the Borrower shall comply with the requirements of all applicable laws, the terms of all grants, rules, regulations and lawful orders of any governmental authority, non-compliance with which would, singularly or in the aggregate, materially adversely affect its business, properties, earnings, prospects or credit, unless the same shall be contested by it in good faith and by appropriate proceedings which shall operate to stay the enforcement thereof.

(i) Tax-exempt Status of Bonds. The Council and the Borrower understand that it is the intention hereof that the interest on the Bonds not be included within the gross income of the holders thereof for federal income tax purposes. In furtherance thereof, the Borrower and the Council each agree that they will take all action within their control which is necessary in order for the interest on the Bonds or this Loan to remain excluded from gross income for federal income taxation purposes and shall refrain from taking any action which results in such interest becoming included in gross income.

The Borrower and the Council further covenant that, to the extent they have control over the proceeds of the Bonds, they will not take any action or fail to take any action with respect to the investment of the proceeds of any Bonds, with respect to the payments derived from the Bonds or hereunder or with respect to the issuance of other Council obligations, which action or failure to act may cause the Bonds to be "Arbitrage Bonds" within the meaning of such term as used in Section 148 of the Code and the regulations promulgated thereunder. In furtherance of the covenant contained in the preceding sentence, the Borrower and the Council agree to comply with the Tax Certificate as to Arbitrage and the provisions of Section 141 through 150 of the Internal Revenue Code of 1986, as amended, including the letter of instruction attached as an Exhibit to the Tax Certificate, delivered by Bryant Miller & Olive P.A. to the Borrower and the Council simultaneously with the issuance of the Bonds, as such letter may be amended from time to time, as a source of guidelines for achieving compliance with the Code.

(j) Information Reports. The Borrower covenants to provide the Council with all material and information it possesses or has the ability to possess necessary to enable the Council to file all reports required under Section 149(e) of the Code to assure that interest paid by the Council on the Bonds shall, for purposes of the federal income tax, be excluded from gross income.

(k) Limited Obligations. Anything in this Loan Agreement to the contrary notwithstanding, it is understood and agreed that all obligations of the Borrower hereunder shall be payable only from Non-Ad Valorem Revenues budgeted and appropriated as provided for

hereunder and nothing herein shall be deemed to pledge ad valorem taxation revenues or to permit or constitute a mortgage or lien upon any assets or property owned by the Borrower and no Bondholder or any other person, including the Council, the Trustee or the Bond Insurer, may compel the levy of ad valorem taxes on real or personal property within the boundaries of the Borrower. The obligations hereunder do not constitute an indebtedness of the Borrower within the meaning of any constitutional, statutory or charter provision or limitation, and neither the Trustee, the Council, the Bond Insurer, or the Bondholders or any other person shall have the right to compel the exercise of the ad valorem taxing power of the Borrower or taxation of any real or personal property therein for the payment by the Borrower of its obligations hereunder. Except to the extent expressly set forth in this Loan Agreement, this Loan Agreement and the obligations of the Borrower hereunder shall not be construed as a limitation on the ability of the Borrower to pledge or covenant to pledge said Non-Ad Valorem Revenues or any revenues or taxes of the Borrower for other legally permissible purposes. Notwithstanding any provisions of this Agreement, the Indenture or the Bonds to the contrary, the Borrower shall never be obligated to maintain or continue any of the activities of the Borrower which generate user service charges, regulatory fees or any Non-Ad Valorem Revenues or the rates for such services or regulatory fees. Neither this Loan Agreement nor the obligations of the Borrower hereunder shall be construed as a pledge of or a lien on all or any legally available Non-Ad Valorem Revenues of the Borrower, but shall be payable solely as provided in Section 2.02(a) hereof and is subject in all respects to the provisions of Section 166.241, Florida Statutes, and is subject, further, to the payment of services and programs which are for essential public purposes affecting the health, welfare and safety of the inhabitants of the Borrower. It is the intent of the parties hereto and they do hereby covenant and agree, that the liability of the Borrower hereunder is a several liability of the Borrower expressly limited to the Loan Repayments and the Borrower shall have no joint liability with any other Borrower or the Council for any of their respective liabilities, except to the extent expressly provided hereunder.

The Council and the Borrower understand that the amounts available to be budgeted and appropriated to make Loan Payments hereunder is subject to the obligation of the Borrower to provide essential services; however, such obligation is cumulative and would carry over from Fiscal Year to Fiscal Year.

(l) Reporting Requirements. (i) The Borrower will file or cause to be filed with the Bond Insurer and with the Council any official statement issued by, or on behalf of, the Borrower in connection with the incurrence of any additional indebtedness by the Borrower. Such official statements shall be filed within sixty (60) days after the publication thereof.

(ii) The Borrower agrees to provide not later than December 31 of each year, a certificate of its Chief Financial Officer stating that to the best of its knowledge the Borrower is in compliance with the terms and conditions of this Loan Agreement, or, specifying the nature of any noncompliance and the remedial action taken or proposed to be taken to cure such noncompliance.

ARTICLE III

THE LOAN

SECTION 3.01. The Loan. The Council hereby agrees to loan to the Borrower and the Borrower hereby agrees to borrow from the Council the sum of \$_____ (\$_____ par amount of Bonds plus \$_____ reoffering premium). This amount includes an amount equal to ____% which reflects the Borrower's share of the cost of the initial issuance of the Bonds subject to the terms and conditions contained in this Loan Agreement and in the Indenture. The amounts advanced net of the cost of the initial issuance are to be used by the Borrower for the purposes of refinancing the cost of the Projects in accordance with the provisions of this Loan Agreement.

SECTION 3.02. Evidence of Loan. The Borrower's obligation hereunder to repay amounts advanced pursuant to Section 3.01, together with interest thereon, and other payments required under this Loan Agreement, shall be evidenced by this Loan Agreement.

ARTICLE IV

LOAN TERM AND LOAN CLOSING REQUIREMENTS

SECTION 4.01. Commencement of Loan Term. The Borrower's obligations under this Loan Agreement shall commence on the date hereof unless otherwise provided in this Loan Agreement.

SECTION 4.02. Termination of Loan Term. The Borrower's obligations under this Loan Agreement shall terminate after payment in full of all amounts due under this Loan Agreement and all amounts not theretofore paid shall be due and payable at the times and in the amounts set forth in Exhibit D attached hereto; provided, however, that all covenants and all obligations provided hereunder specified to so survive (including the obligation of the Borrower to pay its share of the rebate obligations of the Council owed on the Bonds and agreed to by the Borrowers pursuant to Section 5.03(b)(7) hereof) shall survive the termination of this Loan Agreement and the payment in full of principal and interest hereunder. Upon termination of the Loan Term as provided above, the Council and the Trustee shall deliver, or cause to be delivered, to the Borrower an acknowledgment thereof.

SECTION 4.03. Loan Closing Submissions. Concurrently with the execution and delivery of this Loan Agreement, the Borrower is providing to the Trustee the following documents each dated the date of such execution and delivery unless otherwise provided below:

(a) Certified resolutions of the Borrower substantially in the form of Exhibit B attached hereto;

(b) An opinion of the Borrower's Counsel in the form of Exhibit C attached hereto to the effect that the Loan Agreement is a valid and binding obligation of the Borrower and opining to such other matters as may be reasonably required by Bond Counsel, underwriter's counsel and the Bond Insurer and acceptable to Borrower's Counsel;

(c) A certificate of the officials of the Borrower who sign this Loan Agreement to the effect that the representations and warranties of the Borrower are true and correct;

(d) This executed Loan Agreement;

(e) 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

(f) Such other certificates, documents, opinions and information as the Council, the Bond Insurer, the Trustee or Bond Counsel may require, such requirement to be evidenced (in

the case of parties other than the Trustee) by written notice of such party to the Trustee of such requirement.

All opinions and certificates shall be dated the date of the Closing.

ARTICLE V

LOAN REPAYMENTS

SECTION 5.01. Payment of Basic Payments. Borrower shall pay to the order of the Council all Loan Repayments in lawful money of the United States of America to the Trustee. No such Loan Repayment shall be in an amount such that interest on the Loan is in excess of the maximum rate allowed by the laws of the State of Florida or of the United States of America. The Loan shall be repaid in Basic Payments, consisting of:

- (a) principal in the amounts and on the dates set forth in Exhibit D; plus
- (b) interest calculated at the rates, in the amounts and on the dates set forth in Exhibit D;

On or before the fifteenth (15th) day of the month immediately preceding each Interest Payment Date, the Trustee shall give Borrower notice in writing of the total amount of the next Basic Payment due. The Basic Payments shall be due on each April 20th and October 20th, or if such day is not a Business Day, the next preceding Business Day (a "Loan Repayment Date"), commencing October 20, 2005, and extending through October 20, 20__, unless the due date of the Basic Payments is accelerated pursuant to the terms of Section 8.03 hereof.

SECTION 5.02. Payment of Surety Bond Costs. The Borrower recognizes that the Surety Bond Provider has provided to the Council the Surety Bond for deposit to the Reserve Fund in lieu of a cash payment or deposit by the Borrower. The Surety Bond shall secure and satisfy the Reserve Requirement (as defined in the Indenture) and any other reserve requirement of bonds as listed on Annex A to the Surety Bond. The Borrower or any other borrower whose loan was funded with proceeds of a bond issue listed on Annex A to the Surety Bond, may draw on the Surety Bond in an amount equal to or less than the limit of the Surety Bond, all in accordance with Section 4.08 of the Indenture. The Borrower hereby agrees to pay to the Trustee an amount equal to the amount drawn by the Borrower (or on behalf of the Borrower) on the Surety Bond as set forth in subsection (c) of Section 5.03 hereof. Such Surety Bond may be replaced by an Alternate Surety Bond issued with respect to funding the reserve fund of subsequent bonds issued by the Council whose reserve fund shall be on a parity with the Bonds, all in accordance with Section 4.08 of the Indenture.

SECTION 5.03. Payment of Additional Payments. In addition to Basic Payments, Borrower agrees to pay on demand of the Council or the Trustee, the following Additional Payments:

- (a) (i) Borrower's Proportionate Share of: the annual fees or expenses of the Council, if any, including the fees of any provider of arbitrage rebate calculations; the Bond Insurance Premium of the Bond Insurer (to the extent not previously paid from the Cost of Issuance Fund); the fees of the Program Administrator and the fees of the rating agencies (to the extent not previously paid from the Cost of Issuance Fund); and (ii) Borrower's equal share of the annual fees of the Trustee; annual fees of the Registrar and Paying Agent; and the Surety

Bond premium of the Surety Bond Provider and any related fees in connection with the Surety Bond (to the extent not previously paid from the Cost of Issuance Fund).

(b) All reasonable fees and expenses of the Council or Trustee relating to this Loan Agreement, including, but not limited to:

- (1) the cost of reproducing this Loan Agreement;
- (2) the reasonable fees and disbursements of Counsel utilized by the Council, the Trustee and the Bond Insurer in connection with the Loan, this Loan Agreement and the enforcement thereof;
- (3) reasonable extraordinary fees of the Trustee following an Event of Default hereunder;
- (4) all other reasonable out-of-pocket expenses of the Trustee and the Council in connection with the Loan, this Loan Agreement and the enforcement thereof;
- (5) all taxes (including any recording and filing fees) in connection with the execution and delivery of this Loan Agreement and the pledge and assignment of the Council's right, title and interest in and to the Loan and the Loan Agreement, pursuant to the Indenture (and with the exceptions noted therein), and all expenses, including reasonable attorneys' fees, relating to any amendments, waivers, consents or collection or enforcement proceedings pursuant to the provisions hereof;
- (6) all reasonable fees and expenses of the Bond Insurer relating directly to the Loan; and
- (7) the Borrower's share of any amounts owed to the United States of America as rebate obligations on the Bonds related to the Borrower's Loan, which obligation shall survive the termination of this Loan Agreement.

(c) For repayment of the Surety Bond held by the Trustee an amount equal to any amount drawn by the Borrower (or on behalf of the Borrower) from the Surety Bond due to the Borrower's failure to pay its Basic Payments in accordance with Section 5.01 hereof, at the times and in the manner and together with interest and expense due thereon all as provided in Section 4.08(a) of the Indenture undertaken in order to reinstate the Surety Bond. The Borrower shall repay such amount drawn on the Surety Bond due to the Borrower's failure to pay its Basic Payments with the first available funds after payment of the current Loan Repayment. The Borrower shall repay only the amount drawn due to its failure to pay its Basic Payment.

SECTION 5.04. Interest Earnings or Investment Losses and Excess Payments.

(a) On each Interest Payment Date the Trustee shall credit against Borrower's obligation to pay its Loan Repayments, Borrower's share of any interest earnings which were received during the prior Interest Period by the Trustee on the Funds and Accounts 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 held under the Indenture.

(b) The credits provided for in (a) shall not be given to the extent the Borrower is in default in payment of its Loan Repayments. If past-due Loan Repayments are later collected from such defaulting Borrower, the amount of the missed credit shall, to the extent of the amount collected, be credited in proportion to the amount of credit missed, to the now non-defaulting Borrower from the past-due Loan Repayments.

(c) The credits may be accumulated. If the credit allowable for an Interest Period is more than required on the next ensuing Interest Payment Date to satisfy the current Loan Repayment, it may be used on the following Interest Payment Date.

SECTION 5.05. Obligations of Borrower Unconditional. Subject in all respects to the provisions of this Loan Agreement, including but not limited to Section 2.02(a) and (k) hereof, the obligations of Borrower to make the Loan Repayments required hereunder and to perform and observe the other agreements on its part contained herein, shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Bonds remain outstanding or any Loan Repayments remain unpaid, regardless of any contingency, act of God, event or cause whatsoever. This Loan Agreement shall be deemed and construed to be a "net contract," and Borrower shall pay absolutely net the Loan Repayments and all other payments required hereunder, regardless of any rights of set-off, recoupment, abatement or counterclaim that Borrower might otherwise have against the Council, the Trustee, the Bond Insurer or any other party or parties.

SECTION 5.06. Refunding Bonds. In the event the Bonds are refunded, all references in this Loan Agreement to Bonds shall be deemed to refer to the refunding bonds or, in the case of a crossover refunding, to the Bonds and the refunding bonds (but Borrower shall never be responsible for any debt service on or fees relating to crossover refunding bonds which are covered by earnings on the escrow fund established from the proceeds of such bonds). The Council agrees not to issue bonds or other debt obligations to refund the portion of the Bonds allocable to this Agreement without the prior written consent of the Authorized Representative of the Borrower.

SECTION 5.07. Prepayment. The Loan may be prepaid in whole or in part by the Borrower on the dates and in the amounts on which the Bonds are subject to optional redemption and notice provisions pursuant to Section 3.01 of the Indenture.

ARTICLE VI

DEFEASANCE

This Loan Agreement shall continue to be obligatory and binding upon the Borrower in the performance of the obligations imposed by this Loan Agreement and the repayment of all sums due by the Borrower under this Loan Agreement shall continue to be secured by this Loan Agreement as provided herein until all of the indebtedness and all of the payments required to be made by the Borrower shall be fully paid to the Council or the Trustee. Provided, however, if, at any time, the Borrower shall have paid, or shall have made provision for payment of, the principal amount of the Loan, interest thereon and redemption premiums, if any, with respect to the Bonds and shall have paid all amounts due pursuant to Section 5.03 hereof, then, and in that event, the covenant regarding the Non-Ad Valorem Revenues and the lien on the revenues pledged, if any, to the Council for the benefit of the holders of the Bonds shall be no longer in effect and all future obligations of the Borrower under this Loan Agreement shall cease. For purposes of the preceding sentence, deposit of sufficient cash and/or Governmental Obligations in irrevocable trust with a banking institution or trust company, for the sole benefit of the Council, the principal, interest and prepayment premiums, if any, received will be sufficient (as reflected in an accountants verification report provided to the Trustee by the Borrower) to make timely payment of the principal, interest and prepayment premiums, if any, on the Outstanding Loan, shall be considered "provision for payment." The prepayment premium, if any, shall be calculated based on the prepayment date selected by the Borrower in accordance with Section 5.07 hereof.

If the Borrower determines to prepay all or a portion of the Loan pursuant to Section 5.07 hereof, the Council shall redeem a like amount of Bonds which corresponds in terms of amount and scheduled maturity date to such Loan prepayment pursuant to Section 3.01 of the Indenture.

If the Borrower shall make advance payments to the Council in an amount sufficient to retire the Loan of the Borrower, including redemption premium and accrued interest to the next succeeding redemption date of the Bonds, all future obligations of the Borrower under this Loan Agreement shall cease, including the obligations under Section 5.03 hereof, except as provided in Section 4.02 hereof. However, prior to making such payments, the Borrower shall give at least 60 days' irrevocable notice by certified or registered mail to the Council.

ARTICLE VII

ASSIGNMENT AND PAYMENT BY THIRD PARTIES

SECTION 7.01. Assignment by Council. The Borrower expressly acknowledges that this Loan Agreement and the obligations of the Borrower to make payments hereunder (with the exception of certain of the Council rights to indemnification, fees, notices and expenses), have been pledged and assigned to the Trustee as security for the Bonds under the Indenture, and that the Trustee shall be entitled to act hereunder and thereunder in the place and stead of the Council whether or not the Bonds are in default.

SECTION 7.02. Assignment by Borrower. This Loan Agreement may not be assigned by the Borrower for any reason without the express prior written consent of the Council, the Bond Insurer and the Trustee.

SECTION 7.03. Payments by the Bond Insurer. The Borrower acknowledges that payment under this Loan Agreement from funds received by the Trustee or Bondholders from the Bond Insurer do not constitute payment under this Loan Agreement for the purposes hereof or fulfillment of its obligations hereunder.

SECTION 7.04. Payments by the Surety Bond Provider. The Borrower acknowledges that payment under this Loan Agreement from funds received by the Trustee or Bondholders from the Surety Bond Provider do not constitute payment under this Loan Agreement for the purposes hereof or fulfillment of its obligations hereunder.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

SECTION 8.01. Events of Default Defined. The following shall be “Events of Default” under this Loan Agreement and the terms “Event of Default” and “Default” shall mean (except where the context clearly indicates otherwise), whenever they are used in this Loan Agreement, any one or more of the following events:

(a) Failure by the Borrower to timely pay any Loan Repayment, when due, so long as the Bonds are outstanding;

(b) Failure by the Borrower to timely pay any other payment required to be paid hereunder on the date on which it is due and payable, provided the Borrower has prior written notice of any such payments being due;

(c) Failure by the Borrower to observe and perform any covenant, condition or agreement other than a failure under (a), on its part to be observed or performed under this Loan Agreement, for a period of thirty (30) days after notice of the failure, unless the Council, the Bond Insurer and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice can be wholly cured within a period of time not materially detrimental to the rights of the Council, the Bond Insurer or the Trustee, but cannot be cured within the applicable 30-day period, the Council, the Bond Insurer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the failure is corrected;

(d) Any warranty, representation or other statement by the Borrower or by an officer or agent of the Borrower contained in this Loan Agreement or in any instrument furnished in compliance with or in reference to this Loan Agreement, is false or misleading in any material respect when made;

(e) A petition is filed against the Borrower under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within 60 days of such filing;

(f) The Borrower files a petition in voluntary bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Borrower admits insolvency or bankruptcy or its inability to pay its debts as they become due or is generally not paying its debts as such debts become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or a custodian (including without limitation a receiver, liquidator or trustee) of the Borrower or any of its

property is appointed by court order or takes possession thereof and such order remains in effect or such possession continues for more than 60 days;

(h) Default under any agreement to which the Borrower is a party evidencing, securing or otherwise respecting any indebtedness of the Borrower outstanding in the amount of \$100,000 or more if, as a result thereof, such indebtedness may be declared immediately due and payable or other remedies may be exercised with respect thereto;

(i) Any material provision of this Loan Agreement shall at any time for any reason cease to be valid and binding on the Borrower, or shall be declared to be null and void, or the validity or enforceability of this Loan Agreement shall be contested by the Borrower or any governmental agency or authority, or if the Borrower shall deny any further liability or obligation under this Loan Agreement; or

(j) Final judgment for the payment of money in the amount of \$250,000 or more is rendered against the Borrower and at any time after 90 days from the entry thereof, unless otherwise provided in the final judgment, (i) such judgment shall not have been discharged, or (ii) the Borrower shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and have caused the execution of or levy under such judgment, order, decree or process of the enforcement thereof to have been stayed pending determination of such appeal, provided that such execution and levy would materially adversely affect the Borrower's ability to meet its obligations hereunder; or (iii) the Borrower is not obligated with respect to such judgment pursuant to the provisions of Chapter 768, Florida Statutes.

SECTION 8.02. Notice of Default. The Borrower agrees to give the Trustee, the Bond Insurer and the Council prompt written notice if any petition, assignment, appointment or possession referred to in Section 8.01(e), 8.01(f) and 8.01(g) is filed by or against the Borrower or of the occurrence of any other event or condition which constitutes a Default or an Event of Default, or with the passage of time or the giving of notice would constitute an Event of Default, immediately upon becoming aware of the existence thereof.

SECTION 8.03. Remedies on Default. Whenever any Event of Default referred to in Section 8.01 hereof shall have happened and be continuing, the Council or the Trustee shall, with the written consent of the Bond Insurer or upon the direction of the Bond Insurer, in addition to any other remedies herein or by law provided, have the right, at its or their option without any further demand or notice, to take such steps and exercise such remedies as provided in Section 9.02 of the Indenture, and, without limitation, one or more of the following:

(a) Declare all Loan Repayments, in an amount equal to 100% of the principal amount thereof plus all accrued interest thereon to the date on which such Loan Repayments shall be used to redeem Bonds pursuant to Section 3.02 of the Indenture and all other amounts due hereunder, to be immediately due and payable, and upon notice to the Borrower the same shall become immediately due and payable by the Borrower without further notice or demand.

(b) Take whatever other action at law or in equity which may appear necessary or desirable to collect amounts then due and thereafter to become due hereunder or to enforce any other of its or their rights hereunder.

SECTION 8.04. [Reserved].

SECTION 8.05. No Remedy Exclusive; Waiver, Notice. No remedy herein conferred upon or reserved to the Council or the Trustee is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Council or the Trustee to exercise any remedy reserved to it in this Article VIII, it shall not be necessary to give any notice other than such notice as may be required in this Article VIII.

SECTION 8.06. Application of Moneys. Any moneys collected by the Council or the Trustee pursuant to Section 8.03 hereof shall be applied (a) first, to pay any attorney's fees or other expenses owed by the Borrower pursuant to Section 5.03(b)(3) and (4) hereof, (b) second, to pay interest due on the Loan, (c) third, to pay principal due on the Loan, (d) fourth, to pay any other amounts due hereunder, and (e) fifth, to pay interest and principal on the Loan and other amounts payable hereunder but which are not due, as they become due (in the same order, as to amounts which come due simultaneously, as in (a) through (d) in this Section 8.06).

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. Notices. All notices, certificates or other communication hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the parties at the following addresses:

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

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

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

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

Wachovia Bank, National Association
Corporate Trust Department
225 Water Street, 3rd Floor
Jacksonville, Florida 32202

Borrower: _____

Attention: _____

Any of the above parties may, by notice in writing given to the others, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Council and the Borrower and their respective successors and assigns.

SECTION 9.03. Severability. In the event any provision of the Loan Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 9.04. Amendments, Changes and Modifications. This Loan Agreement may be amended by the Council and the Borrower as provided in the Indenture; provided, however, that no such amendment shall be effective unless it shall have been consented to in writing by the Bond Insurer.

SECTION 9.05. Execution in Counterparts. This Loan Agreement may be simultaneously executed in several counterparts, each of which, when so executed and delivered, shall be an original and all of which shall constitute but one and the same instrument.

SECTION 9.06. Applicable Law. This Loan Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

SECTION 9.07. Benefit of Bondholders; Compliance with Indenture. This Loan Agreement is executed in part to induce the purchase by others of the Bonds. Accordingly, all covenants, agreements and representations on the part of the Borrower and the Council, as set forth in this Loan Agreement, are hereby declared to be for the benefit of the holders from time to time of the Bonds. The Borrower covenants and agrees to do all things within its power in order to comply with and to enable the Council to comply with all requirements and to fulfill and to enable the Council to fulfill all covenants of the Indenture. The Borrower also acknowledges that the Council has delegated certain of its duties under the Indenture to its Program Administrator, including the direction to make investments in accordance with Article VII thereof.

SECTION 9.08. Consents and Approvals. Whenever the written consent or approval of the Council shall be required under the provisions of this Loan Agreement, such consent or approval may be given by an Authorized Representative of the Council or such other additional persons provided by law or by rules, regulations or resolutions of the Council.

SECTION 9.09. Immunity of Officers, Employees and Members of Council and Borrower. No recourse shall be had for the payment of the principal of or premium or interest hereunder or for any claim based thereon or upon any representation, obligation, covenant or agreement in this Loan Agreement against any past, present or future official officer, member, counsel, employee, director or agent, as such, of the Council or the Borrower, either directly or through the Council or the Borrower, or respectively, any successor public or private corporation thereto under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, members, counsels, employees, directors or agents as such is hereby expressly waived and released as a condition of and consideration for the execution of this Loan Agreement.

SECTION 9.10. Captions. The captions or headings in this Loan Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions of sections of this Loan Agreement.

SECTION 9.11. No Pecuniary Liability of Council. No provision, covenant or agreement contained in this Loan Agreement, or any obligation herein imposed upon the Council, or the breach thereof, shall constitute an indebtedness or liability of the State or any

political subdivision or municipal corporation of the State or any public corporation or governmental agency existing under the laws thereof other than the Council. In making the agreements, provisions and covenants set forth in this Loan Agreement, the Council has not obligated itself except with respect to the application of the revenues, income and all other property as derived herefrom, as hereinabove provided.

SECTION 9.12. Payments Due on Holidays. With the exception of Basic Payments, if the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Loan Agreement, shall be other than on a Business Day, such payments may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Loan Agreement.

SECTION 9.13. Calculations. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 9.14. Time of Payment. Any Loan Repayment or other payment hereunder which is received by the Trustee or Council after 2:00 p.m. (New York time) on any day shall be deemed received on the following Business Day.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Florida Municipal Loan Council has caused this Loan Agreement to be executed in its corporate name with its corporate seal hereunto affixed and attested by its duly authorized officers and [Borrower], has caused this Loan Agreement to be executed in its corporate name with its corporate seal hereunto affixed and attached by its duly authorized officers. All of the above occurred as of the date first above written.

FLORIDA MUNICIPAL LOAN COUNCIL

(SEAL)

By: _____
Name: Raul Martinez
Title: Chairman

ATTEST:

By: _____
Name: Michael Sittig
Title: Executive Director

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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

\$18,145,000

**FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE REFUNDING BONDS, SERIES 2005B**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Florida Municipal Loan Council (the "Council") of its \$18,145,000 Florida Municipal Loan Council Revenue Refunding Bonds, Series 2005B (the "Bonds"), pursuant to the Constitution and laws of the State of Florida, including Chapter 166, Part II and Chapter 163, Part I, Florida Statutes, as amended and a Trust Indenture dated as of May 1, 2005, between the Council and Wachovia Bank, National Association, as Trustee (the "Indenture"). All capitalized terms used herein which are not otherwise defined herein shall have the meanings ascribed in the Indenture.

The proceeds of the Bonds will be loaned to the City of Destin, Florida; Town of Eatonville, Florida, City of Haines City, Florida, Town of Melbourne Beach, Florida, City of Plant City, Florida and City of Seminole, Florida (collectively, the "Borrowers") for the purpose of refinancing a portion of the loans made to the Borrowers, the proceeds of which were used to finance or reimburse the cost of qualified projects of such Borrowers, and to pay certain costs of issuing the Bonds pursuant to Loan Agreements between the Council and such Borrowers to be executed simultaneously with the issuance of the Bonds.

As to questions of fact material to our opinion, we have relied upon representations of the Council contained in the Indenture and of the Borrowers contained in the Loan Agreements and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation. We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material related to the Bonds. This opinion should not be construed as offering material relating to the Bonds, but should be considered only for the opinions expressed herein. Furthermore, we are not passing on the accuracy or sufficiency of any CUSIP numbers appearing on the Bonds.

In addition, we have not been engaged to and, therefore, express no opinion as to compliance by the Council or the underwriters with any federal or state statute, regulation or ruling with respect to the sale and distribution of the Bonds.

In rendering this opinion, we have examined and relied upon the opinion of even date herewith of Kraig A. Conn, Esquire, Counsel to the Issuer, as to the due creation and valid existence of the Council, the due authorization, execution and delivery of the Bonds and the compliance by the Council with all conditions contained in the resolutions of the Council precedent to the issuance of the Bonds. Finally, we have assumed the proper authorization, execution and delivery of the Loan Agreements by each Borrower and the validity of such Loan Agreements and in rendering this opinion are not passing upon such matters.

The Bonds do not constitute a general obligation of the Council or the Borrowers within the meaning of any constitutional, statutory or other limitation of indebtedness and the holders thereof shall never have the right to compel the exercise of any ad valorem taxing power of the Council or the Borrowers or taxation in any form of any real or personal property for the payment of the principal of or interest on the Bonds.

Based on our examination, we are of the opinion, as of the date of delivery of and payment for the Bonds, as follows:

1. The Council is duly created and validly existing as a separate legal entity of the State of Florida with the power to execute the Indenture and perform the agreements on its part contained therein and to issue the Bonds.

2. The Indenture has been duly executed by the Council and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and binding obligation of the Council enforceable upon the Council in accordance with its terms.

3. The Bonds have been duly authorized, executed and delivered by the Council and are valid and special obligations of the Council enforceable in accordance with their terms, payable solely from the sources provided therefor in the Indenture.

4. The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income for purposes of federal income taxation. Non-compliance may cause interest on the Bonds to be included in federal gross income retroactive to the date of issuance of the Bonds, regardless of the date on which such non-compliance occurs or is ascertained. The Council has covenanted in the Indenture and the Borrowers have covenanted in their Loan Agreements to comply with such requirements in order to maintain the exclusion from federal gross income of the interest on the Bonds.

Subject to compliance by the Council and the Borrowers with the aforementioned covenants, (a) interest on the Bonds is excluded from gross income of the owners thereof for purposes of federal

income taxation and (b) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The Bonds are exempt from intangible taxes imposed pursuant to Chapter 199, Florida Statutes, as amended.

It is to be understood that the rights of the owners of the Bonds and the enforceability thereof may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign police powers of the State of Florida and of the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

Our opinions expressed herein are predicated upon present law, facts and circumstances, and we assume no affirmative obligation to update the opinions expressed herein if such laws, facts or circumstances change after the date hereof.

Very truly yours,

BRYANT MILLER & OLIVE P.A.

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APPENDIX F

SPECIMEN OF FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]
[LEGAL NAME OF ISSUE]**

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

The insurance provided by this policy is not covered by the Florida Insurance Guaranty Association created under chapter 631, Florida Statutes.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED:

Resident Licensed Agent

City, State

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

STD-RCS-FL-7
01/05

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APPENDIX G

FINANCIAL INFORMATION REGARDING THE CITY OF DESTIN

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CITY OF DESTIN, FLORIDA
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUNDS
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues			
Taxes	\$7,250,365	\$6,642,959	\$5,178,203
Licenses and permits	485,502	474,033	375,986
Intergovernmental	2,589,513	1,943,854	1,429,237
Charges for services	415,036	353,702	295,883
Special assessments	355,632	529,247	589,040
Fines and forfeits	111,256	75,606	77,367
Miscellaneous	<u>285,923</u>	<u>601,504</u>	<u>607,111</u>
Total Revenue	\$11,493,227	\$10,620,905	\$8,552,827
Expenditures			
Current:			
General government services	2,786,575	2,450,193	2,401,968
Public safety	2,309,660	1,357,591	1,201,203
Physical environment	464,448	105,111	118,360
Transportation	1,909,629	1,839,776	1,269,538
Economic environment	7,413	9,040	9,000
Human services	69,741	42,901	39,312
Culture/recreation	1,285,580	992,284	892,912
Capital outlay	1,695,698	2,877,270	1,845,851
Debt service	<u>1,279,953</u>	<u>1,040,703</u>	<u>1,138,437</u>
Total expenditures	\$11,808,697	\$10,714,869	\$ 8,916,581
Excess (deficiency) of revenues over expenditures	<u>(315,470)</u>	<u>(93,964)</u>	<u>(363,754)</u>
Other financing sources (uses)			
Operating transfers in	6,502,155	2,691,879	1,580,754
Operating transfers out	(6,502,155)	(2,691,879)	(1,580,754)
Non-operating loss		(112,262)	
Payment to refunded bond escrow agent			
Bond proceeds			
Other debt service costs		(4,980,867)	
Debt proceeds		<u>9,950,000</u>	
Total other financing sources (uses)		4,856,871	
Excess (deficiency) of revenues and other sources over expenditures and other uses	(315,470)	4,762,907	(363,754)
Fund balances - October 1	<u>13,291,458</u>	<u>8,528,552</u>	<u>8,892,403</u>
Fund balances - September 30	<u>\$12,975,988</u>	<u>\$ 8,528,552</u>	<u>\$ 8,528,649</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
 Members of the City Council
 City of Destin, Florida

We have audited the accompanying general purpose financial statements and the combining and individual fund and account group financial statements of the City of Destin, Florida, as of and for the year ended September 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the City of Destin, Florida, management. Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Destin, Florida, as of September 30, 2003, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material aspects, the financial position of each of the individual funds and account groups of the City of Destin, Florida, as of September 30, 2003, and the results of operations of such funds 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 a report dated January 28, 2004 on our consideration of the City of Destin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of federal awards and state financial assistance projects is presented for purposes of additional analysis as required by 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, *Florida Single Audit Act Audits – Nonprofit and For-profit Organizations*, and is not a required part of the general purpose financial statements of the City of Destin, Florida. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the combining and individual fund and account group financial statements. The statistical data listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City of Destin, Florida. Such information has not been subjected to the auditing procedures applied in the audit of the general purpose, combining and individual fund and account group financial statements, and, accordingly, we express no opinion on it.

Carly Riggs & Ingram, L.L.C.

Destin, Florida
January 28, 2004

General Purpose Financial Statements

September 30, 2003

This section contains all of the financial statements, together with the related notes to financial statements, considered necessary to fairly present the financial position of The City of Destin, Florida, and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

City of Destin, Florida
 Combined Balance Sheet
 All Funds Types and Account Groups

September 30,

2003

2002

	<u>Governmental Fund Types</u>				<u>Fiduciary</u>	<u>Account Groups</u>		<u>Totals</u> (Memorandum only)	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>General Fixed Asset</u>	<u>General Long-Term Debt</u>		
Assets and other debits									
Cash and cash equivalents	\$ 6,673,272	\$ 1,187,860	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,861,132	\$ 6,929,930
Investments, at fair value	-	-	213,811	4,880,515	1,543,139	-	-	6,637,465	7,358,787
Receivables	29,857	88,587	-	-	-	-	-	118,444	377,783
Due from other funds	919,693	31,682	-	15,000	-	-	-	966,375	2,057,352
Due from other governments	433,686	213,572	-	-	-	-	-	647,258	720,414
Prepays	5,026	833	-	-	-	-	-	5,859	14,553
Deferred charges and intangibles	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
General fixed assets	-	-	-	-	-	21,624,052	-	21,624,052	19,984,300
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	17,381,455	17,381,455	17,097,367
Amounts available in debt service funds	-	-	-	-	-	-	209,589	209,589	833,677
Total assets	\$ 8,061,534	\$ 1,522,534	\$ 213,811	\$ 4,895,515	\$ 1,543,139	\$ 21,624,052	\$ 17,591,044	\$ 55,451,629	\$ 55,374,163

(continued)

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

City of Destin, Florida
 Combined Balance Sheet
 All Fund Types and Account Groups (Continued)

September 30,

2003

2002

	<u>Governmental Fund Types</u>				<u>Fiduciary</u>	<u>Account Groups</u>		<u>Totals</u> (Memorandum only)	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>General Fixed Asset</u>	<u>General Long-Term Debt</u>		
Liabilities, Equity and Other Credits									
Liabilities									
Accounts payable	\$ 408,532	\$ 5,994	\$ -	\$ 4,491	\$ -	\$ -	\$ -	\$ 419,017	\$ 557,940
Accrued liabilities	215,256	-	-	-	-	-	6,044	221,300	241,907
Due to other funds	428,560	312,438	4,222	134,191	86,964	-	-	966,375	2,057,352
Due to depositors	76,626	-	-	-	-	-	-	76,626	40,711
Deferred revenues	127,096	-	-	-	-	-	-	127,096	176,405
Capital improvement bonds payable	-	-	-	-	-	-	17,585,000	17,585,000	17,925,000
Total liabilities	1,256,070	318,432	4,222	138,682	86,964	-	17,591,044	19,395,414	20,999,315
Equity and other credits									
Investment in general fixed assets	-	-	-	-	-	21,624,052	-	21,624,052	19,984,300
Fund balances									
Reserved for encumbrances	909,353	47,709	-	1,603,077	-	-	-	2,560,139	4,128,133
Reserved for prepaids	5,026	833	-	-	-	-	-	5,859	14,551
Reserved for debt service	-	-	209,589	-	-	-	-	209,589	833,677
Reserved for employees retirement	-	-	-	-	1,456,175	-	-	1,456,175	1,099,090
Unreserved									
Designated for capital projects	5,891,085	-	-	3,153,756	-	-	-	9,044,841	7,269,324
Undesignated	-	1,155,560	-	-	-	-	-	1,155,560	1,045,774
Total equity and other credits	6,805,464	1,204,102	209,589	4,756,833	1,456,175	21,624,052	-	36,056,215	34,374,849
Total liabilities, equity and other credits	\$ 8,061,534	\$ 1,522,534	\$ 213,811	\$ 4,895,515	\$ 1,543,139	\$ 21,624,052	\$ 17,591,044	\$ 55,451,629	\$ 55,374,164

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

City of Destin
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances
 All Governmental Fund Types

Year ended September 30,	2003				2002	
	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum only)	
Revenues						
Taxes	\$ 4,730,092	\$ 2,520,273	\$ -	\$ -	\$ 7,250,365	\$ 6,642,959
Licenses and permits	485,502	-	-	-	485,502	474,033
Intergovernmental	1,729,595	859,918	-	-	2,589,513	1,943,855
Charges for services	415,036	-	-	-	415,036	353,703
Special assessments	355,632	-	-	-	355,632	529,247
Fines and forfeits	111,256	-	-	-	111,256	75,605
Miscellaneous	185,841	8,971	7,086	84,025	285,923	601,503
Total revenue	8,012,954	3,389,162	7,086	84,025	11,493,227	10,620,905
Expenditures						
Current						
General government services	2,763,385	23,190	-	-	2,786,575	2,450,190
Public safety	2,309,660	-	-	-	2,309,660	1,346,758
Physical environment	214,486	-	-	249,962	464,448	105,113
Transportation	1,909,629	-	-	-	1,909,629	1,346,678
Economic environment	7,413	-	-	-	7,413	9,040
Human services	69,741	-	-	-	69,741	42,901
Culture/recreation	1,285,580	-	-	-	1,285,580	992,279
Capital outlay	1,549,817	60,152	-	85,729	1,695,698	3,381,209
Debt service	579,211	-	700,742	-	1,279,953	1,040,702
Total expenditures	10,688,922	83,342	700,742	335,691	11,808,697	10,714,870
Excess (deficiency) of revenues over expenditures	(2,675,968)	3,305,820	(693,656)	(251,666)	(315,470)	(93,965)
Other financing sources (uses)						
Operating transfers in	4,842,879	-	949,167	710,109	6,502,155	2,691,881
Operating transfers out	(2,474,210)	(3,148,327)	(879,599)	(19)	(6,502,155)	(2,691,881)
Non-operating loss	-	-	-	-	-	(112,262)
Payment to refunded bond escrow agent	-	-	-	-	-	(4,980,867)
Bond proceeds	-	-	-	-	-	9,950,000
Total other financing sources (uses)	2,368,669	(3,148,327)	69,568	710,090	-	4,856,871
Excess (deficiency) of revenues and other sources over expenditures and other uses	(307,299)	157,493	(624,088)	458,424	(315,470)	4,762,906
Fund balances - October 1	7,112,763	1,046,609	833,677	4,298,409	13,291,458	8,528,552
Fund balances - September 30	\$ 6,805,464	\$ 1,204,102	\$ 209,589	\$ 4,756,833	\$ 12,975,988	\$ 13,291,458

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

City of Destin, Florida
 Combined Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 All Governmental Fund Types

Year ended September 30, 2003

	<u>General Fund</u>			<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues									
Taxes	\$ 4,868,027	\$ 4,730,092	\$ (137,935)	\$ 2,217,882	\$ 2,520,273	\$ 302,391	\$ -	\$ -	\$ -
Licenses and permits	505,000	485,502	(19,498)	-	-	-	-	-	-
Intergovernmental	417,185	1,729,595	1,312,410	850,800	859,918	9,118	-	-	-
Charges for services	407,205	415,036	7,831	-	-	-	-	-	-
Special assessments	-	355,632	355,632	-	-	-	-	-	-
Fines and forfeits	78,500	111,256	32,756	-	-	-	-	-	-
Miscellaneous	340,800	185,841	(154,959)	75,000	8,971	(66,029)	5,000	7,086	2,086
Total revenues	6,616,717	8,012,954	1,396,237	3,143,682	3,389,162	245,480	5,000	7,086	2,086
Expenditures									
Current									
General government services	3,141,259	2,763,385	377,874	47,500	23,190	24,310	-	-	-
Public safety	1,562,653	2,309,660	(747,007)	-	-	-	-	-	-
Physical environment	133,485	214,486	(81,001)	-	-	-	-	-	-
Transportation	1,526,025	1,909,629	(383,604)	-	-	-	-	-	-
Economic environment	11,119	7,413	3,706	-	-	-	-	-	-
Human services	68,241	69,741	(1,500)	-	-	-	-	-	-
Culture/recreation	1,533,182	1,285,580	247,602	-	-	-	-	-	-
Capital outlay	2,052,967	1,549,817	503,150	180,425	60,152	120,273	-	-	-
Debt service	682,865	579,211	103,654	-	-	-	698,544	700,742	(2,198)
Total expenditures	10,711,796	10,688,922	22,874	227,925	83,342	144,583	698,544	700,742	(2,198)
Excess (deficiency) of revenues over expenditures	(4,095,079)	(2,675,968)	1,419,111	2,915,757	3,305,820	390,063	(693,544)	(693,656)	(112)
Other financing sources (uses)									
Operating transfers in	2,237,212	4,842,879	2,605,667	-	-	-	693,544	949,167	255,623
Operating transfers out	(304,202)	(2,474,210)	(2,170,008)	(2,935,757)	(3,148,327)	(212,570)	-	(879,599)	(879,599)
Total other financing sources (uses)	1,933,010	2,368,669	435,659	(2,935,757)	(3,148,327)	(212,570)	693,544	69,568	(623,976)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(2,162,069)	(307,299)	1,854,770	(20,000)	157,493	177,493	-	(624,088)	(624,088)
Fund balance - October 1	7,112,763	7,112,763	-	1,046,609	1,046,609	-	833,677	833,677	-
Fund balance - September 30	\$ 4,950,694	\$ 6,805,464	\$ 1,854,770	\$ 1,026,609	\$ 1,204,102	\$ 177,493	\$ 833,677	\$ 209,589	\$ (624,088)

(continued)

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

City of Destin, Florida
 Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)
 Budget and Actual
 All Governmental Fund Types

Year ended September 30, 2003

	Capital Projects Funds			Total (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ 7,085,909	\$ 7,250,365	\$ 164,456
Licenses and permits	-	-	-	505,000	485,502	(19,498)
Intergovernmental	-	-	-	1,267,985	2,589,513	1,321,528
Charges for services	-	-	-	407,205	415,036	7,831
Special assessments	-	-	-	-	355,632	355,632
Fines and forfeits	-	-	-	78,500	111,256	32,756
Miscellaneous	-	84,025	84,025	420,800	285,923	(134,877)
Total revenues	-	84,025	84,025	9,765,399	11,493,227	1,727,828
Expenditures						
Current						
General government services	-	-	-	3,188,759	2,786,575	402,184
Public safety	-	-	-	1,562,653	2,309,660	(747,007)
Physical environment	-	249,962	(249,962)	133,485	464,448	(330,963)
Transportation	-	-	-	1,526,025	1,909,629	(383,604)
Economic environment	-	-	-	11,119	7,413	3,706
Human services	-	-	-	68,241	69,741	(1,500)
Culture/recreation	-	-	-	1,533,182	1,285,580	247,602
Capital outlay	-	85,729	(85,729)	2,233,392	1,695,698	537,694
Debt service	-	-	-	1,381,409	1,279,953	101,456
Total expenditures	-	335,691	(335,691)	11,838,265	11,808,697	(170,432)
Excess (deficiency) of revenues over expenditures	-	(251,666)	(251,666)	(1,872,866)	(315,470)	1,557,396
Other financing sources (uses)						
Operating transfers in	-	710,109	710,109	2,930,756	6,502,155	3,571,399
Operating transfers out	-	(19)	(19)	(3,239,959)	(6,502,155)	(3,262,196)
Total other financing sources (uses)	-	710,090	710,090	(309,203)	-	309,203
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	458,424	458,424	(2,182,069)	(315,470)	1,866,599
Fund balance-October 1	4,298,409	4,298,409	-	13,291,458	13,291,458	-
Fund balance-September 30	\$ 4,298,409	\$ 4,756,833	\$ 458,424	\$ 11,109,389	\$ 12,975,988	\$ 1,866,599

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

City of Destin, Florida
 Combined Statements of Changes in Net Assets
 Pension Trust Fund

<i>Year ended September 30,</i>	2003	2002
Additions		
Contributions	\$ 247,209	\$ 232,316
Investment income:		
Interest income	36,695	53,432
Net investment gains (losses)	190,212	(148,744)
Total investment income	226,907	(95,312)
Total additions	474,116	137,004
Deductions		
Administrative expenses	9,695	-
Benefits paid	107,336	170,084
Total deductions	117,031	170,084
Net increase (decrease)	357,085	(33,080)
Net assets - October 1	1,099,090	1,132,170
Net assets - September 30	\$ 1,456,175	\$ 1,099,090

The accompanying notes are an integral part of these financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Destin, Florida (the "City") was established on November 9, 1984. The City's original charter was enacted as Chapter 84-422, Laws of Florida, on June 25, 1984. The present charter was certified November 9, 1984 by referendum. The City operates under a Council-Manager form of government and provides the following services: public safety (law enforcement and protective inspections), transportation (road and street facilities), culture and recreation (library, community center, parks and recreation, and special events), physical environment (cemetery), and general governmental services (including planning and zoning).

The accounting policies of the City conform to generally accepted accounting principles (GAAP) applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33 of the Florida Statutes. This uniform classification of accounts (utilized in these financial statements) is designed to standardize financial reporting among local units of government within the State of Florida. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies of the City.

The Reporting Entity

In evaluating how to define the government, 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 by GAAP. The primary criteria for including organizations within the City's reporting entity, as defined by GASB No. 14, "The Financial Reporting Entity", is financial accountability. The City is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable if an organization is fiscally dependent on the City regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or (c) a jointly appointed board.

Community Redevelopment Agency – On October 5, 1998, The Destin City Council declared itself the Community Redevelopment Agency (CRA) pursuant to the provisions of Florida Statutes. This action, adopted by Ordinance Number 328, also outlined the rights, powers, duties, privileges and immunities invested in the members of the City Council acting as the CRA. The CRA selects a chairman and vice-chairman of the agency and approves the annual operating budget.

Based on the criteria above, the CRA is classified as a component unit in the accompanying financial statements of the City. The CRA is reported on a blended basis in the City's financial statements with the general fund of the CRA being reported as a special revenue fund of the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The City uses funds and account groups to report on the financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Included are pension trust funds held for the benefit of employees.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, franchise fees, interest revenue, intergovernmental revenues, and charges for services. Permit revenues are not susceptible to accrual because generally they are not available until received in cash.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The accrual basis of accounting is used in the pension trust fund. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred. Plan member contributions to the pension trust fund are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Budgets and Budgetary Accounting

Expenditures may not legally exceed budgeted appropriations at the fund level. The City Manager is authorized to transfer budgeted amounts within departments of a fund; however, any revisions that alter the total expenditures of any department must be approved by the City Council.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds, all of which have legally adopted budgets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The budget was adopted on a basis consistent with generally accepted accounting principles (GAAP) for the current fiscal year. Unexpended appropriations lapse at year-end. Budget appropriations presented include all legally adopted appropriations as amended during the fiscal year.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Cash and Investments

The City is authorized under Chapter 166.261, Florida Statutes, to invest and reinvest surplus public funds in its control or possession, in accordance with resolutions to be adopted from time to time. The City's primary investment objectives are preservation of capital and liquidity. Income is a secondary objective. With that in mind, the City's investment policy allows the following types of investments:

- (a) The local government Surplus Funds Trust Fund;
- (b) Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government at the then prevailing market price for such securities;
- (c) Interest-bearing time deposits or savings accounts in banks organized under the laws of Florida, in national banks organized under the laws of the United States and doing business and situated in Florida, in savings and loan associations which are under state supervision, or in federal savings and loan associations located in Florida and organized under federal law and federal supervision, provided that any such deposits are secured by collateral as may be prescribed by law;
- (d) Money market mutual funds that restrict investments to the United States Government obligations.

Investments are stated at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets and major improvements are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest cost is not capitalized on self-constructed fixed assets.

Public domain ("infrastructure") general fixed assets consist of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. These assets are not capitalized since they are immovable and of value only to the government.

Assets in the general fixed assets account group are not depreciated.

Accumulated Sick and Vacation Leave

The policy of the City for sick and vacation leave, as originally adopted on August 1, 1988, and last amended September 18, 2001, is as follows:

Sick Leave

Sick leave with pay may be granted to regular status, full-time employees and full-time probationary employees who have completed thirty (30) days of service. Sick leave with pay shall be earned at the rate of one (1) day per month.

Sick leave will be calculated from the first of the month in which the employee begins work, if the starting date occurs between the first and fifteenth of the month. Employees entering on duty after the fifteenth will begin leave from the first day of the month following employment.

Accumulation of unused sick leave is unlimited. Upon separation of employment, all accrued sick leave is forfeited; therefore, sick pay benefits that have been earned are not accrued, but rather recorded as an expenditure when employees are paid for days not worked due to illness.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vacation Leave

All full-time employees, excluding those classified as temporary, shall be entitled to have vacation leave credited to their account after satisfactorily completing a probationary period. Upon approval, once an employee completes their probationary period, he/she may use Vacation Leave as accrued. The employee can be paid for such leave upon separation, if he/she has successfully completed the probationary period.

An employee shall earn vacation leave based upon the number of years the employee has worked for the City. All service must be continuous to be credited toward accumulated vacation leave.

Vacation leave shall be earned at the following rate:

Years of Employment	Paid Vacation Days per Year
1st through 3rd	10
4th through 7th	12
8th through 12th	15
13 or more	18

When there has been a break in service of fifteen (15) working days or more, the employee, upon reinstatement or reemployment, will begin earning annual leave as a new employee. For purpose of calculation, annual leave will be calculated from the first of the month in which the employee begins work, if the starting date occurs between the first and fifteenth. Employees beginning employment after the fifteenth will begin earning leave from the first day of the month following employment.

Regular employees who resign or are separated in good standing shall receive pay for their accrued and unused annual leave. Only full calendar months of employment will be considered in computing annual leave and will be based upon the employee's regular rate of pay at separation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Accumulated Sick and Vacation Leave (continued)***

The total amounts of accumulated vacation leave and accumulated sick leave for the governmental funds as of September 30, 2003 follows:

	Annual Leave
Current	\$ 62,752
Long-Term	6,044
	<u>\$ 68,796</u>

Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Estimates

The presentation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Total Columns

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

Governmental Accounting Standards Board (GASB) Statement No. 34

GASB Statement No. 34 was issued in June, 1999 and will require governmental entities to significantly change the presentation of the basic financial statements. Implementation of GASB Statement No. 34 will be effective for the fiscal year ended September 30, 2004.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool available for use by all funds. In addition, money market accounts and securities are separately maintained by several of the City's Funds. The types of investments which can be made by the City are restricted by state statutes. A description of the requirements and the types of investments allowed can be found in Note 1.

The City maintains its deposits only with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. Under this method, all City of Destin deposits are fully insured or collateralized with securities held in Destin's name by the State Treasurer acting as the City's agent. The carrying value of deposits at September 30, 2003 was \$7,861,132. The City also maintains investment accounts with the State Board of Administration ("SBA") and a Deferred Compensation Account. The SBA external investment pool is a non-SEC registered investment pool maintained by the State of Florida for governmental entities. The fair value of the City's position in the pool is the same as the value of the pool shares.

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The City's deposits at the balance sheet date are entirely insured or collateralized with securities held by the City or by the State Treasurer under provisions of Chapter 280, Florida Statutes and are, therefore, insured for risk categorization disclosure purposes.

	Cost	Fair Value
Investment in Mutual Fund-Pension Plan Trust	\$ 1,611,548	\$ 1,543,139
Investment in state investment pool:		
Debt service fund	213,811	213,811
Capital projects fund	4,880,515	4,880,515
Total investments	6,705,874	6,637,465
Total deposits	7,861,132	7,861,132
Total deposits and investments	<u>\$ 14,567,006</u>	<u>\$ 14,498,597</u>

NOTE 3 - TAXES AND FEES

Ad Valorem Tax

The City's ad valorem taxes are assessed by the Okaloosa County Tax Assessor and collected by the Okaloosa County Tax Collector in accordance with the Laws of Florida. The City Council retains the right and duty to set the millage. No accrual has been made for 2003 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year. The following is the current property tax calendar.

Assessment date	January 1, 2003
Levy date	November 1, 2003
Due date	March 31, 2004
Delinquency date	April 1, 2004

Discounts of 1% for each month taxes are paid prior to March, 2004 are granted.

Notes to Financial Statements

NOTE 3 - TAXES AND FEES (CONTINUED)***Franchise and Other Fees***

As described in Note 9, certain franchise fees are pledged to repay the Capital Improvement Refunding Revenue Bonds, Series 2002.

Franchise Fees and other receivables at September 30, 2003, are composed of the following:

	General Fund	Special Revenue Fund	Total
Franchise fees:			
Gas	\$ 17,750	\$ -	\$ 17,750
Electricity	-	88,587	88,587
Solid Waste	4,410	-	4,410
Licenses/Permits	7,697	-	7,697
	<u>\$ 29,857</u>	<u>\$ 88,587</u>	<u>\$ 118,444</u>

NOTE 4 - DEFERRED REVENUE

Deferred revenue represents amounts collected from the sale of City business and professional occupational licenses for the year October 1, 2003 through September 30, 2004. These amounts will be recognized as revenue in the subsequent year.

Notes to Financial Statements

NOTE 5 - DUE FROM OTHER GOVERNMENTS

The amount due from other governments at September 30, 2003, is composed of the following:

	General Fund	Special Revenue Fund	Total
Federal - Hazard Mitigation Retrofit Grant	\$ 114,136	\$ -	\$ 114,136
State of Florida - Beach Erosion Grant	134,396	-	134,396
State of Florida - Median maintenance grant	17,180	-	17,180
State of Florida - Mobile home tax	24	-	24
State of Florida - Hazard Mitigation	19,023	-	19,023
State of Florida - Local option gas tax	-	22,134	22,134
State of Florida - Library grant	50,000	-	50,000
State of Florida - Alcohol and beverage licenses	28,927	-	28,927
State of Florida - 1/2 cent sales tax	-	81,248	81,248
State of Florida - Communications services tax	-	110,190	110,190
Okaloosa County - Old Pass Lagoon grant	10,000	-	10,000
Other - Northwest Florida Water Management	60,000	-	60,000
	<u>\$ 433,686</u>	<u>\$ 213,572</u>	<u>\$ 647,258</u>

NOTE 6 - FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance October 1, 2002	Additions	Disposals/ Transfers	Balance September 30, 2003
Land	\$ 3,940,706	\$ 29,588	\$ -	\$ 3,970,294
Buildings	3,464,419	-	3,642,318	7,106,737
Improvements	1,896,926	30,694	403,692	2,331,312
Library Books	610,436	40,843	-	651,279
Machinery and Equipment	1,336,768	194,019	207,700	1,738,487
Construction in progress	8,735,045	1,400,554	(4,309,656)	5,825,943
	<u>\$ 19,984,300</u>	<u>\$ 1,695,698</u>	<u>\$ (55,946)</u>	<u>\$ 21,624,052</u>

NOTE 7 - CONTINGENT LIABILITIES

Litigation and Other Matters

During 2003, the City was the defendant in various claims, generally concerning development issues. In the opinion of management, any future costs associated with these claims will not have a significant adverse effect on the accompanying financial statements, and accordingly, no provision for losses has been recorded.

Risk Management

The City purchases insurance coverage through commercial insurance carriers to cover liability, workmen's compensation, automobile, personal property, marine equipment and crime/fidelity risks. The City's liability and workmen's compensation policies are retrospective policies that require adjusted premium calculations following the end of the policy period; however, the City does not retain any risk of loss through these coverages. All policies have been maintained for several years without reductions in coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 8 - RETIREMENT PLANS

Deferred Compensation Plan

The City established and made available to all City employees, on October 1, 1985, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan allows a participant to elect deferral of any portion of their future salaries up to a maximum amount not to exceed the lesser of \$11,000, or 100% of the participating employee's includable compensation, as defined in Section 457(d)(5) of the Internal Revenue Code.

Participants who are within three years of the plan's normal retirement age are generally allowed to defer greater amounts of their includable compensation if desired. The City's only responsibilities with regard to the plan are to administer the authorized payroll deductions. All other administrative requirements are the responsibility of the entities holding plan investments. Funds are invested, at the participant's option, in annuity contracts and mutual funds.

NOTE 8 - RETIREMENT PLANS

Employee Thrift Plan

The City established the City of Destin Employee Thrift Plan on May 1, 1987, a defined contribution plan, made available to all City employees who have attained the age of eighteen, in accordance with Internal Revenue Service Code, Section 401(a) and 501(a) as amended from time to time. The plan is administered by the City. Employees make no contributions to this plan. The City's contribution to the Plan is an amount equal to 7.5% of the Participant's compensation for the plan year. In addition, the City will contribute on behalf of each Participant who makes a contribution to the Deferred Compensation Plan one dollar for every dollar of said contributions to the Deferred Compensation Plan, in increments of one percent of compensation. The additional matching contributions shall be limited to five percent of compensation. All forfeited non-vested amounts shall be applied to reduce employer contributions as of the last day of the plan year in which the terminated participant incurs his fifth consecutive one year break in service. Participants vest 20% in employee contributions after two years of continuous service, and vest an additional 10% each year until fully vested after 10 years of service. The Plan does not issue separately audited financial statements.

The City made all required contributions of \$247,209 during the fiscal year ended September 30, 2003. The contributions represent 9.8% of current year covered and total payroll of approximately \$2,506,000.

Payment of retired, disabled, deceased, or terminated Participant's vested benefits must commence not later than the 60th day after the close of the plan year in which the latest of the following events occurs:

- 1) the Participant attains the earlier of the Plan's Normal Retirement Age of 55;
- 2) the tenth anniversary of the Plan Year in which the Participant commenced participation in the plan; or
- 3) the Participant terminates his service with the City.

Notes to Financial Statements

NOTE 9 - LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the fiscal year ended September 30, 2003.

	Capital Improvement Revenue Bonds Series 1993B	Florida Municipal Loan Council Loan	Capital Improvement Revenue Bonds Series 2002	Accrued Annual Leave	Total
Long-term debt payable October 1, 2002	\$ 330,000	\$ 7,645,000	\$ 9,950,000	\$ 6,044	\$ 17,931,044
Bonds retired	(50,000)	(130,000)	(160,000)	-	(340,000)
Long-term debt payable September 30, 2003	\$ 280,000	\$ 7,515,000	\$ 9,790,000	\$ 6,044	\$ 17,591,044

Capital Improvement Revenue Bonds, Series 1993B

On August 26, 1993, the City issued \$680,000 in Capital Improvement Revenue Bonds, Series 1993B to finance the cost of construction of various capital improvements within the City.

The Capital Improvement Revenue Bonds, Series 1993B ordinances provide for:

A. Establishment and maintenance of various funds -

- Capital Improvement Revenue Bond Series 1993B Special Revenue Fund records pledged revenues consisting of the Local Option Gas Tax and investment earnings;
- Capital Improvement Revenue Bonds Sinking Fund Series 1993B records all the debt service requirements of the issue which includes the principal, interest and reserve requirements; and

NOTE 9 - LONG-TERM DEBT (CONTINUED)

B. Restrictions on the use of cash accumulated in the Capital Improvement Revenue Bonds, Series 1993B, Special Revenue Fund, in order of priority, are as follows:

- Deposits to the Sinking Fund are required on or before the fifteenth day of each month equal to one-sixth (1/6) of the interest coming due on the next semiannual interest payment date and one-twelfth (1/12) of the principal coming due on the next principal maturity date;
- Deposits to the Reserve Account in the Sinking Fund, a sum sufficient to maintain the reserve requirement, currently fully funded (as defined in Section 18(c)(3) of Ordinance No.247); and
- Balance remaining may be used for the purchase or redemption of the Bonds or for any lawful purpose after making all of the above required payments.

During the fiscal year ended September 30, 2003, the debt service fund related to the 1993B bond issue had excess expenditures and other uses of \$621,128 over revenues and other sources due to the transfer of excess funds to the 2002 bond issue debt service fund.

Florida Municipal Loan Council Loan

The Florida Municipal Loan Program is a program sponsored and administered by the Florida League of Cities, Inc. Upon entering the program, the City signed an interlocal agreement which admitted them as a member to the Florida Municipal Loan Council (the "Council"). The Council is a separate legal entity and special district under the laws of the State of Florida in accordance with Chapter 163, Part I, Florida Statutes, as amended.

Effective November 1, 2001, the Council closed on the Florida Municipal Loan Council Revenue Bonds, Series 2001B. The total issue was for \$26,245,000. There were six borrowers in the issue, including the City, which borrowed a total of \$7,885,000 under a separate loan agreement with the Council. The purpose of the borrowing by the City was to finance capital projects including a sports complex, a public works facility and a library.

Payments on the loan are due semiannually each May 1 and November 1 through 2029 with interest rates ranging from 3.85% to 5.75% over the term of the loan. Principal payments are only made with the November 1 payment. The City is also required to pay annual administration and trustee fees, which total less than \$9,000 annually. There are no specific requirements under the loan agreement for the creation of special debt service sinking funds; therefore, the semiannual payments made by the City are reflected as expenditures of the General Fund.

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Capital Improvement Revenue Bonds, Series 2002

On March 28, 2002, the City issued \$9,950,000 in revenue bonds with interest rates ranging from 3.0% to 5.125%. Of the net proceeds of \$9,436,671, an amount of \$3,836,671 plus an additional \$630,867 from the 1993A Sinking and Reserve funds were deposited in escrow to pay off the remaining principal and accrued interest on the Capital Improvement Refunding Revenue Bonds, Series 1993A. The 1993A Bonds were fully redeemed by the escrow agent on May 15, 2002.

Of the remaining proceeds of the Series 2002 bonds, \$5,600,000 was deposited to a Construction account to fund the City's five year improvement plan. This plan includes sidewalks; road improvements; the acquisition of land for recreation, cemetery and other public purposes; a community swimming pool; and the completion of a stormwater plan.

The Capital Improvement Revenue Bonds, Series 2002 ordinance provides for:

A. Establishment and maintenance of various funds -

- Capital Improvement Revenue Bond Series 2002 Special Revenue Fund records pledged revenues consisting of the ½ Cent Sales Tax, Electric Franchise Fees and Communications Services Taxes and investment earnings;
- Capital Improvement Revenue Bonds Series 2002 Debt Service Fund records all the debt service requirements of the issue which includes the principal, interest and reserve requirements.

B. Restrictions on the use of cash accumulated in the Capital Improvement Revenue Bonds, Series 2002, Special Revenue Fund, in order of priority, are as follows:

- Deposits to the Interest and Principal Bond Amortization Accounts are required on or before the fifteenth day of each month equal to one-sixth (1/6) of the interest coming due on the next semiannual interest payment date and one-twelfth (1/12) of the principal coming due on the next principal maturity date;

Notes to Financial Statements

NOTE 9 - LONG-TERM DEBT (CONTINUED)

- Deposits to a Rebate Account, if necessary, to cover the any potential liabilities associated with arbitrage costs related to the bonds; and
- Balance remaining may be used for the purchase or redemption of the Bonds or for any lawful purpose after making all of the above required payments.

General Long-Term Debt Account Group is comprised of the following as of September 30, 2003:

<p>\$680,000 Capital Improvement Revenue Bonds, Series 1993B, serial bonds due in annual installments of \$35,000 through \$60,000 through August 1, 2008, interest ranging from 3.50% to 5.50% per annum. The local option gas tax receipts are pledged for payment of this obligation.</p>	<p>\$ 280,000</p>
<p>\$7,855,000 loan through the Florida Municipal Loan Council due in annual installments of \$115,000 through \$520,000 through November 1, 2029, interest ranging from 3.85% to 5.75% per annum.</p>	<p>7,515,000</p>
<p>\$9,950,000 Capital Improvement Revenue Bonds, Series 2002, due in annual installments of \$630,000 through \$653,000 through March 1, 2031, interest ranging from 3% to 5.12% per annum. The half cent sales tax, electric franchise fees and communications services tax are pledged for payment of this obligation.</p>	<p>9,790,000</p>
<p>Long term portion of accumulated, vested annual leave.</p>	<p><u>6,044</u></p>
	<p><u>\$ 17,591,044</u></p>

Notes to Financial Statements

NOTE 9 - LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all debts outstanding, except compensated absences, as of September 30, 2003, including interest payments of \$15,619,144 are as follows:

	Revenue Bonds Series 1993B	Florida Municipal Loan Council	Revenue Bonds Series 2002	Total
2004	\$ 65,033	\$ 547,346	\$ 641,161	\$ 1,253,540
2005	67,458	546,364	640,912	1,254,734
2006	64,570	545,021	650,061	1,259,652
2007	66,600	543,309	648,236	1,258,145
2008	63,300	546,099	655,736	1,265,135
2009	-	543,379	652,136	1,195,515
2010	-	545,175	658,117	1,203,292
2011	-	546,306	658,246	1,204,552
2012	-	546,319	657,711	1,204,030
2013	-	545,319	651,491	1,196,810
2014	-	543,500	654,791	1,198,291
2015	-	540,850	652,142	1,192,992
2016	-	542,931	653,746	1,196,677
2017	-	544,309	654,496	1,198,805
2018	-	539,684	654,218	1,193,902
2019	-	539,356	653,131	1,192,487
2020	-	538,184	650,881	1,189,065
2021	-	540,831	652,881	1,193,712
2022	-	537,288	653,881	1,191,169
2023	-	537,737	653,882	1,191,619
2024	-	537,038	652,881	1,189,919
2025	-	535,188	650,881	1,186,069
2026	-	537,044	652,881	1,189,925
2027	-	537,462	653,632	1,191,094
2028	-	536,444	653,131	1,189,575
2029	-	533,987	650,713	1,184,700
2030	-	534,950	652,013	1,186,963
2031	-	-	651,775	651,775
	<u>\$ 326,961</u>	<u>\$ 14,611,420</u>	<u>\$ 18,265,763</u>	<u>\$ 33,204,144</u>

Notes to Financial Statements

NOTE 10 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosure, as part of the General Purpose Financial Statements, of certain information concerning individual funds including interfund receivables and payables, as follows:

Fund	Receivable	Payable
General	\$ 919,693	\$ 428,560
2002 Bond Series Special Revenue	60	288,521
Community Redvelopment Agency	31,622	23,917
1993 Bond Series Debt Service	-	4,222
1993 Bond Series Capital Projects	15,000	-
2002 Bond Series Capital Projects	-	134,191
Pension Trust	-	86,964
	\$ 966,375	\$ 966,375

APPENDIX H

FINANCIAL INFORMATION REGARDING THE TOWN OF EATONVILLE

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TOWN OF EATONVILLE, FLORIDA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues			
Ad valorem taxes	\$907,400	\$919,291	\$552,367
Franchise taxes	211,642	214,000	247,130
Utility taxes	206,384	341,140	316,771
Intergovernmental revenue	869,294	876,702	917,623
Licenses and permits	63,350	66,540	139,326
Charges for services	30,503	43,570	41,926
Fines and forfeits	24,205	62,533	52,435
Investment income	6,011	7,633	
Miscellaneous revenue	<u>150,920</u>	<u>142,317</u>	<u>104,791</u>
Total Revenues	\$2,569,709	\$2,673,726	\$2,372,369
Expenditures			
Current:			
Community redevelopment	305,743	28,654	
General government	683,219	743,142	715,087
Public safety	1,183,614	1,255,334	1,094,799
Physical environment	89,654	150,682	248,391
Economic environment	43,987	50,560	42,117
Human Services	311	-	86,564
Culture and recreation	201,708	373,369	210,955
Capital Outlay	357,570	128,569	91,598
Debt Service:			
Principal	88,065	107,656	119,616
Interest	<u>97,069</u>	<u>103,212</u>	<u>105,340</u>
Total Expenditures	\$3,050,940	\$2,941,178	\$2,714,467
Excess (Deficiency) of revenues over expenditures	(481,231)	(267,452)	(342,098)
Other Financing Sources (Uses):			
Operating Transfers in - Water and Sewer Fund	99,714	120,630	269,127
Operating Transfers out - Special Revenue Fund	(42,870)		
Operating Transfers out - Capital Projects Fund	(94,294)	(291,206)	26,000
Operating Transfers to (Special revenue)			(47,691)
Operating Transfers in - General Fund	137,164	(291,206)	21,691
Proceeds from debt issuance		<u>200,000</u>	<u>22,968</u>
Total other financing sources	<u>99,714</u>	<u>320,630</u>	<u>292,095</u>
Fund Balance October 1	920,269	851,886	901,889
Restatements (correction of prior period errors)		<u>15,205</u>	
Fund Balance October 1 - as restated		867,091	
Excess (Deficiency) of revenues and other financing sources over expenditures	(381,517)	53,178	(50,003)
Residual equity transfers in (out)			
Fund Balance September 30	<u>\$ 538,752</u>	<u>\$ 920,269</u>	<u>\$ 851,886</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.



Independent Auditor's Report

The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

We have audited the accompanying general purpose financial statements of the Town of Eatonville, Florida, as of and for the year ended September 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Eatonville, Florida's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with 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 Controller of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Inadequacies in the Town's accounting records and lack of accounting controls over interfund transactions and fixed assets, made it impracticable for us to extend our audit of such accounts beyond the amounts recorded.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding interfund transactions, the financial statements referred to above, present fairly, in all material respects, the financial position of the Town of Eatonville, Florida as of September 30, 2003, and the results of its operations and its cash flows of its proprietary fund types and nonexpendable trust 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 issued our report dated October 30, 2004 on our consideration of Town of Eatonville, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information on pages 34 through 37 is not a required part of the general purpose financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the general purpose financial ~~statements taken as a whole. The individual fund and combining financial statements and~~ account group schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of The Town of Eatonville, Florida. Except as discussed in paragraph 3 above, such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

L.F. Harris & Associates

October 30, 2004
Orlando, Florida



TOWN OF EATONVILLE, FLORIDA
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
Year Ended September 30, 2003

		Governmental Fund Types		
		General	Capital Projects	Special Revenue
ASSETS AND OTHER DEBITS:				
ASSETS:				
1	Cash and cash equivalents	\$ -	\$ 488,977	\$ 7,859
	Receivables (net of allowances)			
2	or uncollectible of \$20,660	42,040	-	-
3	Unbilled receivables	-	-	-
4	Prepaid expenses	28,831	-	5,249
5	Due from other Funds	274,435	-	-
6	Advances to Other Funds	-	-	227,799
Restricted assets:				
7	Cash and cash equivalents	26,000	-	14,968
8	Investments	-	-	-
9	Due from other governmental agencies	56,043	50,564	33,276
Property and equipment, at cost:				
10	Land and paving	-	-	-
11	Buildings	-	-	-
12	Improvements other than buildings	-	-	-
13	Furniture and equipment	-	-	-
14	Vehicles	-	-	-
15	Water distribution system	-	-	-
16	Sewer system	-	-	-
17	Construction in progress	-	-	-
18	Accumulated depreciation	-	-	-
OTHER DEBITS:				
19	Amount to be provided - debt retirement	-	-	-
TOTAL ASSETS AND OTHER DEBITS		\$ 427,349	\$ 539,541	\$ 289,151

	Proprietary	Fiduciary	Account Groups		
	Fund Type	Fund Type	General	General	Total
	Enterprise	Trust	Fixed	Long-Term	(Memorandum
	Fund	Fund	Assets	Debt	Only)
1	\$ 91,760	\$ 66	\$ -	\$ -	\$ 588,662
2	84,943	28,574	-	-	155,557
3	90,815	-	-	-	90,815
4	-	-	-	-	34,080
5	320,964	752	-	-	596,151
6	-	-	-	-	227,799
7	43,003	10,195	-	-	94,166
8	-	312,477	-	-	312,477
9	-	-	-	-	139,883
10	2,500	-	3,131,087	-	3,133,587
11	-	-	2,096,590	-	2,096,590
12	-	-	539,227	-	539,227
13	164,751	-	1,057,840	-	1,222,591
14	120,978	-	174,318	-	295,296
15	1,352,045	-	-	-	1,352,045
16	1,328,916	-	-	-	1,328,916
17	-	-	682,612	-	682,612
18	(1,163,202)	-	-	-	(1,163,202)
19	-	-	-	2,021,968	2,021,968
	<u>\$ 2,437,473</u>	<u>\$ 352,064</u>	<u>\$ 7,681,674</u>	<u>\$ 2,021,968</u>	<u>\$ 13,749,220</u>

See accompanying notes to general purpose financial statements

TOWN OF EATONVILLE, FLORIDA
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
Year Ended September 30, 2003

		Governmental Fund Types		
		General	Capital Projects	Special Revenue
LIABILITIES AND OTHER CREDITS				
LIABILITIES:				
1	Accounts payable	\$ 44,961	\$ 128	\$ 1,463
2	Accounts payable bank over draft	39,818	-	13,384
3	Current portion of long-term debt	-	-	-
4	Current portion of capital lease	-	-	-
5	Customer deposits	-	-	-
6	Accrued liabilities	72,589	-	32,453
7	Due to other funds	69,885	142,242	-
8	Advances from other funds	227,799	-	-
9	Deferred grant revenue	-	-	72,567
10	Revenue bonds payable	-	-	-
11	Compensated absences	-	-	-
12	Notes and capital lease	-	-	-
TOTAL LIABILITIES		<u>455,052</u>	<u>142,370</u>	<u>119,867</u>
FUND EQUITY (DEFICIT) AND OTHER CREDITS:				
13	Investment in general fixed assets	-	-	-
14	Contributed Capital	-	-	-
Retained earnings:				
15	Unreserved	-	-	-
16	Reserved for debt service	-	-	-
Fund balance (deficit) and net assets:				
Reserved for:				
17	Debt Service	26,000	-	-
18	Capital Projects	-	397,171	-
19	Advances to General Fund	-	-	165,026
20	Net assets available for pension benefits	-	-	-
21	Unreserved	(53,703)	-	4,258
TOTAL FUND EQUITY (DEFICIT)		<u>(27,703)</u>	<u>397,171</u>	<u>169,284</u>
22	AND OTHER CREDITS	<u>(27,703)</u>	<u>397,171</u>	<u>169,284</u>
TOTAL LIABILITIES, FUND EQUITY				
23	(DEFICIT) AND OTHER CREDITS	<u>\$ 427,349</u>	<u>\$ 539,541</u>	<u>\$ 289,151</u>

	Proprietary		Account Groups		
	Fund Type	Fund Type	General	General	Total
	Enterprise	Trust	Fixed	Long-Term	(Memorandum
	Fund	Fund	Assets	Debt	Only)
1	\$ 49,511	\$ -	\$ -	\$ -	\$ 96,063
2	-	-	-	-	53,202
3	13,610	-	-	-	13,610
4	36,636	-	-	-	36,636
5	34,854	-	-	-	34,854
6	4,099	-	-	-	109,141
7	384,024	-	-	-	596,151
8	-	-	-	-	227,799
9	2,771	-	-	-	75,338
10	126,000	-	-	1,780,000	1,906,000
11	13,391	-	-	18,018	31,409
12	66,037	-	-	223,950	289,987
	<u>730,933</u>	<u>-</u>	<u>-</u>	<u>2,021,968</u>	<u>3,470,190</u>
13	-	-	7,681,674	-	7,681,674
14	1,217,068	-	-	-	1,217,068
15	433,704	-	-	-	433,704
16	55,768	-	-	-	55,768
17	-	-	-	-	26,000
18	-	-	-	-	397,171
19	-	-	-	-	165,026
20	-	352,064	-	-	352,064
21	-	-	-	-	(49,445)
22	<u>1,706,540</u>	<u>352,064</u>	<u>7,681,674</u>	<u>-</u>	<u>10,279,030</u>
23	<u>\$ 2,437,473</u>	<u>\$ 352,064</u>	<u>\$ 7,681,674</u>	<u>\$ 2,021,968</u>	<u>\$ 13,749,220</u>

See accompanying notes to general purpose financial statements

TOWN OF EATONVILLE, FLORIDA
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES
-Year Ended September 30, 2003

	Governmental Fund Types			Total (Memorandum Only)
	General	Capital Project	Special Revenue	
REVENUES				
Ad valorem taxes	\$ 907,400	\$ -	\$ -	\$ 907,400
Franchise taxes	211,642	-	-	211,642
Utility taxes	306,384	-	-	306,384
Intergovernmental revenue	421,749	50,564	396,981	869,294
Licenses and permits	63,350	-	-	63,350
Charges for services	30,503	-	-	30,503
Fines and forfeits	24,205	-	-	24,205
Investment income	-	6,011	-	6,011
Miscellaneous revenues	65,431	1,013	84,476	150,920
Total Revenues	2,030,664	57,588	481,457	2,569,709
EXPENDITURES				
Current:				
Community redevelopment	-	-	305,743	305,743
General government	683,219	-	-	683,219
Public safety	1,041,611	-	142,003	1,183,614
Physical environment	89,654	-	-	89,654
Economic environment	43,987	-	-	43,987
Human Services	311	-	-	311
Culture and recreation	82,701	-	119,007	201,708
CAPITAL OUTLAY	25,394	295,373	36,803	357,570
DEBT SERVICE:				
Principal	88,065	-	-	88,065
Interest	97,069	-	-	97,069
Total Expenditures	2,152,011	295,373	603,556	3,050,940
Excess (Deficiency) of revenues over expenditures	(121,347)	(237,785)	(122,099)	(481,231)
OTHER FINANCING SOURCES (USES):				
Operating transfers in - Water and Sewer Fund	99,714	-	-	99,714
Operating transfers out - Special Revenue Fund	(42,870)	-	-	(42,870)
Operating transfers out - Capital Projects Fund	(94,294)	-	-	(94,294)
Operating transfers in - General Fund	-	94,294	42,870	137,164
Total other financing sources	(37,450)	94,294	42,870	99,714
FUND BALANCE October 1, 2002	185,609	540,662	193,998	920,269
Excess (Deficiency) of revenues and other financing sources over expenditures	(158,797)	(143,491)	(79,229)	(381,517)
Residual equity transfers in (out)	(54,515)	-	54,515	-
FUND BALANCE September 30, 2003	\$ (27,703)	\$ 397,171	\$ 169,284	\$ 538,752

See accompanying notes to general purpose financial statements

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TOWN OF EATONVILLE, FLORIDA

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -**

BUDGET AND ACTUAL -

ALL GOVERNMENTAL FUND TYPES

Year Ended September 30, 2003

	General Fund		
	Budget		Variance
	As amended	Actual	Favorable (Unfavorable)
REVENUES			
Ad valorem taxes	\$ 911,793	\$ 907,400	\$ (4,393)
Franchise taxes	211,200	211,642	442
Utility taxes	333,459	306,384	(27,075)
Intergovernmental revenue	1,822,606	421,749	(1,400,857)
Licenses and permits	74,000	63,350	(10,650)
Charges for services	48,000	30,503	(17,497)
Fines and forfeits	34,900	24,205	(10,695)
Miscellaneous revenues	45,700	65,431	19,731
Total Revenues	3,481,658	2,030,664	(1,450,994)
EXPENDITURES			
Current:			
General government	1,002,126	683,219	318,907
Public safety	1,079,055	1,041,611	37,444
Physical environment	535,336	89,654	445,682
Economic environment	32,000	43,987	(11,987)
Human Services	106,910	311	106,599
Culture and recreation	348,770	82,701	266,069
CAPITAL OUTLAY	552,022	25,394	526,628
DEBT SERVICE:			
Principal	55,000	88,065	(33,065)
Interest	30,000	97,069	(67,069)
Total Expenditures	3,741,219	2,152,011	1,589,208
Excess (Deficiency) of revenues over expenditures	(259,561)	(121,347)	138,214
OTHER FINANCING SOURCES (USES):			
Operating transfer in (out):			
Water and Sewer Fund	236,000	99,714	(136,286)
Special Revenue	-	(42,870)	(42,870)
Capital Projects	-	(94,294)	(94,294)
Total other financing sources	236,000	(37,450)	(273,450)
FUND BALANCE October 1, 2002	185,609	185,609	-
Excess (Deficiency) of revenues and other financing sources over expenditures	(23,561)	(158,797)	(135,236)
Residual equity transfers in (out)	-	(54,515)	(54,515)
FUND BALANCE September 30, 2003	\$ 162,048	\$ (27,703)	\$ (189,751)

See accompanying notes to general purpose financial statements

TOWN OF EATONVILLE, FLORIDA
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
Year Ended September 30, 2003

OPERATING REVENUES	
Water service	\$ 262,503
Sewer service	350,208
Solid waste disposal	261,676
Stormwater	174,134
Connection fees	6,042
Fines and penalties	6,807
Miscellaneous revenue	2,951
Total operating revenue	<u>1,064,321</u>
OPERATING EXPENSES	
Personal services	195,793
Utilities	5,998
Contractual services	452,514
Repairs and maintenance	17,834
Depreciation	87,289
Supplies	10,956
Bad debt	12,522
Other operating expenses	44,940
Total operating expenses	<u>827,846</u>
OPERATING INCOME	<u>236,475</u>
NON OPERATING REVENUES (EXPENSES)	
Interest expense	<u>(13,836)</u>
Net non-operating revenues (expenses)	<u>(13,836)</u>
INCOME BEFORE OPERATING TRANSFERS	<u>222,639</u>
Operating transfer out	<u>(99,714)</u>
Net operating transfers	<u>(99,714)</u>
RETAINED EARNINGS October 1, 2002	352,682
NET INCOME	122,925
Depreciation on fixed assets acquired by grants, externally restricted for capital expenditures	<u>13,865</u>
RETAINED EARNINGS September 30, 2003	<u>\$ 489,472</u>

TOWN OF EATONVILLE, FLORIDA
STATEMENT OF CHANGES IN PLAN NET ASSETS -
MUNICIPAL POLICE OFFICERS RETIREMENT TRUST FUND
Year Ended September 30, 2003

ADDITIONS	
Contributions:	
Town of Eatonville	\$ 27,698
Plan members	13,495
	<hr/>
Total contributions	41,193
Investment income:	
Net appreciation (depreciation) in fair value of investments	28,761
Dividends	2,795
Interest	9,241
	<hr/>
Net investment income	40,797
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Total additions	81,990
 DEDUCTIONS	
Refund of contributions	7,718
Administrative expenses	7,511
	<hr/>
Total deductions	15,229
	<hr/>
NET INCREASE	66,761
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
BEGINNING OF YEAR, October 1, 2002	285,303
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END OF YEAR, September 30, 2003	\$ 352,064
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TOWN OF EATONVILLE, FLORIDA
COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
Year Ended September 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,126,136
Cash payments to suppliers for goods and services	(720,235)
Cash payments to employees for services	(197,859)
Net cash provided by operating activities	<u>208,042</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating transfers - in (out) to primary government	(99,713)
Due to other funds	180,469
Due from other funds	(173,566)
Net cash used by non-capital financing activities	<u>(92,810)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	6
Net cash provided by investing activities	<u>6</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Borrowing under capital lease obligations	8,615
Principal paid on revenue bonds	(13,390)
Principal paid on capital leases	(30,139)
Acquisition and construction of capital assets	(25,037)
Interest paid on revenue bonds	(8,790)
Interest paid on capital leases	(5,046)
Net cash used by capital and related financing activities	<u>(73,787)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	41,451
CASH AND CASH EQUIVALENTS, October 1, 2002	<u>93,312</u>
CASH AND CASH EQUIVALENTS, September 30, 2003	<u>\$ 134,763</u>
COMPONENTS OF CASH AND CASH EQUIVALENTS:	
Demand deposits accounts	\$ 91,760
Restricted money market account	<u>43,003</u>
Total	<u>\$ 134,763</u>

TOWN OF EATONVILLE, FLORIDA
COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
Year Ended September 30, 2003

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 236,475
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	87,289
Provision for doubtful accounts	12,522
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(13,650)
(Increase) decrease in accounts payable and accrued liabilities	(90,248)
Increase (decrease) in customer deposits	(543)
(Increase) decrease in due from other fund for services provided to customers	<u>(23,803)</u>
Total Adjustments	<u>(28,433)</u>
Net cash provided by operating activities	<u>\$ 208,042</u>

TOWN OF EATONVILLE, FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
~~Year Ended September 30, 2003~~

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Town of Eatonville was first incorporated on August 18, 1887. The Town was subsequently abolished and simultaneously recreated on June 14, 1967 under the Laws of Florida Chapter 67-1361 House Bill No. 876. Situated on the northeast corner of Orange County, approximately 10 miles north of Orlando, Eatonville is popularly known as "*The first municipality in the United States of America incorporated by persons of African-American descent*". The Town operates under a Mayor and Council form of government and provides the following services as authorized by its charter: general government, public safety, public works, culture, recreation and waterworks.

The accounting and reporting policies of the Town of Eatonville relating to the funds and account groups included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The Town has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the Town are described below.

Financial Reporting Entity

The Town is a Florida Municipal Corporation with a five-member Town Council comprised of the Mayor and four Council-persons. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town (the primary government) and its component unit, (an entity for which the Town is considered to be financially accountable). Blended component units, although legally separated entities, are in substance part of the Town's operations, and the Town Council is its governing body. Therefore, data from these units are combined with data of the primary government. The Town has no component units that require discrete presentation. Using the criteria of GASB Statement No. 14, management determined the following unit should be blended:

Community Redevelopment Agency ("CRA") – The CRA is governed by the Town's five member council. Pursuant to the requirement of Chapter 163, Part III of Florida Statutes, the Town, with the consent of Orange County, created a community Redevelopment Area (CRA) through a city ordinance to foster improvement activities in the Town. The CRA will use future tax increment revenues to fund a variety of improvement projects. The CRA is reported as a special revenue fund.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Financial Reporting Entity

A complete set of financial statements for the CRA may be obtained from the CRA's offices located at Town Hall.

Basis of Presentation

A governmental accounting system must make it possible (1) to show that all applicable legal provisions have been complied with and (2) to determine fairly and with full disclosure, the financial position and results of financial operations of the funds and account groups of the Town. In order to accomplish these objectives, the Town's accounting records are organized and operated on a fund basis. A fund is a fiscal and accounting entity, with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities, or balances, and changes therein, which are segregated for the purpose of carrying on the specific activities, or attaining certain objectives, in accordance with special regulations, restrictions or limitations.

The following types of funds and account groups are used in accounting for the financial operations of the Town:

Governmental Fund Types:

Governmental Funds are those through which general governmental functions of the Town are financed. The acquisition, use and balances of the Town's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Funds) are accounted for through Governmental Funds. The following are the Town's Governmental Fund types:

The General Fund-

The General Fund is the operating fund of the Town. This fund is used to account for all financial resources not required to be accounted for in other funds. 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.

Capital Projects Fund-

The Capital Projects Fund is used to account for the acquisition or construction of capital facilities (other than those financed by the Proprietary Funds).

Special Revenue Fund-

The Special Revenue Fund accounts for revenue sources that are legally restricted to expenditures for specific purposes, excluding expendable trust or major capital projects.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Proprietary Fund Types:

Proprietary Funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a Proprietary Fund's activities are included on its balance sheet. Proprietary Fund equity is segregated into contributed capital and retained earnings. The following are the Town's Proprietary Fund types:

Enterprise Funds-

The Enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include the Water and Sewer Fund, the Solid Waste Disposal Fund, and Stormwater Fund.

Fiduciary Fund Types:

Fiduciary Fund types are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement, then either a pension trust fund, a non-expendable trust fund or an expendable trust fund is used. The Town maintains a pension trust fund to account for the municipal police officer's retirement plan.

Account Groups:

Account groups are not funds; they do not reflect available financial resources and related liabilities, but are accounting records of the general fixed assets and general long-term obligations.

General Fixed Assets Account Group-

This account group is established to account for general fixed assets of the Town acquired principally for general purposes and excludes those assets accounted for in the Proprietary Funds. Capital outlays in funds other than the Proprietary Funds are recorded as expenditures of those funds at the time of purchase and are subsequently recorded for control purposes in the General Fixed Assets Account Group.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

General Long-Term Debt Account Group-

This account group is established to account for general long-term debt incurred principally for general purposes and excludes long-term debt of the Enterprise Funds.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Governmental Fund Types (General, Special, and Capital Project Funds) use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under this method of accounting, revenues are generally recognized when they become both 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 be used to pay liabilities of the current period. Revenues susceptible to accrual include, utility taxes, franchise taxes, charges for services, interest on investments, and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

The Proprietary Funds Types and the Pension Trust Fund are accounted for on an economic resources measurement focus using the accrual basis of accounting. This method of accounting is intended to provide an accurate matching of expenses with associated revenues. Revenues are recognized when they are earned and are measurable; expenses are recognized when they are incurred, if measurable. Plan member contributions to the pension trust fund are recognized in the period in which the contributions are due. Employer contributions to the plan, when required, are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Grants, entitlements and shared revenues are accounted for on the same basis as the fund type in which the transactions are recorded.

Estimates

The preparation of general purpose financial statements in accordance with the modified accrual or accrual basis of accounting described in the previous paragraphs, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets or liabilities at the date of the general purpose financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Control

The Town, in accordance with its Charter and State Law, adhere to the following procedures in establishing the budgetary data reflected in the accompanying financial statements.

Annual Operating Budget - An annual operating budget is prepared by the Town's Finance Department for the General and Enterprise Funds. The Mayor submits to the Town Council this proposed operating budget for the ensuing fiscal year. No budgets were legally adopted for the capital projects or special revenue funds during the fiscal year ending September 30, 2003.

This budget includes proposed expenditures and the means to finance them, including a proposed ad-valorem millage rate. Public hearings are conducted to obtain the taxpayer comments on the proposed budget and ad-valorem millage rate. Prior to the third Monday in September, the Town Council legally enacts the operating budget and sets the ad-valorem millage rate by passage of an ordinance.

The Mayor is authorized to transfer budgeted amounts between expenditure classifications within individual departments; however, any revisions that alter the total expenditures of any department must be approved by the Town Council. Expenditures may not exceed legal appropriations at the department level. All appropriations lapse at year end.

Capital Improvements Budget - Major capital facilities and improvements, which are accounted for by the Town within the Capital Projects Fund are subject to budgetary control on a project basis. Appropriations for a specific project do not lapse until completion of the project. The Town's finance department prepares the budget for projects based on engineering estimates and other factors.

The Mayor submits the project budget to the Town Council and specifies the financing source to finance the project. The Council, in turn, sets a date for public hearings for citizen comments on the project. The project and its budget are approved through resolution by a majority of the Town Council. Amendments or revisions to the original project budget require a Town Council resolution.

The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts included in these financial statements are as formally amended by the Town Council's approval during the year.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized in the Governmental Fund Types.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Cash and Cash Equivalents

For purposes of the reporting of cash flows, all highly liquid investments with maturity dates within three months from the date of purchase are considered to be cash equivalents. Cash and cash equivalents consist of amounts in demand deposit accounts held by qualified public depositories.

Repurchase Agreements

The Town formally adopted an investment policy on August 17, 2004. Therefore, authorized investments were limited to those expressly allowed by Section 218.415(17) Florida Statute during the fiscal year ended September 30, 2003.

Investments

Investments are stated at fair value, quoted market price or best available estimate.

Interfund Receivables/Payables

During the year, transactions occur between individual funds for goods provided and services rendered and loans. The receivables and payables are classified as "Due to/from other funds" on the balance sheet.

Property, Plant and Equipment

General Fixed Assets Account Groups - General fixed assets are not capitalized in the funds used to acquire or construct them. Upon acquisition, such assets are recorded as expenditures in the General Fund and Capital Projects, and are capitalized at cost when transferred to the General Fixed Assets Group of Accounts. Depreciation is not recorded on general fixed assets. Interest has also not been capitalized on fixed assets in the Governmental Fund Type operations.

Public Domain ("infrastructure") consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage and lighting systems are not capitalized along with other general fixed assets for reporting purposes as these assets are immovable and of value only to the government.

Donated assets are valued at their fair market value on the date donated. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Property, Plant and Equipment, (Continued)

Proprietary Fund Types - Property, plant, and equipment owned by the Proprietary Funds are recorded at cost or, if contributed property, at their fair market value at the time of contribution. Depreciation has been computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for the major classifications of assets are as follows:

Water Distribution System	10-100 years
Sewer System	50 years
Machinery and Equipment	3-10 years

Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expenditure/expense as the benefits accrue to employees and a fund liability of the fund that incurred it if the benefits are expected to be liquidated with expendable available financial resources. The noncurrent portion of the benefits (the amount estimated to be used in subsequent fiscal years) for governmental funds are reported in the general longterm debt account group.

Deferred Grant Revenue

Grant revenue is deferred until earned and/or eligible expenditures are incurred. A liability is established when grant cash advances exceed eligible expenditures incurred.

New Accounting Pronouncements

The Governmental Accounting Standard Board (GASB) recently issued GASB Statement No. 34, Basic Financial Statements — and Management's Discussion and Analyses — for State and Local Governments (GASB 34). This statement is a change in the reporting model for governmental entities. It will require a "dual perspective" approach along with the management discussion and analysis and reporting of infrastructure assets and depreciation. Due to the significance of the changes, the GASB has allowed an extended implementation period depending on the entities' revenues. The management of the Town of Eatonville, Florida has indicated they will implement this standard for fiscal year ending September 30, 2004.

Comparative Data

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and are not comparable to a consolidation. Data in these columns do not present financial position, results of operations or changes in cash flows in conformity with accounting principles generally accepted in the United States of America. Interfund eliminations have not been

made in the aggregation of this data.

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits

Investing is performed in accordance with investing policies prescribed by State Statutes and the Town's Charter. Funds may be invested in (1) direct obligations of the United States of America Government pledged by its full faith and credit, (2) certificates of deposits at savings and loan associations and federally insured banks when secured by acceptable collateral, (3) savings accounts (including money market funds) at savings and loan associations and banks to the extent fully insured, and (4) for the pension trust fund corporate obligations having a Standard and Poor's rating of BBB+ or better and equities.

Cash and Cash equivalents at September 30, 2003 consisted of the following:

	Governmental Fund Types			Proprietary and Fiduciary Fund Types		Total
	General Fund	Capital Projects	Special Revenue	Enterprise Fund	Trust Fund	All Funds
Current Assets:						
Demand deposits	\$ -	\$ 488,977	\$ 7,859	\$ 91,760	\$ 66	\$ 588,662
	-	488,977	7,859	91,760	66	588,662
Restricted Assets:						
Demand deposits	-	-	14,968	43,003	10,195	68,166
Money market funds	26,000	-	-	-	-	26,000
	26,000	-	22,827	43,003	10,195	94,166
Total Cash and Cash Equivalents	\$ 26,000	\$ 488,977	\$ 22,827	\$ 134,763	\$ 10,261	\$ 682,828

Florida Statutes provide for risk sharing collateral pools by banks, and savings and loan associations. These collateral pools collateralize local government deposits with the participating public depositories. The Town's demand deposits and certificates of deposits are placed in such authorized depositories. In accordance with GASB Statement No. 3, cash and cash equivalents are classified into three categories of credit risk. These categories are as follows:

Category 1 — Deposits which are insured by the FDIC, a state depository insurance fund or a multiple financial institution collateral pool, or deposits which are collateralized with securities held by the Town or the Town's agent in the Town's name.

Category 2 — Deposits which are collateralized with securities held by the pledging financial institution's trust department in the Town's name.

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Category 3 — Deposits which are uncollateralized or collateralized but the pledged securities are not held in the Town's name.

	Category			Carrying Amount	Financial Institution Balance
	1	2	3		
Demand deposits	\$ 656,828	\$ -	\$ -	\$ 656,828	\$ 788,076
Money market funds	26,000	-	-	26,000	26,000
	<u>\$ 682,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 682,828</u>	<u>\$ 814,076</u>

As of September 30, 2003, financial instruments which potentially expose the Town to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consisted of cash and cash equivalent accounts in high quality financial institutions.

Investments at September 30, 2003 consist of the following:

	Pension Trust Fund	
	Cost	Fair Value
Restricted:		
U.S. Treasury Bills and Treasury Notes	\$ 132,222	\$ 140,051
Corporate Bonds	15,612	16,762
Equities	147,193	155,664
	<u>\$ 295,027</u>	<u>\$ 312,477</u>

Investment portfolios are classified in three credit risk categories as follows:

Category 1 — Insured or registered, or securities held by the Town or its agent in the Town's name.

Category 2 — Uninsured and unregistered, with securities held by the counterpart's trust department or agent in the Town's name, and

Category 3 — Uninsured and unregistered, with securities held by the counterpart or by its trust department or agent but not in the Town's name.

All investments are classified as Category 1 both at year-end and throughout the year.

NOTE C: ACCOUNTS RECEIVABLE, UNBILLED RECEIVABLES, AND DUE FROM GOVERNMENTAL AGENCIES

Amounts shown as Accounts Receivable consist of the following at September 30, 2003:

	General	Proprietary	Fiduciary	Total
Other	\$ 26,761	\$ -	\$ -	\$ 26,761
Franchise fees	15,279	-	-	15,279
Accrued interest and dividends	-	-	28,574	28,574
Enterprise Fund customers billed	-	105,603	-	105,603
Enterprise Fund customers unbilled	-	90,815	-	90,815
	42,040	196,418	28,574	267,032
Less Allowance for bad debts	-	(20,660)	-	(20,660)
	\$ 42,040	\$ 175,758	\$ 28,574	\$ 246,372

Amounts shown as Due From Governmental Agencies consist of the following at September 30, 2003:

	General	Capital Project	Special Revenue	Total
Communications service tax	\$ 8,993	\$ -	\$ -	\$ 8,993
Grants receivable	-	50,564	33,276	83,840
School resource officer	6,250	-	-	6,250
Alcoholic Beverage fee	196	-	-	196
State revenue sharing	6,634	-	-	6,634
Local option gas tax	7,896	-	-	7,896
Sales tax	26,074	-	-	26,074
	\$ 56,043	\$ 50,564	\$ 33,276	\$ 139,883

NOTE D: INTERFUND BALANCES

The following is a summary of Interfund receivables and payables at September 30, 2003:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Advances from Other Funds</u>	<u>Advances to Other Funds</u>
General Fund	\$ 274,435	\$ 69,885	\$ 227,799	\$ -
Stormwater Fund	168,206	-	-	-
Stormwater Fund	-	157,117	-	-
Water and Sewer	152,758	226,907	-	-
Special Revenue	-	-	-	227,789
Fiduciary	752	-	-	-
Capital Projects	-	142,242	-	-
	<u>\$ 596,151</u>	<u>\$ 596,151</u>	<u>\$ 227,799</u>	<u>\$ 227,799</u>

NOTE E: PROPERTY, PLANT & EQUIPMENT

General Fixed Assets Account Group

The following is a summary of changes in the general fixed assets account group during the year ended September 30, 2003:

	Balance October 1, 2002	Additions	Deletions	Balance September 30, 2003
Land and Paving	\$ 3,131,087	\$ -	\$ -	\$ 3,131,087
Buildings	2,096,590	-	-	2,096,590
Improvements	469,480	69,747	-	539,227
Equipment	1,039,520	18,320	-	1,057,840
Vehicles	174,318	-	-	174,318
Construction in Progress	387,239	295,373	-	682,612
Total	<u>\$ 7,298,234</u>	<u>\$ 383,440</u>	<u>\$ -</u>	<u>\$ 7,681,674</u>

Enterprise Fund

The following is a summary of changes in the components of the Water and Sewer Fund fixed assets for the year ended September 30, 2003:

	Balance October 1, 2002	Additions	Deletions	Balance September 30, 2003
Land and Paving	\$ 2,500	\$ -	\$ -	\$ 2,500
Furniture and Equipment	102,218	-	-	102,218
Vehicles	86,824	2,970	-	89,794
Water Distribution System	1,338,593	13,452	-	1,352,045
Sewer System	1,328,916	-	-	1,328,916
Sub-Total	2,859,051	16,422	-	2,875,473
Less accumulated depreciation	(1,067,204)	(65,250)	-	(1,132,454)
Total	<u>\$ 1,791,847</u>	<u>\$ (48,828)</u>	<u>\$ -</u>	<u>\$ 1,743,019</u>

NOTE E: PROPERTY, PLANT & EQUIPMENT (continued)

Enterprise Fund, (Continued)

The following is a summary of changes in the components of the Stormwater fund fixed assets for the year ended September 30, 2003:

	Balance October 1, 2002	Additions	Deletions	Balance September 30, 2003
Equipment	\$ 53,917	\$ 8,616	\$ -	\$ 62,533
Vehicles	31,184	-	-	31,184
Sub-Total	85,101	8,616	-	93,717
Less accumulated depreciation	(8,708)	(22,040)	-	(30,748)
Total	\$ 76,393	\$ (13,424)	\$ -	\$ 62,969

NOTE F: AD VALOREM TAX REVENUE

The Town levied a millage rate of \$6.904 per \$1,000 as assessed value for the fiscal year ended September 30, 2003. Orange County, Florida, bills and receives payment for all ad valorem taxes levied by the Town. Payments are then remitted to the Town.

All property is assessed according to its fair market value on January 1 of each year and at that time a lien is placed on the property for the taxes. The tax levy of the Town is established by the Town Council prior to October 1 of each year and the Orange County Property Appraiser incorporated the Town's millage into the total tax levy, which also includes Orange County, the Orange County School Board and the St. John Water Management District's tax requirement.

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

On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold certificates are held by the County.

NOTE G: LONG-TERM DEBT

General Long-Term Debt

General long-term debt is summarized as follows:

Revenue Bond Series 1999 (B) in the original amount of \$1,940,000 with varying interest rates ranging from 3.85% to 5.75% dated November 1, 1999 with annual principal payments and semi-annual interest payments through November 2029	\$ 1,780,000
5.15% installment obligation in the original amount of \$19,884 dated April 18, 2002 and due in monthly installments of \$377, secured by financed vehicles through May 1, 2007	15,099
7.38% installment obligation in the original amount of \$22,968 dated July 01, 2001, and due in monthly installments of \$719, secured by financed equipment through September 1, 2004	8,851
Federally funded State Infrastructure Bank loan in the original amount of \$200,000 with no interest payment. Repayments to the Department of Transportation's SIB account will begin not later than March 1, 2005.	200,000
	<u>\$ 2,003,950</u>

With the exception of the 1999 (B) Bond Issue for \$1,940,000, and State Infrastructure Bank loan in the amount of \$200,000, the above notes are secured by property with a net book value of \$42,852 at September 30, 2003.

The annual requirements to retire installment obligations as of September 30, 2003, are as follows:

Year Ending September 30:	Principal	Interest	Total
2004	\$ 273,379	\$ 93,918	\$ 367,297
2005	64,528	90,750	155,278
2006	69,528	87,612	157,140
2007	71,515	84,177	155,692
2008	70,000	80,830	150,830
Thereafter	1,455,000	837,849	2,292,849
	<u>\$ 2,003,950</u>	<u>\$ 1,275,136</u>	<u>\$ 3,279,086</u>

Change in Long-Term Debt

	Balance at 10/01/02	Issues	Expenditures	Balance at 09/30/03
General Obligations	\$ 2,103,240	\$ -	\$ 99,290	\$ 2,003,950
Compensated Absence	-	18,018	-	18,018
Total General Fund	<u>\$ 2,103,240</u>	<u>\$ 18,018</u>	<u>\$ 99,290</u>	<u>\$ 2,021,968</u>

Enterprise Fund Long-Term Debt

On December 4, 1972, the Town of Eatonville issued \$310,000 in Water and Sewer Revenue Bonds dated April 1, 1971. Proceeds were used to provide for the acquisition, construction and erection of collection and treatment facilities to be operated in conjunction with the existing water and sewer system of the Town of Eatonville. The revenue bond indenture provides, among other things, the following procedures:

Pledged Revenues—Gross revenues derived from the operation of the system are pledged as collateral and retained in a "Revenue Fund," which is separate and apart from all other funds for the repayment of the revenue bond's principal and interest. Accordingly, such limited revenue bonds are not reported as general long-term debt of the Town.

Sinking Fund—The Town is to transfer on or before the 15th day of each month from the Revenue Fund and deposit to the credit of the Sinking Fund the following:

Water and Sewer System Bond and Interest Sinking Fund - On the 15th day of the month, a sum equal to one sixth (1/6) of the next interest installment on all the bonds then outstanding and a sum equal to one twelfth (1/12) of the principal of the bonds maturing at the next anniversary date. As of September 30, 2003, the Town had met the above sinking fund requirement. The amount on deposit in the reserve bank account was \$17,768.

Water and Sewer System Bond Debt Service Reserve Fund - The Town is required to establish a debt service reserve fund whereby 60% of the remaining money in the Revenue Fund is deposited until the funds and investment earnings equal \$23,000. As of September 30, 2003, the Town had met the debt service fund reserve requirement; the amount on deposit in the reserve bank account was \$23,000.

Water and Sewer System Repair and Replacement Fund - After fulfillment of the above requirements, the Town is required to establish a Repair and Replacement Fund of \$15,000 to be used only for the purpose of paying the cost of extensions, improvements, additions and replacements of capital assets of the system. As of September 30, 2003, the Town did not meet the Repair and Replacement Fund requirement. The amount on deposit in the reserve bank account was \$2,235.

Interest at the rate of 6 percent is payable semi-annually on April 1st and October 1st. Principal payments are due April 1st as follows:

Year of Maturity	Principal	Interest	Total	Balance Outstanding End of Year
2004	\$ 13,610	\$ 7,980	\$ 21,590	\$ 126,000
2005	15,000	7,110	22,110	111,000
2006	16,000	6,180	22,180	95,000
2007	17,000	5,190	22,190	78,000
2008	18,000	4,140	22,140	60,000
Thereafter	60,000	5,520	65,520	
Total	<u>\$ 139,610</u>	<u>\$ 36,120</u>	<u>\$ 175,730</u>	

NOTE G: LONG-TERM DEBT (Continued)

Change in Proprietary Fund Long-Term Debt

	Balance at 10/01/02	Additions	Payments	Balance at 09/30/03
Revenue Bond	\$ 153,000	\$ -	\$ 13,390	\$ 139,610
Compensated Absences	15,741	-	2,349	13,392
Total Proprietary Fund	<u>\$ 168,741</u>	<u>\$ -</u>	<u>\$ 15,739</u>	<u>\$ 153,002</u>

Capital Lease

The Town has entered into agreements to lease various facilities for Water and Sewer, and Stormwater vehicles. The terms of this lease is such that the Town capitalized the lease under the provisions of FASB Statement No. 13 and reflected the obligation in the proprietary fund.

Information relative to the capital lease in proprietary fund types is as follows:

	<u>Amount</u>
Assets capitalized	\$ 179,361
Less accumulated amortization	(100,692)
Net book value of assets capitalized	<u>\$ 78,669</u>

The following is a schedule of future minimum lease payments applicable to proprietary funds for \$179,361 of assets capitalized under lease agreements, and the present value of future net minimum lease payments as of September 30, 2003:

<u>Year ending September 30,</u>	<u>Amount</u>
2004	\$ 41,282
2005	27,688
2006	26,219
2007	16,962
Total minimum lease payments	112,151
Less amount representing interest	(9,478)
Present value of future minimum lease payments	<u>\$ 102,673</u>

NOTE H: SEGMENT INFORMATION

Town of Eatonville maintains three Enterprise Funds, which provide solid waste disposal, water and wastewater services, and Stormwater segment information at September 30, 2003 and for the year ended:

	Stormwater Utility Fund	Water and Sewer Fund	Solid Waste Disposal Fund	Total
Operating Revenue	\$ 174,140	\$ 628,505	\$ 261,676	\$1,064,321
Operating Expenses	84,487	404,628	251,442	740,557
Depreciation and Amortization	22,039	65,250	-	87,289
Total Expenses	106,526	469,878	251,442	827,846
Operating Income (Loss)	67,614	158,627	10,234	236,475
Non-operating (Expense)	(3,810)	(10,026)	-	(13,836)
Operating Transfers In / (Out)	(4,304)	(95,410)	-	(99,714)
Net Income (Loss)	59,500	53,191	10,234	122,925
Property, Plant and Equipment (Including Construction in Progress)	62,969	1,743,019	-	1,805,988
Net Working Capital	219,578	16,175	(129,773)	105,980
Total Assets	302,022	2,094,543	40,908	2,912,944
Bonds and Other Long-Term Liabilities:				
Payable from Operating Revenues	(52,571)	(152,757)	-	(205,428)
Total Equity	\$ 229,876	\$ 1,606,437	\$ (129,773)	\$ 1,706,540

NOTE I: COMMITMENTS AND CONTINGENCIES

Federal-Assisted Programs — Compliance Audits

The Town participates in a number of Federally Assisted Programs, principally of which are the U.S. Department of Justice COPS Program, U.S. Department of Housing and Urban Development, U.S. Department of Agriculture, and the U.S. Department of Interior. These programs are subject to compliance audits by the grantors or their representatives.

Litigation

During the ordinary course of its operation, the Town is party to various claims, legal actions and complaints. Most of these matters are covered by commercial insurance. In the opinion of the Town's management, these matters are not anticipated to have a material financial impact.

Risk Management

The Town 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 Town has obtained insurance from commercial underwriters for all the aforementioned risks. The Town has not paid any settlements in excess of insurance coverage for each of the past four years. Furthermore, the Town has no significant reduction in insurance coverage from the prior year.

Construction Contracts

The Town had existing construction contracts during the fiscal year ended September 30, 2003 for the construction of a library building and renovations of its Public Safety Building. As of September 30, 2003, \$397,174 of the \$830,102 construction contracts had been paid.

Tax Increment Funding

The Town, the CRA, and the County entered into an agreement to waive all unfunded tax increment funding on November 30, 2004. As of September 30, 2003, prior to the County waiver, the total amount of the obligation was approximately \$363,227 net of credits for costs incurred by the Town on behalf of the CRA. It is the opinion of the County and the Town's legal counsel that the County has the authority to grant a waiver of the unfunded TIF and to abate related interest and penalties.

NOTE J: CONTRIBUTED CAPITAL WATER & SEWER FUND

A summary of the changes in the contributed capital account is as follows:

	<u>Total</u>
Balance at September 30, 2002	\$ 1,230,933
Depreciation on contributed assets	<u>(13,865)</u>
Contributed capital September 30, 2003	<u>\$ 1,217,068</u>

Water & Sewer Utility

In accordance with Government Accounting Standards Board Section 960.116, the Town closes depreciation on assets acquired prior to June 30, 2000 with contributed capital (e.g. capital grants) to the Contributed Capital Account rather than retained earnings. Depreciation on assets acquired after June 30, 2000 is recorded as an expense to the Town.

NOTE K: BUDGET

The Town accounted for Capital Facility transactions in the Capital Projects Funds and Special Revenue transactions in the Special Revenue Fund. However, the revenues and appropriations related to capital projects and special revenue were budgeted in the General Fund.

The Town prepared its budget for all funds without consideration of the beginning fund balance or retained earnings. As a result, the General Fund budgeted expenditures exceeded revenues and transfers-in by \$23,562 and the Enterprise Fund budgeted expenses and transfers-out exceeded budgeted revenues by \$54,937.

The General Fund received revenues and transfers in of \$1,587,280 less than budgeted revenues and transfers in. As stated above, the Capital Projects and Special Revenue transactions were budgeted in the General Fund and accounted for in their respective funds.

Expenditures exceeded appropriations in five cost center budgets in the amount of \$72,713 for the fiscal year ending September 30, 2003.

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Finance	\$ 220,121	\$ 222,379	(\$ 2,258)
Legal Counsel	22,886	35,535	(12,649)
Grants Administration	38,999	42,117	(3,118)
Post Office	32,000	43,987	(11,987)
Recreation	40,000	82,701	(42,701)
Total	<u>\$ 354,006</u>	<u>\$ 426,719</u>	<u>(\$72,713)</u>

Debt service was budgeted in the legislative department. Although the departmental budget was not exceeded, debt service expenditures exceeded the budgeted amount by \$100,134. Further, actual transfers out exceeded the budgeted transfers out by \$137,164.

NOTE L: FUND BALANCE RESERVES

A reserve is used to indicate that a portion of the fund balance is not appropriate for expenditures or is legally segregated for a specific future use. Usage of reserves has been limited to the following items:

- Reserved for Debt Service indicates a portion of fund balance/retained earnings that is reserved for payment of debt service.
- Reserved for Capital Projects represents amounts restricted for capital projects.
- Reserved for Advance to other Funds represents long-term interfund loans.

NOTE M: FUND BALANCES OR RETAINED DEFICIT

The Solid Waste Disposal fund had a deficit balance in retained earnings of \$129,773 at September 30, 2003 as revenues fell short of expenses. During the fiscal year 2003, the Town entered into a new refuse disposal agreement which has lowered the cost of operations.

The General Fund had a deficit unreserved fund balance of \$53,703 at September 30, 2003 as expenditures exceeded revenues. The Town is currently involved in redevelopment activity to increase its tax bases and has renegotiated its interlocal agreement with the Eatonville CRA. The new agreement is expected to reduce the Town's annual required contribution to the CRA.

NOTE N: SUBSEQUENT EVENTS

The Town entered into a five-year inter-local agreement on January 27, 2004 with Orange County, Florida and the City of Maitland, Florida for the provision of fire communications, fire protection and rescue services. The purpose of the agreement is to reduce cost while improving service to the Town's residences. The annual cost to the Town under the agreement is estimated to be approximately \$367,000.

During the first quarter of 2004, the Town entered into construction contracts valued at \$1,049,225 for the construction of the Town Library.

Under an inter-local agreement between the Town of Eatonville (Town), Orange County, FL (County), and Eatonville Community Redevelopment Agency (CRA), the Town is required to fund the CRA with tax increment dollars (TIF) for its operations. However, the Town did not properly account for these revenues nor did it fully fund the CRA during the periods 1997 through 2003. The sum of the tax increment revenues due to the CRA over this period of time was \$615,481. Offsetting expenditures incurred by the Town on behalf of the CRA totaled \$252,254. This resulted in a net balance due to the CRA in the amount of \$363,227.

NOTE N: SUBSEQUENT EVENTS, (continued)

~~The parties to the inter-local agreement namely the CRA, the Town, and Orange County renegotiated the agreement on November 30, 2004. Under the revised agreement, the prior unfunded TIF, interest and penalties were retroactively forgiven for the period 1997 through 2003 and a new funding formula established a fund CAP of \$200,000 on TIF funding for ad valorem tax years beginning after December 30, 2003. The CRA will be funded based on the statutory formula, any excess funding over the \$200,000 shall be refunded on a pro-rata basis to the Town and Orange County based on their respective TIF contributions.~~

As discussed above, the Town did not account for its obligation to fund the CRA during the period 1997 through 2003. The TIF revenues were reported as General Fund revenues and thus the waiver of this obligation does not impact prior fund balances reported.

NOTE O: PENSION PLANS

The Town has two public employee retirement plans.

Retirement Plans - The Town of Eatonville, Florida participates in a single employer defined benefit Plan for its sworn police officers (Town of Eatonville Police Officers' Retirement Trust Fund) which is maintained as a pension trust fund and included as part of the Town's reporting entity. The pension plan did not issue a stand-alone financial report.

The Municipal Police Officers' and Firefighters' Retirement Trust Funds office, housed within the Division of Retirement, is the state entity responsible for administrative oversight of the Police Officers Pension Trust Fund. The Plan was established on December 18, 1972 by Town Ordinance 72-100B. The Plan provides for pensions, death and disability benefits. It is subject to Provisions of Chapter 185 of the state of Florida Statute.

The Plan, in accordance with the above statute, is governed by a five-member pension Board. Two police officers who are elected by a majority of the members of the Plan; two are current residents of the Town and are appointed by the Town Council and a fifth member is elected by the other four members constitute the pension Board. The Town and the Plan participants are obligated to fund all plan costs based upon actuarial valuations. The Town is authorized to establish benefit levels and the Board of Trustees approves the actuarial assumptions used in determination of contributions levels.

The Town also participates in a defined contribution plan for all other Town employees meeting certain age and length of service requirements, which is administered by the Florida League of Cities, Inc. The trustee for the plan's assets is the Florida Municipal Pension Trust.

I. Police Pension Plan (a Defined Benefit Plan):

An actuarial valuation is performed tri-annually for the defined benefit plan. For additional information relating to the basis of accounting and reported investment values, see Note A and Note B above.

NOTE O: PENSION PLANS (continued)

A. ~~The following is a summary of funding policies, contribution methods and benefit provisions for the Police Pension Plan:~~

Year established and governing authority	December 18, 1972 Town Ordinance 72-100-B
Determination of contribution requirements:	Aggregate actuarial cost method which does not identify or separately amortized unfunded actuarial liabilities
Employer	9.20%
Plan members	5.00%
Funding of administrative costs	Investment earnings
Period required to vest	10 years from date of hire
Post-retirement benefit increases	Increases must be recommended by the Board and approved by Town Council Ordinance
Eligibility for distribution	Age 52 and 25 years of credited service or age 55 with 10 years of credited service
Death benefits	Survivor benefit payable to beneficiary based on normal retirement date of member and vested account balance

B. Membership of the plans is as follows:

Non-vested active members	11
Fully vested active members	-
Retirees and beneficiaries currently receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Total	<u>11</u>

NOTE O: PENSION PLANS (continued)

C. Annual Pension Cost, Net Pension Obligation and Reserves.

Current year annual pension costs are shown in the trend information in the required supplementary information on page 33.

There are no assets legally reserved for purposes other than payment of plan benefits. The Police Pension Plan held no individual investments (other than U.S. Government and U.S. Government guaranteed obligations) whose market value exceeds five percent or more of net assets available for benefits.

II. Town Employees Other Than Police:

General Employees Defined Contribution Plan and Trust

Town of Eatonville, Florida Defined Contribution Plan and Trust is an adoption of the Florida Municipal Pension Trust Fund Defined Contribution Plan and Trust which is administered by the Florida League of Cities, Inc. The Trustee for the Plan's assets is the CitiStreet Retirement Service. The Plan was established effective October 1, 1989 by ordinance. There were no amendments during the year.

All general employees except police officers and fire fighters are eligible to participate in the Plan provided they have completed one (1) year of service. Since this Plan qualifies as a defined contribution plan which is administered in its entirety under a pool arrangement by The Florida League of Cities, Inc., the assets, liabilities, fund balance and operations are not recorded within these financial statements.

Funding Provisions —

The Town did not pay contributions to the Plan for the fiscal year ending September 30, 2003. Loans may not be made from the Plan's assets.

The Town Council is responsible for setting the employer's contribution annually during budget adoption. The Town budgeted \$10,983, however, the Town Council did not contribute to the Plan for the year ended September 30, 2003. Contributions to the Plan are discretionary on the part of the Town. Employees may contribute up to a maximum of 10% of covered compensation. No employees contributed to the Plan during the fiscal year ended September 30, 2003.

NOTE O: PENSION PLANS (continued)

Vesting Provisions — An employee who leaves the employment of the Town is entitled to all of his or her contributions, and a portion of the Town's contribution as follows:

<u>Years of Service</u>	<u>Percentage of Balance Vested</u>
3 years but less than 4	0%
4 years but less than 5	40%
5 years but less than 6	50%
6 years but less than 7	60%
7 years but less than 8	70%
8 years but less than 9	80%
9 years but less than 10	90%
10 or more years	100%

Retirement Provisions — Under the provisions of the Plan, employees are eligible for normal retirement at age 65 and 10 years credited service.

No pension provision changes occurred during the year that affected the contributions to be made by the Town or its employees.



Independent Auditor's Management Letter

The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

We have audited the general purpose financial statements of Town of Eatonville, Florida, as of and for the year ended September 30, 2003, and have issued our report thereon dated October 30, 2004. We expressed a qualified opinion on the general purpose financial statements because of inadequacies in the Town's accounting records and lack of accounting controls over fixed assets and interfund transactions made it impracticable for us to extend our of such accounts beyond amounts recorded.

We have issued our Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting in accordance with Government Auditing Standards dated October 30, 2004. Disclosures in that report should be considered in conjunction with this management letter.

The Rules of the Auditor General (Section 10.554(1)(g)1.b) require that we comment as to whether or not irregularities reported in the preceding annual financial audit report have been corrected. There were no irregularities disclosed in the proceeding audit report.

The Rules of the Auditor General (Section 10.554(1)(g)1.b) require that we comment as to whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding audit report have been corrected (except as noted below under the heading Prior Year Recommendations).

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.a), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we have determined that the Town of Eatonville, Florida is not technically in a state of financial emergency as a consequence of the condition described in Section 218.503(1)(d), Florida Statutes. However, the Town is in a state of deteriorating financial condition as of September 30, 2003.

The Rules of the Auditor General (Section 10.554(1)(g)(2)) states that a management letter should have a statement as to whether or not the Town of Eatonville, Florida complied with Section 218.415 Florida Statutes (1999) regarding the investment of public funds. In connection with our audit of the financial statements of the Town of Eatonville, we determined that the Town complied with Section 218.45 Florida Statutes.

The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

As required by the Rules of the Auditor General (Section 10.554(1)(f)(4)), we determined that the annual financial report for Town of Eatonville, Florida, for the fiscal year ended September 30, 2003, was not filed with the Department of Banking and Finance pursuant to Section 218.32, Florida Statutes.

The Rules of the Auditor General (Sections 10.554(1)(g) 3, 4) require disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and on internal control over financial reporting: recommendations to improve financial management, accounting procedures, and internal controls; violations of laws, rules, regulations and contractual provisions which may or may not materially affect the general purpose financial statements; illegal or improper expenditures which may or may not materially affect the general purpose financial statements; improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); failure to properly record financial transactions; and other inaccuracies, irregularities, shortages, and defalcations discovered by the auditor.

- Prior Year's Recommendations — See Page 52
- Improper or Inadequate Accounting Procedures — See Page 77
- Other Matters — See Page 84

The Rules of the Auditor General (Section 10.554(1)(g)(5)) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the general purpose financial statements. Town of Eatonville, Florida was established by the Legislature of the State of Florida, Chapter 67-1361, House Bill No. 876. There is one component unit related to the municipality: the Eatonville Community Redevelopment Agency established by the Town Resolution 97-23.

As required by the Rules of the Auditor General (Section 10.554 (1)(g)(6.C.1) and 10.568), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. However, the results of our procedures revealed the Town of Eatonville, Florida, is experiencing deteriorating financial conditions as reported below under the heading Auditor's Finding, 03-01– Deteriorating Financial Conditions.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

PRIOR YEAR'S FINDINGS

Prior Year's Auditor General Findings

The Auditor General conducted an operational audit of the Town's operations for the period October 1, 2001 through March 31, 2003 and selected actions taken prior and subsequent thereto. Based on this audit, the Auditor General issued Report No. 2004-178, which contains several findings the status of which are unresolved as of October 30, 2004, the date of this report. The report and management's response, in its entirety, may be viewed on the Auditor General's Web site.

GENERAL MANAGEMENT CONTROLS

Finding No. 1: Several findings included in the Town's 2000-2001 fiscal year annual financial audit report had been reported for several years without correction.

Corrective Action: The Town has hired additional staff and has corrected nine of seventeen prior year audit findings.

Finding No. 2: The Town had not established written policies and procedures necessary to assure the efficient and consistent conduct of accounting and other business-related functions and the proper safeguarding of assets. In addition, the Town has experienced a significant amount of employee turnover in key management positions, which weakened the Town's control environment and ability to provide consistent application of its policies and procedures.

Corrective Action: The recommendations were implemented in fiscal year 2004 with the exception of the purchasing procedures manual which was updated in fiscal year 2005.

Finding No. 3: The Town had not provided for an adequate separation of duties, or established adequate compensating controls, in certain areas of its business operations.

Corrective Action: The Finance Department has updated internal controls dealing with separation of duties in the areas of Payroll, water and sewer procedures and disbursement processing controls effective April 1, 2003.

Finding No. 4: Contrary to law, the Town's 1999-2000 and 2000-2001 fiscal year audits were not completed, and copies of the audit reports filed with us until February 18, 2002, and June 30, 2003, respectively. In addition, as of February 2004, the 2001-2002 fiscal year audit was not complete.

Corrective Action: The audit for fiscal year 2001 through 2002 has been completed and filed with the State of Florida.

Finding No. 5: The Town, for the 2000-2001 fiscal year, appears to have met the financial emergency condition specified in Section 218.503(1)(b) 2.b., Florida Statutes, in that it failed to make contributions for an employee retirement plan due to lack of funds.

Corrective Action: The Town's general employee pension plan was established as a voluntary pension plan, which allows discretionary contribution to be made by the Town. The Town will continue to make its budgeted contribution to the plan and make necessary adjustments to the budget if required in the future.

The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

GENERAL MANAGEMENT CONTROLS, Continued

Finding No. 6: The Town's overall financial condition is showing signs of deterioration. In addition to the effects of control deficiencies, as discussed throughout this report, factors that have contributed to this condition include a lack of periodic cash analysis and forecast, financial plans, timely completion of financial audits, and interim financial statements.

Corrective Action: The Town is implementing programs and procedures that will assure sound and reliable financial management including cost controls as of November 5, 2004.

BUDGETARY CONTROLS

Finding No. 7: Contrary to Section 166.241(3), Florida Statutes, the Town's 2001-2002 through 2003-2004 fiscal year budgets did not consider the effect of beginning fund equities available from prior years, and did not include appropriations for some funds and expenditures. Also, the individual 2001-2002 fiscal year budgets for the General and Enterprise Funds were not balanced.

Corrective Action: The Town will assure that future annual budgets consider all beginning fund equities, include appropriations for all funds, and present balanced budgets for each fund.

Finding No. 8: Contrary to the Town's Charter, the Town's budgets were not timely adopted for the 2000-2001, 2001-2002, and 2003-2004 fiscal years. Budgets for those fiscal years were adopted from 14 to 22 days after the Charter deadline, which is the third Monday of September of each fiscal year.

Corrective Action: The Town plans to start the budget process early in the year to assure that it will be adopted according to the Town's Charter and the Florida Statute. The fiscal year 2004-2005 budget was adopted accordingly.

Finding No. 9: Contrary to Section 166.241(3), Florida Statutes, actual 1999-2000 fiscal year expenditures exceeded amounts budgeted by \$2,498,977 in the General Fund for the 1999-2000 fiscal year, and by \$122,479 in the Enterprise Funds for the 2000-2001 fiscal year. In addition, our review of the Town's accounting records disclosed six cost center budget over expenditures totaling \$98,500 in the General Fund for the 2001-2002 fiscal year.

Corrective Action: The Mayor and the Town's Chief Administrative Officer are currently doing monthly budget review to prevent over expenditures.

Finding No. 10: The Town received deficiency notices from the Florida Department of Revenue regarding the Town's Truth in Millage Certification correspondence filed pursuant to Section 200.068, Florida Statutes, for the 2000-2001, 2001-2002, and 2003-2004 fiscal years.

Corrective Action: The budget will be started early to be in compliance with the September 30th Charter deadlines and the Florida Statute.

CASH

Finding No. 11: Petty cash disbursements were not always supported by vendor invoices or receipts, or by other documentation demonstrating the public purpose served by such disbursements. Also vendor invoices and receipts supporting petty cash disbursements were not cancelled upon reimbursement.

Corrective Action: The Town adopted a petty cash policy during March 2004 which implemented the recommendation that expense reports be prepared and receipts voided.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

CASH, Continued

Finding No. 12: The Town did not timely reconcile monthly bank statements to the Town's accounting records, and reconciliations prepared were not signed and dated by the preparer and reviewer. Also, the Town incurred \$2,652 of insufficient funds charges due to numerous overdrafts.

Corrective Action: At present, all bank accounts have been reconciled.

Finding No. 13: The Town did not always notify the bank of changes to the Town's authorized check signers in a timely manner, resulting in several checks being signed by Council members who were not authorized signers at the time the checks were signed.

Corrective Action: Bank signature cards were completed and signed by new council members as of March 31, 2003.

Finding No. 14: The Town did not enter into a written agreement with a bank from which it periodically made electronic funds transfers.

Corrective Action: The Town does have electronic funds transfer agreements. However, the agreements do not specify the location and amounts where funds can be transferred. The agreements were updated to reflect these items as of March 31 2004.

INVESTMENTS

Finding No. 15: Contrary to Section 218.415, Florida Statutes, the Town invested in repurchase agreements without benefit of a written investment policy.

Corrective Action: The Town adopted an investment policy during August 2004.

Finding No. 16: The Town's current banking agreement regarding moneys on deposit does not appear to be beneficial to the Town as bank charges exceeded credits realized by \$7,613 for the period October 2001 through August 2003. Also, the Town could have earned \$5,215 of additional interest earnings had proceeds from the library improvement loan been invested with the State Board of Administration during the period October 2001 through September 2002.

Corrective Action: The Town's management is currently developing an RFP, which will be developed in accordance with the Town's investment policy.

FIXED ASSETS

Finding No. 17: The Town had not established adequate controls over tangible personal property. Complete and accurate property records were not maintained, physical inventories of property were not done timely, some laptop computers were not properly marked to identify them as Town property, and documentation evidencing the disposal of ten surplus motor vehicles was not maintained.

Corrective Action: The Town has purchased a fixed asset system and is in the process of updating and entering the information into the system. Also, the Town intends to perform an annual physical inventory and will reconcile the physical observation to the fixed asset listing and general ledger.



FIXED ASSETS, Continued

Finding No. 18: The Town paid \$145,000 in excess of the appraised value for the Town Hall building, and did not document, of record, the justification for the purchase price. Subsequent to the purchase, the Town paid \$6,686 of property taxes on the property relating to the period of time prior to the Town's purchase although the taxes had already been collected from the seller by the title company upon closing.

Corrective Action: The Town shall ensure that every effort is made to have the minutes of the Town Council adequately reflect discussions and justification for all future decisions of the Town Council. However, it should be noted that after carefully considering the cost of constructing a new building vs. buying the building in question, it was determined that purchasing the building was in the best interest of the Town. Moreover, the delinquent taxes were reduced from the purchase price.

Finding No. 19: The Town did not adequately document the basis for obtaining two bank loans totaling \$1,880,000, which were subsequently refinanced only a few months later with a \$1,940,000 loan from the Florida Municipal Loan Council. Also, the Town did not, of record, consider other financing options prior to obtaining the loans, and prematurely transferred to the paying agent moneys needed for scheduled debt service payments, resulting in lost opportunities for earning interest and possible delays in paying costs associated with the library improvements project. In addition, contrary to the loan agreement with the Florida Municipal Loan Council, investment earnings on unused loan proceeds prior to October 10, 2001, were not used for the library project.

Corrective Action: The Town will do cash flow projections, capital project budgeting, and will retain the analysis documents.

Finding No. 20: The Town did not comply with several reporting or reserve covenants relating to a \$1,940,000 loan from the Florida Municipal Loan Council and \$310,000 of Water and Sewer Revenue Bonds.

Corrective Action: The Town will endeavor to meet future reporting requirements.

RESTRICTED RESOURCES

Finding No. 21: Contrary to Section 218.33(2), Florida Statutes, the Town did not separately account for restricted resources in the manner required by the Florida Department of Financial Services' Uniform Accounting System Manual.

Corrective Action: Management concurs and has implemented procedures to properly account for these resources.

Finding No. 22: The Town expended \$186,800 of local option and municipal fuel tax proceeds for Public Works Department expenses. However, the Town's records did not document the extent to which Public Works Department employees' activities related to construction, reconstruction, or maintenance of roads and streets, or to other activities for which expenditures of such moneys are allowable under Sections 336.025(1)(a) 2. and 206.605(2), Florida Statutes.

Corrective Action: Administration established a special fund to track revenue and expenditures during fiscal year 2004 and is properly classifying and documenting expenditures to comply with the Florida State Statute.

Finding No. 23: Contrary to generally accepted accounting principles, the Town did not properly report fund equity related to restricted resources, which resulted in a significant misstatement of the Town's financial position.

Corrective Action Plan: The Town's management will appropriately report the remaining funds in the CIP Fund and any other Capital Improvement Project Funds in the future.

CONTRACTS AND GRANTS

Finding No. 24: The Town was awarded a \$200,000 grant to construct a boat ramp; however, although the Town incurred \$20,800 of costs related to design work on the project, the Town did not receive the \$200,000 because it did not construct the boat ramp within the project deadline, and did not timely submit a request for an extension of the deadline.

Corrective Action: Deadline extension will be adhered to for all grant provisions.

Finding No. 25: The Town did not seek reimbursement from the Florida Department of Education for \$1,600 of food costs for the 2002 Summer Food Program, and may also be entitled to reimbursement for \$5,400 of food costs and related administrative costs for the 2003 Summer Food Program.

Corrective Action: Management will make every attempt to retrieve these funds.

Finding No. 26: The Town has not taken appropriate action regarding losses from money order thefts and stamp shortages incurred in connection with its operation of a post office. In addition, the Town has experienced operating losses at the post office for four consecutive fiscal years.

Corrective Action: Administration has instituted a daily close out report, established systems in conjunction with the U.S. Postal Service Office to monitor operations, coordinated quarterly audits with the U.S. Postal Service, established periodic internal audits, and are looking to move the post office to a Town owned building. All thefts are being immediately reported to the police department

Finding No. 27: The Town has not taken action to obtain moneys, to which it appears it is legally entitled, being held in an escrow account established to facilitate infrastructure improvements by a developer.

Corrective Action: Administration will request the money from the Developer for use in infrastructure and capital improvement projects.

REVENUES AND OTHER RECEIPTS

Finding No. 28: The Town had not established adequate controls over building permit fee collections through the use of pre-numbered receipt forms or building permits. Although pre-numbered receipts were used for other collections, an accounting for the pre-numbered receipt forms was not done.

Corrective Action: The Town now has pre-numbered building permits, which are controlled by a person independent of collections. The Town has also established controls over all pre-numbered receipts.

Finding No. 29: The Town did not perform monthly reconciliations between gallons of water produced and gallons of water billed to customers to ensure that customers were being properly billed for water provided and to detect water leaks or other problems contributing to an abnormally high water loss rate.

Corrective Action: The Town has purchased a new meter which will more accurately measure water production. Administration will also be reconciling the number of gallons produced to the number of gallons billed.

Finding No. 30: For delinquent utility billings, service was disconnected and deposits applied against unpaid balances; however, the Town had not implemented any further procedures to collect these delinquent accounts, such as referral to a collection agency, nor has the Town attempted to prepare an aging of these accounts, which would assist in determining which accounts are collectible.

Corrective Action: The Town has established procedures to handle delinquencies and is currently seeking quotes from collection agencies to handle collections on delinquent accounts.

REVENUES AND OTHER RECEIPTS, Continued

Finding No. 31: The Town assessed fees for use of the Denton Johnson Center; however, there was no apparent legal authority for such fees, and fees were assessed inconsistently. Also, the Town failed to collect applicable sales tax, and did not always require facility users to sign a Facility Use Contract indicating their agreement with a hold harmless clause.

Corrective Action: The Town adopted Resolution 2004-19 on March 16, 2004 which established policies, procedures, and fees for use of the Center including authority to waive fees.

Finding No. 32: The Town's Code Enforcement Board waived code enforcement fines totaling \$16,950 without documenting, of record, the reason for the fee waivers.

Corrective Action: The Town has hired an experienced independent contractor as the Code Enforcement Hearing Officer who will document the reason for all decisions.

Finding No. 33: The Town Council improperly amended by resolution an ordinance establishing building permit fees, which brings into question the validity of the revised fee schedule. As such, individuals issued building permits after the revised fee schedule was implemented may have been under- or over-assessed fees based on fees authorized by the ordinance.

Corrective Action: The Town's management concurs and has since established by Ordinance 2003-07, a new fee schedule.

Finding No. 34: Although the Town may be entitled to an additional \$121,063 of pledged donations from a developer, it has not sought to obtain the money.

Corrective Action: The Town's management is currently in communication with the developer and it appears that the developer will honor the pledge to the Town.

PERSONNEL AND PAYROLL ADMINISTRATION

Finding No. 35: The Town Council had not, of record, approved job descriptions to be used as a basis for establishing minimum recruitment qualifications for attracting candidates for employment.

Corrective Action: The job descriptions were approved during the February 17, 2004 Town Council Meeting.

Finding No. 36: Authorization to add new employees to the payroll was not, in several instances, documented of record. Also, the Town Council appointed a Chief Administrative Officer on an interim basis without conducting a proper screening of the applicant and reference checks. In addition, another employee who occupied two positions at different times did not meet the minimum experience and education requirements for either position.

Corrective Action: All new employees must meet established minimum qualification standards. Reference checks are being conducted on all new applicants and payroll status forms have been revised.

Finding No. 37: Contrary to the Town's Personnel Manual, employee personnel evaluations were not, in many instances, completed of record.

Corrective Action: The Town will comply with the Personnel Manual for performance evaluations.

PERSONNEL AND PAYROLL ADMINISTRATION, Continued

Finding No. 38: Contrary to the Town's Personnel Manual, the Town had not implemented a Compensation Plan to use to specify salary rates for authorized Town positions.

Corrective Action: A Classification and Pay Plan for all positions was approved during the February 17, 2004 Town Council Meeting.

Finding No. 39: Several employees received pay raises, as a result of promotions or merit increases, ranging from 12.5 to 41.7 percent. Contrary to the Town's Personnel Manual, the merit increases were not based on a Merit Adjustment Schedule and the pay increases for promotions exceeded allowable rates specified in the Manual. In addition, there were conflicting provisions within the Personnel Manual regarding allowable pay increases for promotions.

Corrective Action: The Town has adopted a new compensation plan and is in the process of updating the Personnel Manual.

Finding No. 40: Contrary to the Personnel Manual, two employees were paid for accumulated compensatory time totaling 42.5 and 77.6 hours, respectively, that had not been earned in the prior 30 days.

Corrective Action: Administration is in the process of developing a standardized form for overtime and compensation time.

Finding No. 41: Our review of leave and attendance records maintained during the audit period disclosed situations in which the leave provisions of the Personnel Manual may not have been applied in the manner intended by the Town Council because of conflicting provisions or undefined terms.

Corrective Action: Management is in the process of updating the personnel manual to clarify the employee benefits.

Finding No. 42: The Town Council did not, of record, approve employee holiday bonuses paid during the 1998 and 1999 calendar years. Also, the Town did not always document actual rates of pay used to compensate employees and pay adjustments, and approval thereof, and payments for fire inspections. In addition, police salary incentives were not paid in accordance with amounts authorized by the Florida Department of Law Enforcement.

Corrective Action: Management concurs and will ensure that appropriate documentation is retained and that all compensation is in accordance with relevant regulations. Police incentive payments were recalculated in August 2003.

Finding No. 43: Town Council members receive salary, travel allowance, and cash in lieu of insurance payments for serving on the Council; however, such compensation is not provided for in the Town Charter and the Town Council has not properly enacted an ordinance authorizing such compensation.

Corrective Action: The Town has obtained legal advice on this issue and has established a Charter Amendment Committee.

Finding No. 44: Certain Council members' and employees' fringe benefits and other compensation, including travel allowances, bonuses, and cash in lieu of insurance payments, were not reported as wages or other compensation to the Internal Revenue Service and were not subjected to the withholding of Federal income tax or the payment of other employment taxes.

Corrective Action: An operational review of council members to employees' compensation was conducted as a result and amended payroll tax returns were filed. As of August 2003, all required payroll taxes are being withheld and remitted as required.

PERSONNEL AND PAYROLL ADMINISTRATION, Continued

Finding No. 45: Contrary to Florida Department of Management Services Rule 60T-1.006, administrative Code, the Town did not timely submit information regarding the General Employees Pension Fund to the Florida Department of Management Services, Division of Retirement, for the 1999-2000 through 2002-2003 fiscal years. In addition, budgeted contributions to the Fund were not made, nor did the Town document, of record, the Town Council's approval to forego the contributions or the basis for doing so.

Corrective Action: The Town will fund future budgeted contributions to the Pension Plan and timely submit information regarding any changes to the General Employees Pension Fund to the Florida Department of Management Services, Division of Retirement

Finding No. 46: The Town records indicate that the Police Officers' Pension Fund was established by ordinance in 1973; however, the Town was unable to provide the adopted ordinance. In addition, the Town's failure to provide for timely audits of the Fund resulted in delayed receipt of premium tax revenues for the 1999-2000 through 2001-2002 fiscal years.

Corrective Action: The Town will endeavor to meet future reporting requirements and deadlines. Town Ordinance 72-100B is available for review.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 47: Deficiencies in the processing of disbursements for goods and services included lack of properly approved and dated contracts or purchase orders; payment of invoices that were not in agreement with contracts, purchase orders, or quotes; lack of signatures or dates for receipt of goods or services; and invoices that were not properly cancelled or stamped as paid after payment.

Corrective Action: Management has updated and implemented new purchasing procedures.

Finding No. 48: Expenditures totaling \$9,570 were not supported by documentation demonstrating the public purpose served by the expenditures.

Corrective Action: The Town has updated and implemented new procedures which should alleviate many of the deficiencies cited. It should be noted that the Town's accounts payable systems has mitigating controls as it relates to cancellations of invoices. The system has an invoice number control feature which will not allow the same invoice number to be processed more than once.

Finding No. 49: The Town, for \$299,869 of vehicles acquired through installment purchases, did not document that a competitive selection process was used to obtain the best interest rate available at the time that each purchase was financed. In addition, the Town did not always retain documentation related to such purchases, including payment schedules, invoices, or financing agreements.

Corrective Action: The Town will ensure that copies of state bids are secured and will comply with the purchasing procurement policy.

Finding No. 50: The Town did not, in several instances, purchase goods or services using a competitive selection process in the manner required by Ordinance No. 89-116.

Corrective Action: Administration is establishing a record keeping management system that is centralized in the Finance Department and will ensure that proper purchasing procedures are followed.

The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

CONTRACTUAL SERVICES

Finding No. 51: Contrary to good business practices, the Town, in some instances, incurred expenditures for contractual services without benefit of signed written agreements.

Corrective Action: Management has centralized records management and will ensure that copies of all contractual agreements are properly executed and maintained.

Finding No. 52: The Town's written agreement with the City of Apopka, whereby the City provided dispatch services for the Town's Police Department, provided for an increase in fees if the number of calls increased by more than ten percent over the previous year; however, the agreement does not specify the amount of the fee increase. Although the City increased its fee for such services, the Town did not verify that the City was entitled to the fee increase.

Corrective Action: The Town has revised its agreement with the City of Apopka including reestablishing the method of determining fee increases.

Finding No. 53: The Town paid a contractor \$32,600 for grant administration services; however, \$11,700 of the payments was not supported by invoices, and although the remaining \$20,900 of payments was supported by invoices, such invoices were not sufficiently detailed. In addition, some of the payments were not made pursuant to written agreements.

Corrective Action: Management currently requires sufficient support for expenditures prior to payment.

Finding No. 54: The Town's contracted building inspectors, in several instances, did not comply with the Town's Development and Technical Codes.

Corrective Action: The Town will require the building inspector to submit documentation of his compliance and inspections prior to accepting his final voucher.

Finding No. 55: The Town's contract with Orange County, whereby the County agreed to provide fire and emergency services to the Town's citizenry, may be contrary to Article VIII, Section 4 of the State Constitution, which requires dual referenda for the transfer of any power or function from a municipality to a county.

Corrective Action: The Town obtained a legal opinion with regard to the finding. The opinion indicated that the agreement was not in violation of the law as the Town's intent was not to transfer any power or function. In fact, the Town retains supervisory power over operations.

Finding No. 56: The Town made advance payments to contractors contrary to Article VII, Section 10 of the State Constitution.

Corrective Action: The Town has not made advance payments to contractors since 2001.

TRAVEL EXPENSES

Finding No. 57: Pursuant to Section 166.021(j)(b), Florida Statutes, since the Town has established travel expense policies and procedures in its Personnel Manual, it is exempt from all provisions of Section 112.061, Florida Statutes, effective January 1, 2003. Accordingly, it is critical that the Personnel Manual provide adequately detailed guidance regarding all aspects of travel previously provided by Section 112.061, Florida Statutes; however, the Personnel Manual does not provide adequate guidance regarding travel and meal allowances.

Corrective Action: Management is in the process of updating travel policies and procedures.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

TRAVEL EXPENSES, Continued

Finding No. 58: Travel-related expenditures were not always adequately supported or in accordance with Section 112.061, Florida Statutes, or the Town's travel policies and procedures.

Corrective Action: Management is in the process of updating its travel policies and procedures in an effort to ensure that all travel expenses are adequately documented and supported.

Finding No. 59: Travel allowances paid to Council members were not supported by documentation demonstrating that such allowances were reasonable based on applicable mileage reimbursement rates and the amount of typical miles traveled during a given month for official Town business.

Corrective Action: The Town is adhering to the recommendations.

COMMUNICATIONS EXPENSES

Finding No. 60: During the audit period, the Town did not have Town Council adopted policies and procedures relating to cellular telephone usage, and had not otherwise established adequate controls over the usage of cellular telephone. Consequently, several Council members and employees made numerous calls that were personal in nature and did not serve a public purpose. The Town has recovered \$6,709 from the Council members and employees but, as of February 2004, had still not been reimbursed \$5,256.

Corrective Action Plan: Management has implemented a cellular phone policy to ensure compliance with the cellular use procedures and will use a collection agency to recover any outstanding monies.

Finding No. 61: The Town paid Federal, State, and local telecommunication taxes from which it is exempt.

Corrective Action: Administration will contact the cellular phone providers in regards to obtaining credits for taxes previously paid.

Finding No. 62: During the audit period, the Town paid about \$21,700 for the 47 telephone lines for which it either received no services or did not use.

Corrective Action: Corrective action has been taken and the number of phone lines has been reduced accordingly.

VEHICLE MAINTENANCE AND USAGE

Finding No. 63: During the audit period, the Town did not maintain vehicle maintenance logs, and records of vehicle usage were often incomplete as to destination, public purpose served, or beginning and ending odometer readings.

Corrective Action: Management has adopted new policies and procedures for vehicle maintenance which were implemented in August, 2003.

Finding No. 64: The Town Council had not established a policy regarding the usage of gas credit cards, and credit card users were not required to sign written agreements specifying acceptable use of the credit cards. Also, credit card charges were not always supported by receipts.

Correction Action: Procedures are being developed for maintenance logs and the use of gas cards. Finance will reconcile invoices and maintenance logs before payment.



VEHICLE MAINTENANCE AND USAGE, Continued

Finding No. 65: The Town Council did not approve the assignment of a Town-owned vehicle on a full-time (24-hour basis) to the Public Works Director, nor was it apparent why he was assigned a vehicle on a full-time basis. In addition, the Public Works Director did not maintain a vehicle usage log to demonstrate the extent to which the vehicle was used for personal use (i.e., driving the vehicle home overnight or elsewhere) so that the value of such personal use could be reported as compensation to the Internal Revenue Service.

Corrective Action: Policies and procedures were implemented in August 2003 to enforce the documentation and to regulate personal use of Town vehicles. Also, personal use of vehicles will be properly reported as additional compensation where appropriate.

RISK MANAGEMENT

Finding No. 66: Contrary to Section 112.08(2)(a), Florida Statutes, and good business practices, the Town had not bid for employee health, dental, vision, property, general liability, automobile, and workers' compensation insurance coverage.

Corrective Action: The Town initiated the bid process in May 2003 for various types of insurance and will periodically go out to bid.

Finding No. 67: The Town had not established procedures to ensure that insurance coverage for property was adequate in the event of damage or loss of property. In addition, property insurance schedules were inaccurate and provided for insurance coverage of several vehicles no longer owned by the Town.

Corrective Action: Procedures are now in place with ensures reconciliation between insurance coverage records and town coverage records.

Finding No. 68: The Town paid the health, dental, and vision insurance premiums for a former employee who retired from the Town in 1995; however, the Town's Personnel Manual does not provide for payment of insurance premiums for retired employees and the Town Council did not, of record, approve the agreement.

Corrective Action: Management concurs and will investigate in the event the Town Council desires to allow such payments in the future, specific policies shall be adopted.

COMMUNITY REDEVELOPMENT AGENCY

Finding No. 69: The Town has not made required annual contributions of tax increment revenues to the Eatonville Community Redevelopment Agency (CRA). The amount owed to the CRA as of August 31, 2003, including late fees and interest, totaled approximately \$516,000. The Town and the CRA, without authority to do so, waived the late fees and interest, and established a plan for the Town to pay monthly installments to the CRA over an extended period of time.

Corrective Action: The Town, Orange County, and the CRA renegotiated the interlocal agreement during November 2004 and forgave all past due amounts.

Finding No. 70: The Town and the CRA entered an interlocal agreement whereby the CRA agreed to provide municipal services to the Town, and the Town agreed to make quarterly payments to the CRA to compensate it for such services; however, the Town did not make \$94,268 of required payments to the CRA. Because the services provided by the CRA, at least to some extent, are unrelated to approved CRA projects as specified in the CRA Plan, the validity of this contractual arrangement is questionable. In addition, neither the Town nor the CRA's records documented the actual percentage of time that CRA employees spend on CRA related activities versus activities related to non-CRA related activities.

Corrective Action: Management will resume the Interlocal Agreement payments upon completion of the review of the actual allocation percentages of functions between the Town and the CRA Board.

COMMUNITY REDEVELOPMENT AGENCY, Continued

Finding No. 71: Audit tests disclosed several CRA Trust Fund expenditures that were not supported by documentation demonstrating how the expenditures benefited the CRA and complied with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes. Also, the basis for paying \$9,028 of severance pay to the former CRA Executive Director was not apparent of record.

Corrective Action: The Town has modified accounting procedures for expenditures. All CRA expenditures must have an appropriate line item in the adopted budget. Major expenditures exceeding \$2,500 must also get approved by the CRA Board.

Finding No. 72: Contrary to Section 189.418(2), Florida Statutes, several resolutions and ordinances amending the CRA Board's composition were not timely submitted to the Florida Department of Community Affairs.

Corrective Action: The CRA will file all annual Status Reports, Audits, and any Redevelopment Plan modifications with the State DCA, Florida Redevelopment Association, and Orange County in a timely manner.

Finding No. 73: Contrary to Section 189.418(3), Florida Statutes, the CRA did not adopt budgets for the 1997-1998 through 2001-2002, and 2003-2004, fiscal years.

Corrective Action: The CRA has adopted a Budget and project list for 2004-2005 and 2005-2006. The 2005-2006 CRA Budget reflects a recommended change in the CRA Trust Fund contribution formula.

Finding No. 74: Contrary to Ordinance No. 97-08 and Section 163.387(8), Florida Statutes, the CRA did not provide for audits for the 1997-1998 through 1999-2000 fiscal years, and the audits for the 2000-2001 and 2001-2002 fiscal years were not completed in a timely manner, and were not, of record, provided to one of its taxing authorities.

Corrective Action: The current CRA fiscal year 2003 audit is completed and reported to the appropriate authorities. The fiscal year 2004 CRA audit is in process.

OTHER MATTERS

Finding No. 75: The Town Council enacted ordinances providing for the voluntary annexation of certain property by an affirmative vote of two then Council members; however, since two members do not constitute a quorum as defined by Section 166.041(4), Florida Statutes, the validity of the annexations is questionable.

Corrective Action: The Town will seek legal advice as to the appropriate action necessary.

Finding No. 76: Our audit disclosed several situations that may represent conflicts of interest as contemplated by Sections 112.313 or 112.3143(3)(a), Florida Statutes.

Corrective Action: The Town will seek legal advice as to the appropriate action necessary and will provide training to the Town Council and Management

Finding No. 77: During the course of our audit, the Town was unable to provide certain documents, including ordinances and resolutions. Town personnel were unable to provide explanations for the missing public records and there was nothing, of record, to indicate that the records were disposed of in accordance with a disposal program established pursuant to Section 119.01(4), Florida Statutes.

Corrective Action: Administration has contacted the Florida Municipal Code Corporation to assist with the Codification of the Town Ordinances; copies of the Ordinances are being made and will be sent to them by the end of December 2004. The Town is following the guidelines of Florida Statute 119, public Records Request, and Records Retention, Florida Statute 110.04(4).

The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

OTHER MATTERS, Continued

Finding No. 78: Town Council meeting minutes were not always approved in a timely manner, and approvals of minutes for some meetings were not made a part of the transcribed minutes.

Corrective Action: All Town Council minutes are currently being transcribed by the Town Clerk and presented to Town Council for approval at their subsequent Town Council Meetings.

Finding No. 79: The Town Charter was amended by voter referendum in March 1998; however, the Town did not file the amended Charter with the Florida Department of State until April 2003, more than five years after the Charter was revised.

Corrective Action: Administration will ensure that any future amendments to the Town Charter are filed with the Secretary of State in a timely manner.



AUDITOR'S FINDINGS

02-01. Reconciliation of Bank Accounts

Condition

An essential element of internal control over assets entrusted to a governmental organization is the periodic comparison of such assets actually determined to be on hand with the recorded accountability for the assets. Because of the susceptibility of cash to loss, this is particularly important for cash on deposit with banking institutions. Accountability for such deposits is accomplished through the preparation of bank reconciliations as soon as possible after the receipt of monthly bank statements. In the event of a loss of cash, failure to reconcile bank accounts to the records of the Town could result in a failure to detect and recover the loss.

As of September 30, 2002, bank accounts had not been reconciled on a timely basis, nor were they signed and dated by the preparer and reviewer.

Recommendation

Untimely bank reconciliations increase the risk that accounting errors could occur without being promptly detected. To assure that accountability is maintained for cash on deposit with banks, the Town should ensure that all cash transactions are recorded timely. It is also imperative that the Town reconciles all bank accounts monthly and have the bank reconciliations signed and dated by the preparer and reviewer. Also, any adjustments to the monthly bank reconciliation should be performed in the following month.

Status

The recommendations were adopted in Fiscal Year 2003. All bank accounts were reconciled as of October, 2003.

The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

02-02. Personal Property

Condition

Periodic comparison of assets entrusted to a governmental organization with a recorded listing of assets is an essential part of internal control. The Town did not track capital expenditures and deletions on a contemporaneous basis. Furthermore, there was no updated inventory listing of furniture, fixtures and equipment.

Recommendation

To ensure accountability is maintained for assets, the Town should establish a procedure to ensure fixed assets are safe guarded and an inventory of fixed assets is completed and maintained on a regular basis. Further, the Town should document the deletion of fixed assets.

Status

The Town has purchased a fixed asset system and is in the process of updating and entering information into the system. Also, the Town intends to perform an annual physical inventory and will reconcile the physical observation to the fixed asset listing and general ledger.



AUDITOR'S FINDINGS

02-03. Reconciliation of Customer Utility Accounts and Adjustments

Condition

The Town holds utility deposits for customers who have utility services provided by the Town. Appropriate fees are established by the Town for both commercial and residential customers. Five out of five customer utility deposit calculations tested were not correctly charged in accordance with the Town's established rates and did not agree with the fee schedule. Furthermore, the Town did not perform monthly reconciliations between gallons of water produced and gallons of water billed to customers to ensure that customers were being properly billed for water provided and to detect water leaks or other problems contributing to an abnormally high water loss rate.

Recommendation

In order to consistently and accurately calculate and record customer utility deposits, the Town should establish written policies and procedures outlining the correct method to calculate the utility deposits, perform periodic reviews of the calculations and reconcile gallons of water produced with gallons of water billed to customers.

Status

The recommendations were implemented during fiscal year ended 2003 for utility deposits and fiscal year ended 2004 for reconciliation of water production and usage.

02-04. Reconciliation of Customer Utility Accounts and Adjustments

Condition

To enforce compliance with the Town's Development and Technical Codes, Town Ordinance No. 97-12 provided that the Town's Code Enforcement Board had the authority to levy, waive, reduce or alter fines up to 10% of the total fines assessed. During the fiscal year 2002, the Board waived \$16,950 of fines without documenting the reason for the fee waivers.

Recommendation

The Town Council should require the Code Enforcement Board to document its basis for fines waived.

Status

The Town has contracted with an independent contractor to perform as the Town's Code Enforcement Hearing Officer to render orders and decisions regarding outstanding code violations. The hearing officer will be responsible for documenting all decisions.

AUDITOR'S FINDINGS

02-05. Reconciliation of Customer Utility Accounts and Adjustments

Condition

As a regular part of providing utility services to the customers of The Town, periodic adjustments and corrections are made to customer accounts. For example, if a customer's utility meter is not accessible and cannot be read, an estimate of the reading is calculated based on the customer's past usage history and an invoice to the customer is prepared accordingly. Once the meter becomes accessible and can be read, an adjustment is made to the customer's utility account to reflect utility charges based on actual usage. The Town recorded most adjustments and corrections, including those done to customer utility deposits, and recording bad debt, to an account titled "adjustments" in their utility billing system. Further, the adjustments were often recorded using the original transaction date instead of the current date, which changed originally reported prior period balances. These practices leave the Town without an accurate record of the various types of revenue, bad debt, accounts receivable and customer utility deposit account balances. The Town is also unable to compare actual results to the adopted budget.

Recommendation

Clear procedures to record all types of transactions should be developed and all staff members who utilize the computerized utility system should receive training on the proper method to record each type of transaction. Further, the daily processing of records should be reviewed by management to ensure the transactions are recorded properly.

Status

The recommendations were implemented in fiscal year 2004.

The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

02-06. Reporting Requirements of Bond Covenants and Other Entities

Condition

The Town was established under the Laws of the State of Florida, and as such, is required to adhere to all applicable laws and be accountable to its citizenry. Further, the Town accepts and receives funding from several sources and is also accountable to these agencies and organizations. The Town did not fulfill the reporting requirements of the referenced entities in a timely manner. Failure to comply with reporting requirements exposes the Town to the unnecessary risk of loss of funding and subjects the Town to corrective action by the various entities.

The Water and Sewer Revenue bond covenants also require a complete report of operations of the system including, but not limited to, a comparison of the report of operations to the current budget and to the operations of previous years, a balance sheet, and a schedule of insurance in existence, and so on.

The covenants further require that revenues be expended only through the establishment of an Operation and Maintenance Fund, a Sinking Fund (including a debt service reserve component), and a Repair and Replacement Fund. Monthly transfers are required to maintain the debt service reserve in the Sinking Fund at \$23,000 and the Repair and Replacement Fund at \$15,000 and monthly amounts are to be contributed to the sinking fund equal to 1/12 of the principal maturing on the next anniversary date, and a sum equal to 1/6 of the next interest installment to become due on all obligations then outstanding. The Town under-funded the sinking fund for the fiscal year ended September 30, 2003 by \$12,765.

Recommendation

The Town should keep up-to-date records to allow for timely reporting and ensure that the annual reporting requirements are adhered to in accordance with the loan and bond covenants, and that required reserves are properly funded. Additionally, the Town should refrain from using restricted funds for operation.

Status

We concur and have hired additional staff and instituted procedures and policies to insure future compliance.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

02-07. Grant Accounting

Condition

The Town accepted and received grant revenues from various Federal and State agencies during the fiscal year. Each grant contains requirements the Town has agreed to comply with at the time that the Town accepted the funding and the agreement was executed. The Town did not properly record and classify grant revenue and expenditures resulting in difficulty in reporting to grantor agencies, over expenditures, and the loss of grant revenue.

Recommendation

The Town should develop procedures to properly track grant revenue and expenditures in accordance with grant agreements and OMB Circulars.

Status

The recommendations were adopted during fiscal year 2003.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

02-08. Written Policies and Procedures

Condition

Written policies and procedures, which clearly define responsibilities of employees, are essential in order to provide both management and employees with guidelines regarding the efficient and consistent conduct of Town business and the effective safeguarding of the Town's assets. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed in operation, provide management with additional assurances that Town activities are conducted in accordance with applicable laws, ordinances, and other guidelines, and that Town financial records provide reliable information necessary for management oversight. Also, written policies and procedures assist in the training of new employees. Our review of Town operations disclosed that the Town did not have written policies and procedures for many of its accounting, purchasing, and other business-related functions. Written procedures were not available to document controls over budgets, revenues, cash, fixed assets, payroll processing and procurement of contracted services.

Recommendation

Town of Eatonville should develop and implement comprehensive written policies and procedures consistent with applicable laws, ordinances and other guidelines. The completed procedures should provide clear, detailed, comprehensive directions describing all accounting functions and related activities needed to ensure adequate control of funds.

Status

The recommendations were implemented in fiscal year 2004 with the exception of the purchasing procedures manual which was updated in fiscal year 2005.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

02-09. General Ledger Accuracy

Condition

A complete, timely and accurate set of financial records provides the Town Council and management with the necessary information required to run the day-to-day operations. The Town was not using the general ledger system to record financial transactions in a timely or accurate manner which may have resulted in incomplete and or inaccurate reporting to the Town Council, management, and regulatory agencies. Specifically, an accounts receivable listing was not prepared or available for governmental revenues, the interfund account balances were incorrect and not reconciled, an accounts payable listing was not prepared, expenditures were omitted from the financial records, revenues were omitted from the financial records, and there was unrecorded debt, unbalanced cash accounts, inaccurate account classification for expenditures and revenues, unrecorded voided checks and improperly recorded cash transfers.

Recommendation

The Town should record financial transactions in the general ledger system as they occur and perform reconciliations of cash, interfund balances and other sensitive accounts to ensure accurate reporting.

Status

The finance department hired additional personnel in April 2003 whose primary responsibility is the reconciliation of the subsidiary ledgers to the general ledger and has implemented the recommendations with the exception of reconciling on a monthly basis to the general ledger accounts receivable, interfund balances and proper classification for certain expenditures and revenues.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

02-10. Payroll

Condition

Payroll is the single largest expense to the Town. The Town utilizes the services of a payroll processing company to prepare the payroll and required payroll tax filings. No reconciliation was prepared between the payroll recorded in the general ledger control account to the payroll journals provided by the payroll processing company or the Employer's Quarterly Federal Tax Returns, Form 941s, filed with the Internal Revenue Service.

Recommendation

We recommend that the general ledger control account be reconciled to the Employer's Quarterly Federal Tax Returns and payroll journals prior to being filed with the Internal Revenue Service. Further, all transactions should be reported to the payroll service at the time they occur.

Status

As of fiscal year 2004, the finance department is reconciling employer's quarterly tax returns to the general ledger control accounts. Payroll journals are also being reviewed and reconciled to the general ledger after each payroll cycle.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

02-11. Payroll

Condition

The Town does not have a documented policy for specifying salary rates, a merit adjustment schedule, or an accurate way to control the amount of vacation pay and sick pay that Town employees receive.

Recommendation

We suggest that the Town adopt a Compensation Plan and that pay increases are equitably implemented. Furthermore, there should be a system to accurately capture paid vacation and sick time. A cumulative record of this information should also be kept.

Status

The recommendation was adopted in fiscal year 2003.

02-12. Unrecorded Debt

Condition

The Town had unrecorded capital leases. In addition, the Town failed to record a loan in the amount of \$200,000 with the State Infrastructure Bank.

Recommendation

The Town should establish procedures so that the finance department can analyze and record financial instruments as transactions are executed.

Status

The recommendation was adopted in fiscal year 2003.

AUDITOR'S FINDINGS

02-13. Building Permits

Condition

The Town charges building permit fees in accordance with Ordinance 97-5. Five out of five building permits selected for testing contained errors in calculation. Furthermore, the Town was unable to provide a comprehensive listing of key information for building permits issued during the fiscal year. The listing provided did not have a consistent numbering or tracking system; therefore, we were unable to determine if the listing was complete.

Recommendation

The Town of Eatonville should ensure Building Permit Department personnel are trained to properly calculate building permit fees and establish a procedure to conduct periodic reviews of permit calculations. The Town should also establish a consistent numbering or tracking system for all building permits and prepare a comprehensive listing of essential information.

Status

This recommendation has not been implemented.

02-14. Budget Over Expenditures

Condition

The Town's budget established the legal level of budgetary control at the department level for the General and Enterprise Funds. The Town's actual expenditures and other financing uses for the General Fund, Water and Sewer Fund and Solid Waste Fund for the 2001-2002 fiscal year, exceeded amounts budgeted. Such budget over expenditures totaled \$265,000 in seven cost centers, \$2,810 in one cost center, and \$72,042 in the Solid Waste Fund. These over expenditures were due to repayment of a loan, accrual of disbursements at year-end, and other unbudgeted items for which the Town Council did not adopt budget amendments.

Recommendation

Once the Town Council has adopted a budget, expenditures must be limited accordingly. The Town, in accordance with Section 166.241(3), Florida Statutes, should ensure that budget amendments are adopted as appropriate so that future expenditures do not exceed budgetary authority.

Status

The Town has instituted several procedures which include actively reviewing spending needs, systems to monitor anticipated revenues against actual, and establishment of an encumbrance system to closely monitor expenditures against budget appropriations.

The Honorable Mayor and
~~Members of Town Council~~
Town of Eatonville, Florida

AUDITOR'S FINDINGS

02-15. Community Redevelopment Agency

Condition

The Town has not made required annual contributions of tax increment revenues to the Eatonville Community Redevelopment Agency (CRA). The amount owed to the CRA as of August 31, 2003 including late fees and interest, totaled approximately \$516,000. The Town and the CRA, without authority to do so, waived the late fees and interest, and established a plan for the Town to pay monthly installments to the CRA over an extended period of time.

Recommendation

The Town in accordance with Section 163.387, Florida Statutes, and Ordinance No. 97-08, should immediately pay the CRA the required contributions and related late fees and interest as adjusted for any payments by the Town to, or on behalf of, the CRA.

Status

As of November 30, 2004, the Town, Orange County, and the CRA renegotiated and modified the CRA Agreement and forgave the delinquent TIF obligations owed by the Town.

02-16. Annual Financial Report (AFR)

Condition

The Town did not file the Annual Financial Report with the Department of Financial Services as of the completion of our audit. Section 218.32(1)(d), Florida Statutes, requires that the AFR be filed with the audit report.

Recommendation

In accordance with Florida Statutes Section 218.32(1)(d), the Town should ensure that all future filing requirements are met in a timely manner.

Status

The Town subsequently filed the AFR for fiscal year 2002.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

CURRENT YEAR'S FINDINGS

03-01. Deteriorating Financial Condition

Condition

In connection with our audit of the Town, we applied financial condition assessment procedures pursuant to Section 10.556(8), Rules of the Auditor General, to determine if deteriorating financial conditions exist that may cause a financial emergency to occur if actions are not taken to address such conditions. The Town's financial condition has deteriorated over the past five years: the combination of unreserved fund balance and unreserved retained earnings has been declining. Total governmental expenditures inclusive of debt service have increased by approximately 15% while governmental revenues have increased by approximately 7%. This negative trend has been partially offset by the Town's improving proprietary funds operations over the same period. The Town's income before operating transfers increased by approximately 300%. Our audit disclosed control deficiencies related to revenues, expenditures, and budgets as discussed on pages 51 through 82, which may have contributed to the Town's deteriorating financial condition.

Recommendation

The Town has limited revenue potential from taxes and fees due to the size of the population. We recommend that the Town take appropriate corrective action as discussed on pages 51 through 82, and develop a short-term and long term financial plan that includes steps to strengthen the Town's financial condition. The financial plans should include a review of spending needs including cash flows forecasting models to ensure that it can financially meet its long term commitments and assess their impact on the Town's current operations and budget reserves for future capital needs and unexpected expenditures.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

03-01. Deteriorating Financial Condition, Continued

Management Response

The Town has instituted several procedures which include actively reviewing spending needs, systems to monitor anticipated revenues against actual, establishment of an encumbrance system to closely monitor expenditures against budget appropriations.

The Town is also pursuing several strategies to increase its tax base such as the development of a community revitalization master plan and program to raise property values. A Blue Ribbon Committee has been formed which consist of community leaders, technical professionals, and local government representative to assist with the formulation of the plan.

We are expecting to begin Kennedy Boulevard Beautification Streetscape, a project to revitalize our main street, Kennedy Boulevard, in December 2004. This project is expected to create new economic growth and development.

The Town believes that with the implementation of these strategies, we will be able to meet current and long-term obligations and remain a viable entity.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

03-02. Reconciliation of Bank Accounts

Condition

An essential element of internal control over assets entrusted to a governmental organization is the periodic comparison of such assets actually determined to be on hand with the recorded accountability for the assets. Because of the susceptibility of cash to loss, this is particularly important for cash on deposit with banking institutions. Accountability for such deposits is accomplished through the preparation of bank reconciliations as soon as possible after the receipt of monthly bank statements. In the event of a loss of cash, failure to reconcile bank accounts to the records of the Town could result in a failure to detect and recover the loss.

As of September 30, 2003, bank accounts had not been reconciled on a timely basis, nor were they signed and dated by the preparer and reviewer.

Recommendation

Untimely bank reconciliations increase the risk that accounting errors could occur without being promptly detected. To assure that accountability is maintained for cash on deposit with banks, the Town should ensure that all cash transactions are recorded timely. It is also imperative that the Town reconciles all bank accounts monthly and have the bank reconciliations signed and dated by the preparer and reviewer. Also, any adjustments to the monthly bank reconciliation should be performed in the following month.

Management Response

Management concurs and is currently reconciling all bank accounts monthly, at present, all bank accounts are reconciled.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

03-03. General Ledger Accuracy

Condition

A complete, timely and accurate set of financial records provides the Town Council and management with the necessary information required to run the day-to-day operations. The Town was not using the general ledger system to record financial transactions in a timely manner which may have resulted in incomplete and or inaccurate reporting to the Town Council, management, and regulatory agencies. Specifically, an accounts receivable listing was not prepared or available for governmental revenues, the interfund account balances were incorrect and not reconciled, an accounts payable listing was not prepared, expenditures were omitted from the financial records, revenues were omitted from the financial records, and improperly recorded cash transfers.

Recommendation

The Town should record financial transactions in the general ledger system as they occur and perform reconciliations of cash, interfund balances and other sensitive accounts to ensure accurate reporting.

Management Response

We concur. Financial transactions are now being timely recorded and subsidiary ledgers are now being reconciled to the general ledger on an on-going basis.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

03-04. Building Permits

Condition

The Town charges building permit fees in accordance with Ordinance 03-7. Seven out of eight building permits selected for testing contained errors in calculation. Furthermore, the Town was unable to provide a comprehensive listing of key information for building permits issued during the fiscal year. The listing provided did not have a consistent numbering or tracking system; therefore, we were unable to determine if the listing was complete.

Recommendation

The Town of Eatonville should ensure personnel are trained to properly calculate building permit fees and establish a procedure to conduct periodic reviews of permit calculations. The Town should also establish a consistent numbering or tracking system for all building permits and prepare a comprehensive listing of essential information.

Management Response

The Town has acquired software which will be implemented in fiscal year 2004. The Town has also established procedures to ensure accountability for all permits issued and to ensure that all permits are accurately calculated.



The Honorable Mayor and
Members of Town Council
Town of Eatonville, Florida

AUDITOR'S FINDINGS

03-05. Budgeting

Condition

The Town's budget establishes legal level of budgetary control at the department level for the General Fund and the Enterprise Fund. The Town's actual expenditures and other financing uses for the General Fund for the 2002-2003 fiscal year, exceeded amounts budgeted. Such budget over expenditures totaled \$72,713 in five cost center budgets. The Town also under budgeted transfers and debt service by \$137,164 and \$100,134 respectively. These over expenditures were due to year end accruals and other unbudgeted items for which budget amendments were not adopted. The Town budgeted all governmental activities in the General Fund, but accounted for these activities in the appropriate fund.

Recommendation

The Town should prepare its annual budget by fund in order to facilitate periodical budget to actual analysis and to achieve better compliance with Section 166.241(3)(a). Budgeted revenues and expenditures versus actual should be closely monitored. Once the Town Council has adopted a budget, expenditures must be limited accordingly. The Town, in accordance with Section 166.241(3), Florida Statutes, should ensure that budget amendments are adopted as appropriate so that future expenditures do not exceed budgetary authority and available resources.

Management Response

We concur. The Town has established budgetary control procedures and is monitoring expenditures to assure that budget amendments are adopted as appropriate.



AUDITOR'S FINDINGS

03-06. Community Redevelopment Agency

Condition

The Town had not made required annual contributions of tax increment revenues to the Eatonville Community Redevelopment Agency (CRA). The amount owed to the CRA as of August 31, 2003 including late fees and interest, totaled approximately \$614,000. The Town, Orange County, and the CRA, renegotiated the interlocal agreement including funding levels reducing the effective funding level by approximately 50% and waived all delinquent T.I.F. contributions inclusive of the related late fees, penalties, and interest.

Recommendation

The Town in accordance with Section 163.387, Florida Statutes, and the interlocal agreement should ensure that timely contributions are made.

Management Response

Management is committed to complying with the new agreement and will ensure that TIF dollars which have been committed to fund the CRA will be immediately paid to the CRA upon receipt.

03-07. Annual Financial Report (AFR)

Condition

The Town did not timely file the Annual Financial Report with the Department of Financial Services as of the completion of our audit. Section 218.32(1)(d), Florida Statutes, requires that the AFR be filed with the audit report.

Recommendation

In accordance with Florida Statutes Section 218.32(1)(d), the Town should ensure that all future filing requirements are met in a timely manner.

Management Response

Management concurs and will put procedures in place to ensure that the Town's financial reporting processes meet the filing requirements.

This report is intended solely for the information and use of Town of Eatonville, Florida's Council, audit committee and management, the State of Florida Office of the Auditor General and other regulatory and pass-through agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

L.F. Harris & Associates

Orlando, Florida
October 30, 2004

OTHER MATTERS

In addition to certain internal control structure related matters, auditing standards generally accepted in the United States of America require that we report the following matters to you:

- A. The auditor's responsibility under auditing standards generally accepted in the United States of America.
- B. Material errors or material irregularities, or possible material illegal acts.
- C. Material weaknesses in internal accounting control.
- D. Opinions obtained by management from other independent accountants on the application of accounting principles generally accepted in the United States of America or on the type of opinion that may be rendered, and the conclusions reached by management and by the auditor with respect to the matters covered by such opinions.
- E. The nature of disagreements with management on financial accounting and reporting matters and auditing procedures, whether or not satisfactorily resolved.
- F. Accounting and disclosure decisions with respect to transactions that are unusual in nature and have a material effect on the financial statements.
- G. Audit adjustments that could have a significant effect on the Town's financial reporting process.
- H. Major issues discussed with management prior to retention.
- I. Difficulties encountered in performing the audit.
- J. Situations involving the adoption of or change in significant accounting policies or their application.
- K. The process used by management in formulating sensitive accounting estimates and the basis for our conclusions about those estimates.

OTHER MATTERS - continued

With respect to items C through F, H and J through K, such matters were either not encountered during our audit or they were insignificant and, consequently, nothing is reported herein with respect to those items. The remaining items are discussed in the following paragraphs:

A. Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America:

An audit performed under auditing standards generally accepted in the United States of America, like virtually all endeavors, is subject to the constraints of cost/benefit considerations. Likewise, the concept of selective testing produces a possibility of undiscovered errors. Consequently, there are inherent limitations in the auditing process. These limitations are described in more detail in our contract. The point we would like to emphasize is that an audit conducted in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements.

B. Material errors or material irregularities, or possible material illegal acts:

The Town was not using the general ledger system to record financial transactions in a consistent, timely, and accurate manner which resulted in incomplete and inaccurate records. Specifically, during our review of the Town's financial records, we noted that subsidiary ledgers were not reconciled to the general ledger and transactions were posted to incorrect funds.

G. Audit Adjustments that could have a significant effect on the Town's Financial Reporting Process:

Management has elected to prepare the Town's interim financial statements on the cash basis of accounting. At year-end, the auditors propose bookkeeping adjustments to record accounts receivables, accounts payable, accrued expenses, compensated absences, depreciation and other adjustments required to convert the cash basis financial statements to the appropriate basis of accounting as described in the notes to the general purpose financial statements. Management reviews the adjustments and approves the posting of these adjustments to the general ledger.

I. Difficulties encountered in performing the audit:

The Finance Department did not possess the required level of staffing which contributed to control deficiencies as reported throughout this management letter and consequently led to challenges in efficiently completing our auditing procedures.

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APPENDIX I

FINANCIAL INFORMATION REGARDING THE CITY OF HAINES CITY

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CITY OF HAINES CITY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues			
Property Taxes	\$2,738,219	\$5,219,146	\$4,836,950
Gas and Fuel Taxes	726,872		
Franchise Fees	836,651		
Utility Taxes	812,343		
Communications Services Tax	562,747		
Licenses and Permits	344,035	275,528	283,206
Intergovernmental Revenues	2,194,501	1,827,294	2,411,910
Charges for Services	1,420,035	1,380,042	1,260,949
Fines and Forfeitures	151,026	114,888	111,838
Contributions	124,586		
Interest Revenue	50,270		
Other Revenue	117,920		
Miscellaneous		<u>301,616</u>	<u>465,450</u>
Total Revenues	<u>\$10,079,205</u>	<u>\$9,118,514</u>	<u>\$9,370,303</u>
Expenditures			
Current:			
General Government	1,215,067	\$1,188,487	1,367,136
Public Safety	4,312,442	4,484,910	4,000,570
Physical Environment	1,145,542	1,104,017	1,033,122
Transportation	668,444	669,095	779,479
Economic Development	820,370		
Economic Environment		784,556	613,154
Culture and Recreation	1,377,446	1,467,361	1,828,478
Debt Service:			
Principal	225,632	202,398	165,787
Interest	229,649	232,160	223,673
Capital Outlay	<u>1,151,311</u>		
Total Expenditures	<u>11,145,903</u>	<u>10,132,984</u>	10,011,399
Deficiency of Revenues over Expenditures	<u>(1,066,698)</u>		
Excess of Revenues Over (Under) Expenditures		<u>(1,014,470)</u>	<u>(641,096)</u>
Other Financing Sources (Uses)			
Proceeds of Long-Term Debt Financing		535,762	94,715
Debt Issued	124,140		
Transfers In	1,691,070	1,478,497	1,287,458
Transfers Out	<u>(747,128)</u>	<u>(565,887)</u>	<u>(401,829)</u>
Total Other Financing Sources (Uses)	<u>1,068,082</u>		
Net change in Fund Balances	1,384		
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses		433,902	339,248
Fund Balances - Beginning	<u>5,288,109</u>	<u>4,854,205</u>	<u>4,514,957</u>
Fund Balances - Ending	<u>\$ 5,289,493</u>	<u>\$ 5,288,107</u>	<u>\$ 4,854,205</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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BELLA, HERMIDA,
GILLMAN, HANCOCK
& MUELLER

CERTIFIED PUBLIC ACCOUNTANTS

Members

Florida Institute of
Certified Public Accountants

American Institute of
Certified Public Accountants
S.F.C. Practice Section

Nicholas J. Bella
(1952-1971)

Remy Hermida*

H. Leo Gillman

William H. Hancock

W. Andrew Mueller, Jr.

James E. Hurn

Charlotte M. Stertzer

Leslie B. Gray

*Consultant to the Firm

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Board
of City Commissioners,
City of Haines City, 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 Haines City, Florida ("the City"), as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Haines City, Florida's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Haines City, Florida, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, effective October 1, 2002, the City adopted a new financial reporting model, as required by provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The Honorable Mayor and Board
of City Commissioners
City of Haines City, Florida
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2004 on our consideration of the City of Haines City, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, budgetary schedule and pension plan required supplementary information on pages 4 through 11, 53 through 54, and 55 through 57, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the City of Haines City, Florida's basic financial statements taken as a whole. The combining statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 accompanying schedule of expenditures of federal, state and local awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Section 215.97, Florida Statutes and Chapter 10.550 Rules of the Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

BELLA, HERMIDA, GILLMAN, HANCOCK & MUELLER

Bella, Hermida, Gillman, Hancock & Mueller

Certified Public Accountants
July 23, 2004

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CITY OF HAINES CITY, FLORIDA

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash and Cash Equivalents	\$ 4,331,420	\$ 2,457,885	\$ 6,789,305
Accounts Receivable	308,909	532,886	841,795
Due from Other Governments	300,207		300,207
Inventory	33,828	146,377	180,205
Restricted Assets:			
Cash and Cash Equivalents	723,563	5,779,535	6,503,098
Cash and Investments with Fiscal Agents		278,731	278,731
Deferred Charges	63,947	164,767	228,714
Long-Term Receivables	17,542		17,542
Capital Assets (net of Accum. Depreciation):			
Land	711,541	289,901	1,001,442
Plant and Plant Improvements		17,365,391	17,365,391
Buildings and Improvements	5,394,011	88,299	5,482,310
Equipment	1,675,529	634,649	2,310,178
Transportation Equipment	921,781	184,490	1,106,271
Library Books	46,156		46,156
Construction in Progress	<u>150,786</u>	<u>593,907</u>	<u>744,693</u>
Total Assets	<u>14,679,220</u>	<u>28,516,818</u>	<u>43,196,038</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	130,097	25,868	155,965
Accrued Liabilities		34,379	34,379
Other Current Liabilities	213,995		213,995
Deferred Revenue	65,596		65,596
Other Liabilities	16,288		16,288
Current Portion of Long-Term Debt	1,079,248	421,148	1,500,396
Current Liabilities Payable from Restricted Assets:			
Current Portion of Long-Term Debt		446,897	446,897
Accrued Interest Payable	65,313	173,263	238,576
Deposits		351,648	351,648
Other Liabilities		13,015	13,015
Noncurrent Liabilities:			
Long-Term Debt	<u>4,089,445</u>	<u>10,124,580</u>	<u>14,214,025</u>
Total Liabilities	<u>5,659,982</u>	<u>11,590,798</u>	<u>17,250,780</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	4,591,029	8,301,364	12,892,393
Restricted for:			
Debt Service	37	785,091	785,128
Capital Projects	615,265	198,234	813,499
Community Development	377,215		377,215
Other Purposes	395,782		395,782
Unrestricted	<u>3,039,910</u>	<u>7,641,331</u>	<u>10,681,241</u>
Total Net Assets	<u>\$ 9,019,238</u>	<u>\$ 16,926,020</u>	<u>\$ 25,945,258</u>

The notes to the financial statements are an integral part of this statement.

**NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS**

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ (624,581)	\$	\$ (624,581)
(4,250,436)		(4,250,436)
(6,139)		(6,139)
(607,056)		(607,056)
(177,607)		(177,607)
(1,184,075)		(1,184,075)
(<u>229,649</u>)		(<u>229,649</u>)
(7,079,543)		(7,079,543)
	1,924,702	1,924,702
	<u>21,380</u>	<u>21,380</u>
	1,946,082	1,946,082
(7,079,543)	<u>1,946,082</u>	(5,133,461)
2,738,219		2,738,219
836,651		836,651
812,343		812,343
562,747		562,747
726,872		726,872
436,047		436,047
743,583		743,583
<u>38,019</u>	<u>64,645</u>	<u>102,664</u>
6,894,481	<u>64,645</u>	<u>6,959,126</u>
943,942	(<u>943,942</u>)	
758,880	1,066,785	1,825,665
<u>8,260,358</u>	<u>15,859,235</u>	<u>24,119,593</u>
\$ <u>9,019,238</u>	\$ <u>16,926,020</u>	\$ <u>25,945,258</u>

CITY OF HAINES CITY, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2003

	<u>MAJOR FUND GENERAL FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS			
Cash and Cash Equivalents	\$ 3,942,677	\$ 388,743	\$ 4,331,420
Accounts Receivable	308,909		308,909
Due from Other Funds	11,163		11,163
Due from Other Governments	300,207		300,207
Inventory	33,828		33,828
Restricted Assets:			
Cash and Cash Equivalents	723,526	37	723,563
Long-Term Receivables	<u>17,542</u>		<u>17,542</u>
Total Assets	\$ <u>5,337,852</u>	\$ <u>388,780</u>	\$ <u>5,726,632</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 129,732	\$ 365	\$ 130,097
Due to Other Funds		11,163	11,163
Other Current Liabilities	213,995		213,995
Deferred Revenue	65,596		65,596
Other Liabilities	<u>16,288</u>		<u>16,288</u>
Total Liabilities	<u>425,611</u>	<u>11,528</u>	<u>437,139</u>
Fund Balances:			
Reserved for:			
Encumbrances	285,508		285,508
Debt Service		37	37
Other Purposes	725,539		725,539
Unreserved, reported in:			
General Fund:			
Designated	1,777,048		1,777,048
Undesignated	2,124,146		2,124,146
Special Revenue Funds:			
Undesignated		<u>377,215</u>	<u>377,215</u>
Total Fund Balances	<u>4,912,241</u>	<u>377,252</u>	<u>5,289,493</u>
Total Liabilities and Fund Balances	\$ <u>5,337,852</u>	\$ <u>388,780</u>	\$ <u>5,726,632</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

Total Fund Balances of Governmental Funds in the Balance Sheet	\$ 5,289,493
Amounts reported for governmental activities in the Statement of Net Assets are difference because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,899,804
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(5,104,746)
Interest payable on long-term debt does not require current financial resources; therefore, it is not reported as a liability in the funds.	(<u>65,313</u>)
Net Assets of Governmental Activities	\$ <u>9,019,238</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>MAJOR FUND GENERAL FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES			
Property Taxes	\$ 2,440,778	\$ 297,441	\$ 2,738,219
Gas and Fuel Taxes	726,872		726,872
Franchise Fees	836,651		836,651
Utility Taxes	812,343		812,343
Communications Services Tax	562,747		562,747
Licenses and Permits	344,035		344,035
Intergovernmental Revenues	2,194,501		2,194,501
Charges for Services	1,420,035		1,420,035
Fines and Forfeitures	151,026		151,026
Contributions	124,586		124,586
Interest Revenue	47,991	2,279	50,270
Other Revenue	<u>117,920</u>		<u>117,920</u>
Total Revenues	<u>9,779,485</u>	<u>299,720</u>	<u>10,079,205</u>
EXPENDITURES			
Current:			
General Government	1,215,067		1,215,067
Public Safety	4,312,442		4,312,442
Physical Environment	1,145,542		1,145,542
Transportation	668,444		668,444
Economic Development	520,045	300,325	820,370
Culture and Recreation	1,377,446		1,377,446
Debt Service:			
Principal		225,632	225,632
Interest		229,649	229,649
Capital Outlay	<u>1,125,074</u>	<u>26,237</u>	<u>1,151,311</u>
Total Expenditures	<u>10,364,060</u>	<u>781,843</u>	<u>11,145,903</u>
Deficiency of Revenues over Expenditures	(<u>584,575</u>)	(<u>482,123</u>)	(<u>1,066,698</u>)
OTHER FINANCING SOURCES (USES)			
Debt Issued	124,140		124,140
Transfers In	964,916	726,154	1,691,070
Transfers Out	(<u>736,353</u>)	(<u>10,775</u>)	(<u>747,128</u>)
Total Other Financing Sources (Uses)	<u>352,703</u>	<u>715,379</u>	<u>1,068,082</u>
Net Change in Fund Balances	(231,872)	233,256	1,384
Fund Balances -- Beginning	<u>5,144,113</u>	<u>143,996</u>	<u>5,288,109</u>
Fund Balances -- Ending	\$ <u>4,912,241</u>	\$ <u>377,252</u>	\$ <u>5,289,493</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2003

Net Change in Fund Balances – Total Governmental Funds \$ 1,384

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 697,979

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of 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. 60,215

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. This is the adjustment for accrued interest on long-term debt. (698)

Change in Net Assets of Governmental Activities \$ 758,880

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2003

BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS

	<u>MAJOR FUND</u>	<u>NONMAJOR FUND</u>	
	<u>WATER AND SEWER FUND</u>	<u>STORMWATER FUND</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,399,069	\$ 58,816	\$ 2,457,885
Accounts Receivable	508,012	24,874	532,886
Inventory	<u>146,377</u>	<u> </u>	<u>146,377</u>
Total Current Assets	<u>3,053,458</u>	<u>83,690</u>	<u>3,137,148</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents	5,779,535		5,779,535
Cash and Investments with Fiscal Agents	278,731		278,731
Deferred Charges	164,767		164,767
Capital Assets:			
Land	289,901		289,901
Plant and Plant Improvements	28,168,230		28,168,230
Buildings and Improvements	90,063		90,063
Equipment	1,096,282	14,082	1,110,364
Transportation Equipment	473,484		473,484
Construction in Progress	593,907		593,907
Less: Accumulated Depreciation	(<u>11,569,312</u>)	<u> </u>	(<u>11,569,312</u>)
Total Noncurrent Assets	<u>25,365,588</u>	<u>14,082</u>	<u>25,379,670</u>
Total Assets	<u>28,419,046</u>	<u>97,772</u>	<u>28,516,818</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

STATEMENT OF NET ASSETS (CONTINUED)
 PROPRIETARY FUNDS
SEPTEMBER 30, 2003

BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS

	<u>MAJOR FUND</u>	<u>NONMAJOR FUND</u>	
	<u>WATER AND SEWER FUND</u>	<u>STORMWATER FUND</u>	<u>TOTAL</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 13,543	\$ 12,325	\$ 25,868
Accrued Liabilities	34,379		34,379
Current Portion of Long-Term Debt	<u>421,148</u>		<u>421,148</u>
Total Current Liabilities	<u>469,070</u>	<u>12,325</u>	<u>481,395</u>
Current Liabilities Payable from Restricted Assets:			
Current Portion of Long-Term Debt	446,897		446,897
Accrued Interest Payable	173,263		173,263
Deposits	351,648		351,648
Other Liabilities	<u>13,015</u>		<u>13,015</u>
Total Current Liabilities Payable from Restricted Assets	<u>984,823</u>		<u>984,823</u>
Noncurrent Liabilities:			
Long-Term Debt	<u>10,124,580</u>		<u>10,124,580</u>
Total Noncurrent Liabilities	<u>10,124,580</u>		<u>10,124,580</u>
Total Liabilities	<u>11,578,473</u>	<u>12,325</u>	<u>11,590,798</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	8,287,282	14,082	8,301,364
Restricted for:			
Debt Service	785,091		785,091
Capital Projects	198,234		198,234
Unrestricted	<u>7,569,966</u>	<u>71,365</u>	<u>7,641,331</u>
Total Net Assets	\$ <u>16,840,573</u>	\$ <u>85,447</u>	\$ <u>16,926,020</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003**

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	<u>MAJOR FUND</u>	<u>NONMAJOR FUND</u>	
	<u>WATER AND SEWER FUND</u>	<u>STORMWATER FUND</u>	<u>TOTAL</u>
OPERATING REVENUES			
Charges for Services	\$ <u>3,985,819</u>	\$ <u>122,282</u>	\$ <u>4,108,101</u>
Total Operating Revenues	<u>3,985,819</u>	<u>122,282</u>	<u>4,108,101</u>
OPERATING EXPENSES			
Personal Services	1,087,845		1,087,845
Other Services and Charges	943,713	100,902	1,044,615
Depreciation	<u>629,926</u>		<u>629,926</u>
Total Operating Expenses	<u>2,661,484</u>	<u>100,902</u>	<u>2,762,386</u>
Operating Income	<u>1,324,335</u>	<u>21,380</u>	<u>1,345,715</u>
NONOPERATING REVENUES (EXPENSES)			
Grants		22,336	22,336
Interest Revenue	64,217	428	64,645
Interest Expense	(397,996)		(397,996)
Other Nonoperating Revenues (Expenses)	<u>17,040</u>		<u>17,040</u>
Total Nonoperating Revenues (Expenses)	(<u>316,739</u>)	<u>22,764</u>	(<u>293,975</u>)
Income before Contributions and Transfers	1,007,596	44,144	1,051,740
CAPITAL CONTRIBUTIONS	958,987		958,987
TRANSFERS IN	10,198		10,198
TRANSFERS OUT	(<u>954,140</u>)		(<u>954,140</u>)
Change in Net Assets	1,022,641	44,144	1,066,785
Net Assets - Beginning of Year	<u>15,817,932</u>	<u>41,303</u>	<u>15,859,235</u>
Net Assets - End of Year	\$ <u>16,840,573</u>	\$ <u>85,447</u>	\$ <u>16,926,020</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS

	<u>MAJOR FUND</u>	<u>NONMAJOR FUND</u>	
	<u>WATER AND SEWER FUND</u>	<u>STORMWATER FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 4,024,026	\$ 113,976	\$ 4,138,002
Payments to Suppliers for Goods and Services	(1,066,233)	(88,576)	(1,154,809)
Payments to Employees for Services	(1,080,386)	—	(1,080,386)
Net Cash Provided by Operating Activities	<u>1,877,407</u>	<u>25,400</u>	<u>1,902,807</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	10,198	—	10,198
Transfers Out	(954,140)	—	(954,140)
Net Cash Used in Noncapital Financing Activities	(<u>943,942</u>)	—	(<u>943,942</u>)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(788,162)	(14,082)	(802,244)
Capital Grants	—	22,336	22,336
Contributed Capital	958,987	—	958,987
Interest Payments on Debt	(391,902)	—	(391,902)
Principal Payments on Long-Term Debt	(736,394)	—	(736,394)
Other Nonoperating Revenue	<u>17,040</u>	—	<u>17,040</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	(<u>940,431</u>)	<u>8,254</u>	(<u>932,177</u>)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends	<u>64,217</u>	<u>428</u>	<u>64,645</u>
Net Cash Provided by Investing Activities	<u>64,217</u>	<u>428</u>	<u>64,645</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	57,251	34,082	91,333
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,400,084</u>	<u>24,734</u>	<u>8,424,818</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>8,457,335</u>	\$ <u>58,816</u>	\$ <u>8,516,151</u>

CITY OF HAINES CITY, FLORIDA

STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS

	<u>MAJOR FUND</u>	<u>NONMAJOR FUND</u>	
	<u>WATER AND SEWER FUND</u>	<u>STORMWATER FUND</u>	<u>TOTAL</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 1,324,335	\$ 21,380	\$ 1,345,715
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	629,926		629,926
Change in Assets and Liabilities:			
Accounts Receivable	6,173	(8,305)	(2,132)
Inventory	(43,378)		(43,378)
Accounts Payable	(79,146)	12,325	(66,821)
Accrued Liabilities	3,034		3,034
Compensated Absences	4,425		4,425
Customer Deposits	<u>32,038</u>		<u>32,038</u>
Net Cash Provided by Operating Activities	\$ <u>1,877,407</u>	\$ <u>25,400</u>	\$ <u>1,902,807</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2003

	<u>PENSION TRUST FUNDS</u>			<u>AGENCY</u>	
	<u>GENERAL EMPLOYEES' PENSION FUND</u>	<u>POLICE OFFICERS' PENSION FUND</u>	<u>FIRE- FIGHTERS' PENSION FUND</u>	<u>RIGHT OF WAY FUND</u>	<u>TOTAL</u>
ASSETS					
Cash and Cash Equivalents	\$ <u>381,043</u>	\$ <u>238,577</u>	\$ <u>176,368</u>	\$ <u>10,642</u>	\$ <u>806,630</u>
Receivables:					
Contributions			10,964		10,964
Accrued Interest and Dividends		<u>11,075</u>	<u>11,057</u>		<u>22,132</u>
Total Receivables		<u>11,075</u>	<u>22,021</u>		<u>33,096</u>
Investments, at Fair Value:					
U.S. Stocks		2,070,385	1,667,066		3,737,451
U.S. Obligations		142,760	116,914		259,674
Federal Agencies		72,536	96,820		169,356
Corporate Bonds		544,969	420,493		965,462
Federal Agencies – Mortgage Backed		414,672	306,390		721,062
Investment Contract with Insurance Company: Annuity Contract	<u>5,409,579</u>				<u>5,409,579</u>
Total Investments	<u>5,409,579</u>	<u>3,245,322</u>	<u>2,607,683</u>		<u>11,262,584</u>
Total Assets	<u>5,790,622</u>	<u>3,494,974</u>	<u>2,806,072</u>	<u>10,642</u>	<u>12,102,310</u>
LIABILITIES					
Deposits Held in Custody for Others				<u>10,642</u>	<u>10,642</u>
Total Liabilities				<u>10,642</u>	<u>10,642</u>
NET ASSETS					
Held in Trust for Pension Benefits	\$ <u>5,790,622</u>	\$ <u>3,494,974</u>	\$ <u>2,806,072</u>	\$ <u> </u>	\$ <u>12,091,668</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>GENERAL EMPLOYEES' PENSION FUND</u>	<u>POLICE OFFICERS' PENSION FUND</u>	<u>FIRE- FIGHTERS' PENSION FUND</u>	<u>TOTAL</u>
ADDITIONS				
Contributions:				
Employer	\$ 419,512	\$ 69,590	\$ 105,033	\$ 594,135
Employees	141,822	134,348	63,143	339,313
State of Florida	<u> </u>	<u>81,824</u>	<u>53,711</u>	<u>135,535</u>
Total Contributions	<u>561,334</u>	<u>285,762</u>	<u>221,887</u>	<u>1,068,983</u>
Investment Income:				
Interest and Dividends	588,415	115,105	91,045	794,565
Net Appreciation in Fair Value of Investments	<u>192</u>	<u>315,129</u>	<u>254,354</u>	<u>569,675</u>
Net Investment Income	<u>588,607</u>	<u>430,234</u>	<u>345,399</u>	<u>1,364,240</u>
Total Contributions and Investment Income	<u>1,149,941</u>	<u>715,996</u>	<u>567,286</u>	<u>2,433,223</u>
DEDUCTIONS				
Pension Benefits	299,391	255,078	149,237	703,706
Administrative Expenses	<u>23,278</u>	<u>30,541</u>	<u>27,487</u>	<u>81,306</u>
Total Deductions	<u>322,669</u>	<u>285,619</u>	<u>176,724</u>	<u>785,012</u>
CHANGE IN NET ASSETS	827,272	430,377	390,562	1,648,211
NET ASSETS – BEGINNING OF YEAR	<u>4,963,350</u>	<u>3,064,597</u>	<u>2,415,510</u>	<u>10,443,457</u>
NET ASSETS – END OF YEAR	\$ <u>5,790,622</u>	\$ <u>3,494,974</u>	\$ <u>2,806,072</u>	\$ <u>12,091,668</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Haines City was originally incorporated under the General Statutes of Florida as the Town of Haines City, on February 23, 1914. The first state legislative act affecting the City was enacted on May 20, 1919 and by Ch. 8272, it was reincorporated under a City Council form of government. The present charter was adopted as Ch. 12790 on July 1, 1927, changing the form of government to "Commission-Manager Plan," as amended. The City operates under a commission-manager form of government and provides the following services as authorized by its charter: Public Safety (Police and Fire), Streets and Highways, Culture-Recreation, Public Improvements, Sanitation, Housing, Planning and Zoning and General and Administrative Services.

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

In evaluating the City as a reporting entity, management has included all component units in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*". The Financial Reporting Entity consists of the City of Haines City, Florida (the primary government) and its blended component units. Blended component units are legally separate organizations for which the City is financially accountable. The component unit discussed below is included in the City's reporting entity.

Blended Component Unit

The following component unit is blended with the primary government for financial statement purposes because the component unit's governing body is substantially the same as the City Commission or because the component unit exclusively serves the City.

Community Redevelopment Agency (CRA)

The CRA, which was created on April 4, 1991 by Resolution No. 558 pursuant to the Community Redevelopment Act, as found in Chapter 163 of the Florida Statutes, is an entity which is legally separate from the City of Haines City and is governed by a seven-member board; five board members are the City Commission members themselves, and the other two members are appointed by the City Commission. Its sole purpose is to finance and redevelop the City's designated redevelopment areas. The CRA is reported as a non-major special revenue fund.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements

The City of Haines City has adopted the provisions of GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", GASB Statement 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures." The basic financial statements consist of the government-wide financial statements and fund financial statements. The government-wide financial statements required under this statement (the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City and its blended component unit. For the most part, the effect of interfund activity has been removed from these statements so as not to distort financial results. Fiduciary funds are also excluded from the government-wide financial statements since by definition these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 (fund financial statements) are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City's fiduciary funds are presented in the fund financial statements but as noted above are not included in the government-wide statements. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements, the proprietary fund financial statements and the fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Operating revenues shown for proprietary operations generally result from producing or providing goods and services such as water, sewer and stormwater utilities. Operating expenses for these operations include all costs related to providing the service or product. These costs include salaries, supplies, travel, contract services, depreciation, administrative expenses and other expenses directly related to costs of services. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, 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 financial transactions of the City are recorded in individual funds. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined), for the determination of major funds.

The City reports the following major governmental fund:

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 City reports the following major proprietary fund:

The Water and Sewer Fund accounts for the operations of the City's regional water and sewer system.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Additionally, the City reports the following fund types:

The Pension Trust Funds account for the activities of the General Employees' Pension Fund, Police Officers' Pension Fund and Firefighters' Pension Fund, which accumulate resources for pension benefit payments to qualified employees.

The Agency Fund accounts for funds held in custody for the maintenance of Southern Dunes right-of-way land.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The 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.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, as well as fees, fines and forfeitures (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 producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents include cash on hand, time and demand deposits and short-term investments. For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Deposits and Investments (Continued)

All investments, including Pension Funds, are stated at fair value, with the exception of investments in the Florida Local Government Surplus Funds Trust Fund (SBA), an external 2a7-like investment pool which is presented at share price. All fair market valuations are based on quoted market prices; SBA pool shares are based on amortized cost, which approximates fair market value, of the SBA's underlying portfolio.

Receivables and Payables

Receivables consist of trade receivables, due from other governments and interest receivable, and are recorded at gross amount. The City has recorded an allowance related to property taxes receivable (included in Due from Other Governments). All other receivables are considered fully collectible.

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".

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.

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.

Restricted Assets

Certain proceeds of revenue bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond/loan covenants.

Capital Assets

Capital assets, which include land, plant and plant improvements, buildings and improvements, equipment, transportation equipment, library books and infrastructure (i.e., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 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 value at the time of donation.

The costs of normal maintenance and repairs that do not add to the fair value of the asset or materially extend assets lives are not capitalized.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. None was capitalized during the current year.

Depreciable capital assets are amortized using the straight-line method (except library books, which use a composite method) over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Plant and Plant Improvements	5 – 50 Years
Buildings and Improvements	5 – 50 Years
Equipment	3 – 50 Years
Transportation Equipment	3 – 15 Years
Library Books	3 – 7 Years

Pursuant to GASB Statement No. 34, an extended period of deferral (until fiscal year ending September 30, 2007) is available before the requirement to record and depreciate general infrastructure assets acquired before the implementation date. This category is likely to be one of the largest asset classes of the City and its cost has not historically been recorded nor has depreciation been charged. General infrastructure assets include roads, bridges, underground pipe (other than related to utilities), sidewalks, street lights, traffic signals, etc.

Compensated Absences

All regular employees with less than five years continuous service earn 80 hours of annual leave. The number of hours of annual leave increases relative to the number of years of continuous service, in increments of five years. The maximum of 160 hours of annual leave is obtained after twenty years of continuous service. For employees with 10 years or less of continuous service with the City, a maximum of 25 days of annual leave may be carried over to the next year. For employees with more than 10 years of continuous service, a maximum of 35 days may be carried over. Employees who terminate with more than one year's service are paid for 100% of their unused annual leave. The City has accrued 100% of the annual leave liability.

All regular employees earn eight hours of sick leave per month. A maximum of 112 days' sick leave may be accumulated. Employees who voluntarily terminate or retire are paid for 100% of their accumulated sick leave balance up to a maximum of 112 days. The City has accrued the estimated amount of vested sick leave liability.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

Encumbrance accounting is employed in all governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because commitments will be reappropriated and honored during the subsequent year.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from management's estimates.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, 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:

Florida Municipal Loan Council Loan	\$ (3,670,000)
Less: Debt Issuance Costs	63,947
Capital Lease Obligations	(638,775)
Compensated Absences	(<u>859,918</u>)
 Net Adjustment to reduce fund balance – total governmental funds, to arrive at net assets – governmental activities	 \$ (<u>5,104,746</u>)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes 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 this difference are as follows:

Capital Outlay	\$ 1,151,311
Donated Assets	100,000
Depreciation Expense	(<u>553,332</u>)
 Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	 \$ <u>697,979</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities (continued)

Another element of that reconciliation states that "the issuance of long-term debt 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." The details of this difference are as follows:

Debt issued or incurred:		
Capital Leases		\$ (124,140)
Principal repayments:		
Florida Municipal Loan Council Loan	\$ 65,000	
Capital Leases	<u>160,632</u>	
		225,632
Compensated Absences – current year activity		(<u>41,277</u>)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities		\$ <u>60,215</u>

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of expenditures over appropriations

During the year ended September 30, 2003, no expenditures exceeded appropriations at the legal level of control (i.e. the department level).

B. Deficit fund equity

At September 30, 2003, there were no funds with a deficit fund equity balance.

C. Property Taxes

Property tax collections are governed by Chapter 197, Florida Statutes. The Polk County Tax Collector bills and collects all property taxes levied within the county. Discounts of 4, 3, 2 and 1% are allowed for early payment in November, December, January and February, respectively.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

C. Property Taxes (Continued)

The Tax Collector remits collected taxes at least monthly to the City. The City recognizes property tax revenue in the year for which they are levied.

Calendar of events is as follows:

January 1	Property taxes are based on assessed value at this date as determined by the Polk County Property Appraiser.
July 1	Assessment roll approved by the state.
September 30	Millage resolution approved by the City Commission.
October 1	Beginning of fiscal year for which taxes have been levied.
November 1	Property taxes due and payable.
November 30	Last day for 4% maximum discount.
April 1	Unpaid property taxes become delinquent.
Not later than June 1	Tax certificates are sold by the Polk County Tax Collector. An enforceable legal claim arises at this date.

NOTE 4: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

In accordance with Florida Statutes and the City's written investment policy (which was adopted by the City Commission by Resolution), the City may invest in the following types of investments: the Local Government Surplus Funds Trust Fund (SBA), SEC-registered money market funds with the highest credit quality rating, interest-bearing time deposits or savings accounts in qualified public depositories, direct obligations of the U.S. Treasury, Federal agencies and instrumentalities, securities of investment companies or investment trusts provided their portfolio is limited to obligations of the U.S. government or agencies or instrumentalities, repurchase agreements fully collateralized by U.S. government obligations and other investments authorized by law or ordinance for a municipality.

The City pools the majority of its cash in a single bank account that is available for use by all funds, except the pension trust funds. The City has entered into an agreement with the bank concerning the sweeping of this account to pay all cleared charges against other accounts and pay the City a stipulated variable rate of interest on the account's daily balance. At September 30, 2003, the carrying amount of the City's total deposits was \$13,347,554 and the bank balances were \$13,833,586. All the banks' balances were covered either by the Federal Deposit Insurance Corporation or by the State of Florida Collateral Pool (Category 1). The Florida Statutes authorize and the State administers a collateral pool which ensures no loss of public funds. Cash on hand at year-end in the general fund totals \$300.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

The State Board of Administration's Local Government Surplus Funds Investment Pool Trust Fund (the SBA), is governed by Chapter 19-7 of the Florida Administrative Code. The Fund is not a registrant with the Securities and Exchange Commission; however, the State Board of Administration has adopted operating procedures consistent with the requirements for a 2a-7 fund. This investment pool purchases low risk government securities, high grade commercial debt and equity securities, commercial paper, investment companies, repurchase and reverse repurchase agreements, real estate, futures, options and a broad range of other instruments. The City's fair value for financial reporting is its share of the pool's account balance, which is reported by the pool at amortized cost, in accordance with GASB Statement 31. The fair value of investments is determined on a monthly basis. The method used by the pool to determine participants' shares sold and redeemed is the amortized cost method. The pool has not provided or obtained any legally binding guarantees during the year to support the value of its shares. There is no requirement for involuntary participation in the pool. This investment pool is not insured by the State of Florida or the Federal Deposit Insurance Corporation. GASB Statement 31 exempts such investments from the credit risk categorization requirement. Total held by the State Board of Administration at year end is \$615,265.

Cash and investments held by custodians for the Pension Trust Funds totaled \$12,058,572.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not primarily in the City's name.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

At year end, the City's investment balances were as follows:

	<u>Category</u> <u>2</u>	Reported Amount/ Fair Value
U.S. Obligations	\$ 259,674	\$ 259,674
Federal Agencies	890,418	890,418
Corporate Bonds	965,462	965,462
Common Stocks	<u>3,737,451</u>	3,737,451
Total	\$ <u>5,853,005</u>	
 <u>Investments not subject to categorization:</u>		
Money Market Funds		414,976
State Board of Administration Investment Pool (SBA)		615,234
Investment Contract with Insurance Company		<u>5,409,579</u>
Total Investments		\$ <u>12,292,793</u>

B. Receivables

As of year-end, receivables for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for collectible accounts are as follows:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Activities</u>
Governmental Activities:			
Accounts Receivable	\$ 308,909	\$	\$ 308,909
Intergovernmental	300,207		300,207
Long-Term Receivables	<u>17,542</u>		<u>17,542</u>
Net Total Accounts Receivable	\$ <u>626,658</u>	\$	\$ <u>626,658</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Receivables (Continued)

	<u>Water & Sewer</u>	<u>Nonmajor Proprietary</u>	<u>Total Business-type Activities</u>
Business-type Activities:			
Accounts Receivable	\$ 538,012	\$ 24,874	\$ 562,886
Less: Allowance for Uncollectibles	<u>30,000</u>	—	<u>30,000</u>
Net Total Accounts Receivable	\$ <u>508,012</u>	\$ <u>24,874</u>	\$ <u>532,886</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant Revenue	\$	\$ 32,117
Occupational Licenses and Other	—	<u>33,479</u>
Total Deferred/Unearned Revenue for Governmental Funds	\$ —	\$ <u>65,596</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets

Capital asset activity for the year ended September 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 447,999	\$ 263,542	\$	\$ 711,541
Construction in progress	<u> </u>	<u>150,786</u>	<u> </u>	<u>150,786</u>
Total capital assets not being depreciated	<u>447,999</u>	<u>414,328</u>	<u> </u>	<u>862,327</u>
Capital assets being depreciated:				
Buildings and Improvements	6,900,299	356,646		7,256,945
Equipment	2,930,719	289,660		3,220,379
Transportation equipment	1,911,403	144,521		2,055,924
Library books	<u> </u>	<u>46,156</u>	<u> </u>	<u>46,156</u>
Total capital assets being depreciated	<u>11,742,421</u>	<u>836,983</u>	<u> </u>	<u>12,579,404</u>
Less: accumulated depreciation for:				
Buildings and Improvements	(1,673,064)	(189,870)		(1,862,934)
Equipment	(1,346,872)	(197,978)		(1,544,850)
Transportation equipment	(968,659)	(165,484)		(1,134,143)
Total accumulated depreciation	<u>(3,988,595)</u>	<u>(553,332)</u>	<u> </u>	<u>(4,541,927)</u>
Total capital assets, being depreciated, net	<u>7,753,827</u>	<u>283,651</u>	<u> </u>	<u>8,037,477</u>
Governmental activities capital assets, net	\$ <u>8,201,825</u>	\$ <u>697,979</u>	\$ <u> </u>	\$ <u>8,899,804</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 289,901	\$	\$	\$ 289,901
Construction in progress	<u>520,139</u>	<u>471,917</u>	<u>(398,149)</u>	<u>593,907</u>
Total capital assets not being depreciated	<u>810,040</u>	<u>471,917</u>	<u>(398,149)</u>	<u>883,808</u>
Capital assets being depreciated:				
Plant and Plant Improvements	27,848,871	366,456	<u>(47,097)</u>	28,168,230
Buildings and Improvements	19,047	71,016		90,063
Equipment	925,900	269,362	<u>(84,898)</u>	1,110,364
Transportation Equipment	<u>465,534</u>	<u>21,641</u>	<u>(13,691)</u>	<u>473,484</u>
Total capital assets being depreciated	<u>29,259,352</u>	<u>728,475</u>	<u>(145,686)</u>	<u>29,842,141</u>
Less: accumulated depreciation for:				
Plant and Plant Improvements	<u>(10,330,351)</u>	<u>(525,789)</u>	53,300	<u>(10,802,840)</u>
Buildings and Improvements	<u>(1,023)</u>	<u>(741)</u>		<u>(1,764)</u>
Equipment	<u>(491,339)</u>	<u>(63,509)</u>	79,133	<u>(475,715)</u>
Transportation Equipment	<u>(262,360)</u>	<u>(39,886)</u>	<u>13,253</u>	<u>(288,993)</u>
Total accumulated depreciation	<u>(11,085,073)</u>	<u>(629,925)</u>	<u>145,686</u>	<u>(11,569,312)</u>
Total capital assets, being depreciated, net	<u>18,174,279</u>	<u>98,550</u>		<u>18,272,829</u>
Business-type activities capital assets, net	\$ <u>18,984,319</u>	\$ <u>570,467</u>	\$ <u>(398,149)</u>	\$ <u>19,156,637</u>

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

Governmental activities:	
General Government	\$ 15,032
Public Safety	333,590
Physical Environment	1,909
Transportation	17,095
Economic Environment	659
Culture and Recreation	185,047
Total depreciation expense – governmental activities	\$ <u>553,332</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

Business-type activities:	
Water and Sewer	\$ 629,926
Stormwater	<u> </u>
Total depreciation expense – business-type activities	\$ <u>629,926</u>

Construction and Other Significant Commitments

Outstanding purchase order commitments, including construction commitments, are recorded in the governmental funds as a reservation of fund balance for encumbrances. Enterprise funds do not record such commitments as a reservation of fund balance. Total commitments by fund are as follows:

	<u>Remaining Commitment</u>
General Fund	\$ 285,508
Water and Sewer Fund	4,767
Stormwater Fund	<u>15,559</u>
	\$ <u>305,834</u>

D. Interfund Receivables, Payables and Transfers – The composition of interfund balances as of September 30, 2003, is as follows:

DUE TO/FROM OTHER FUNDS:

(Represents cash loaned and outstanding between funds for short-term operating purposes)

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 11,163	\$
CRA Fund	<u> </u>	<u>11,163</u>
	\$ <u>11,163</u>	\$ <u>11,163</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Receivables, Payables and Transfers (Continued)

INTERFUND TRANSFERS:

(Represents transfers of funds for operating purposes from the fund that collected them to the fund that is authorized to expend them)

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 964,916	\$ 736,353
CRA Fund	271,053	10,775
Debt Service Fund	455,101	
Water and Sewer Fund	<u>10,198</u>	<u>954,140</u>
	<u>\$ 1,701,268</u>	<u>\$ 1,701,268</u>

E. Leases

1. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights and, therefore, the results of the lease agreements are not reflected in the City's account groups.

All of the City's operating leases are renewed on a monthly or quarterly basis; therefore, none of the leases have terms in excess of one year which would require disclosure of future minimum lease payments.

The rental expenditures were \$17,029, \$165 and \$1,413 for the General Fund, Water and Sewer Fund and Stormwater Fund, respectively, during the year.

2. Capital Leases

\$952,347 Various Capital Lease Obligations – Funds borrowed to finance the purchase of several police vehicles, fire vehicles, fire trucks and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, are recorded at the present value of the future minimum lease payments as of the inception date. Interest rates vary from 2.568% to 5.5846%, with maturity dates from May 2004 to November 2011.

Assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Vehicles and Equipment	\$ 952,347
Less: Accumulated Depreciation	<u>162,901</u>
Total	<u>\$ 789,446</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Leases (Continued)

2. Capital Leases (Continued)

The future minimum lease obligations and net present value of these minimum lease payments as of year end are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>
2004	\$ 175,178
2005	136,989
2006	105,230
2007	61,780
2008	55,043
2009 – 2013	<u>179,382</u>
Total Minimum Lease Payments	713,602
Less: Amount Representing Interest	<u>74,827</u>
Present Value of Minimum Lease Payments	\$ <u>638,775</u>

F. Long-Term Debt

Summarized below are the City's debt issued to finance the acquisition and construction of major capital facilities that were outstanding as of September 30, 2003:

1. GOVERNMENTAL ACTIVITIES DEBT:

\$3,850,000 Loan Payable – Florida Municipal Loan Council – Funds borrowed to finance construction of a new police station, renovate City Hall and related facilities and purchase related furniture, fixtures and equipment. Semiannual payments will be made over a 30 year period, including interest which varies from 3.85% to 5.75%.

2. BUSINESS-TYPE ACTIVITIES DEBT:

\$3,960,000 Water and Sewer Revenue Refunding Bonds, Series 1991 – Issued to refund the outstanding Water and Sewer Refunding and Revenue Bonds, Series 1987. These bonds and the interest thereon are payable solely from the net revenues derived from the operation of the City's water and sewer utility system and amounts in deposit in the debt service reserve fund. Certain reserves and covenants must be met. Interest is payable semiannually at rates varying between 4.75% and 6.5% until final maturity on October 1, 2012.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

2. BUSINESS-TYPE ACTIVITIES DEBT (CONTINUED):

\$436,000 State Revolving Fund Loan – Funds borrowed to finance the acquisition and construction of influent transmission facilities, lift stations 4 and 5. The loan is secured by pledged revenues, and certain reserves and covenants must be met. The loan will be repaid in twenty annual installments including interest at 4.2% for the original loan of \$221,000 and 4.15% for the additional completion loan of \$215,000.

\$424,636 State Revolving Fund Loan – Funds borrowed to finance the acquisition and construction of influent transmission facilities, lift stations 1 and 2. The loan is secured by pledged revenues, and certain reserves and covenants must be met. The loan will be repaid in twenty annual installments including interest at 3.98%.

\$10,755,818 State Revolving Fund Loan – Funds borrowed to finance the construction of wastewater treatment, reuse and sludge facilities. The loan is secured by pledged revenues and certain reserves and covenants must be met. The loan will be repaid in forty semiannual payments including interest at 2.59% and 2.63%, which applies to various loan increments.

3. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in Long-Term Debt of the City for the year ended September 30, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<u>Governmental Activities:</u>					
Florida Municipal Loan Council					
Loan Payable	\$ 3,735,000	\$	\$ 65,000	\$ 3,670,000	\$ 65,000
Capital Leases	675,266	124,141	160,632	638,775	154,330
Compensated Absences	818,642	41,276	_____	859,918	859,918
 Total Governmental Activities					
Long-Term Liabilities	\$ <u>5,228,908</u>	\$ <u>165,417</u>	\$ <u>225,632</u>	\$ <u>5,168,693</u>	\$ <u>1,079,248</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

4. CHANGES IN LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<u>Business-type Activities:</u>					
Revenue Bonds - Series 1991	\$ 2,795,000	\$	\$ (185,000)	\$ 2,610,000	\$ 195,000
Less: Deferred amounts for original issue discount	(20,723)		3,424	(17,299)	
State Revolving Fund Loan - 4 & 5	245,986		(23,077)	222,909	24,041
State Revolving Fund Loan - 1 & 2	249,288		(20,782)	228,506	21,610
State Revolving Fund Loan - Reuse	8,288,729		(477,572)	7,811,157	490,042
Capital Lease	29,963		(29,963)		
Compensated Absences	<u>132,927</u>	<u>4,425</u>		<u>137,352</u>	<u>137,352</u>
Total Business-type Activities Long-Term Liabilities	\$ <u>11,721,170</u>	\$ <u>4,425</u>	\$ (<u>732,970</u>)	\$ <u>10,992,625</u>	\$ <u>868,045</u>

5. SUMMARY OF ANNUAL DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity for debt outstanding as of September 30, 2003 are as follows:

<u>Fiscal Year Ending</u>	<u>Governmental Activities Debt</u>	
	<u>Florida Municipal Loan Council Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 65,000	\$ 201,369
2005	70,000	198,431
2006	70,000	195,316
2007	75,000	192,016
2008	80,000	188,411
2009 - 2013	450,000	879,110
2014 - 2018	585,000	737,756
2019 - 2023	770,000	547,328
2024 - 2028	1,010,000	294,113
2029 - 2030	<u>495,000</u>	<u>28,894</u>
	\$ <u>3,670,000</u>	\$ <u>3,462,744</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

5. SUMMARY OF ANNUAL DEBT SERVICE REQUIREMENTS (CONTINUED)

Fiscal Year Ending	Business-type Activities Debt			
	State Revolving Fund Loan – 4 & 5		State Revolving Fund Loan – 1 & 2	
	Principal	Interest	Principal	Interest
2004	\$ 24,041	\$ 9,309	\$ 21,610	\$ 9,095
2005	25,044	8,305	22,470	8,234
2006	26,090	7,259	23,364	7,340
2007	27,180	6,169	24,295	6,410
2008	28,315	5,034	25,261	5,443
2009 – 2013	<u>92,239</u>	<u>7,810</u>	<u>111,506</u>	<u>11,311</u>
	\$ <u>222,909</u>	\$ <u>43,886</u>	\$ <u>228,506</u>	\$ <u>47,833</u>

Fiscal Year Ending	Business-type Activities Debt			
	State Revolving Fund Loan – Reuse		Revenue Bonds – Series 1991	
	Principal	Interest	Principal	Interest
2004	\$ 490,042	\$ 199,503	\$ 195,000	\$ 161,515
2005	502,839	186,706	205,000	149,213
2006	515,970	173,576	220,000	135,927
2007	529,443	160,102	235,000	121,536
2008	543,269	146,277	250,000	105,595
2009 – 2013	<u>2,936,703</u>	<u>511,027</u>	<u>1,505,000</u>	<u>257,267</u>
2014 – 2016	<u>2,292,891</u>	<u>120,513</u>		
	\$ <u>7,811,157</u>	\$ <u>1,497,704</u>	\$ <u>2,610,000</u>	\$ <u>931,053</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

6. CONDUIT DEBT OBLIGATIONS

In order to help alleviate the shortage of decent, safe and sanitary housing for persons of low income, including families and elderly, handicapped and disabled persons in the Polk County area, the City has consented to a determination by the U.S. Department of Housing and Urban Development that a certain private non-profit corporation constitutes an "instrumentality" of the City and a "public housing agency" for the purposes of financing a low-income housing project.

The related bond issues are not debts of the City, the State of Florida, or of any municipality, county, political subdivision or other body corporate and politic thereof, nor is the City liable for such bonds.

The original Series 1982 bonds were refunded as of September 1, 1995. Information on the current bond issues (which are FHA Insured Mortgage Loans - Section 8 Assisted Projects) is as follows:

<u>Bond Issue</u>	<u>Original Issue Amount</u>	<u>Balance Outstanding at September 30, 2003</u>
Harbor Court Development, Inc. Mortgage Revenue Refunding Bonds, Series 1995 A	\$ 1,375,000	\$ 1,375,000
Harbor Court Development, Inc. Taxable Mortgage Revenue Refunding Bonds, Series 1995 B	340,000	15,000
Harbor Court Development, Inc. Subordinated Mortgage Revenue Refunding Bonds, Series 1995 C	<u>250,000</u>	<u>250,000</u>
	\$ <u>1,965,000</u>	\$ <u>1,640,000</u>

G. Restricted Assets

Certain cash and investments that are legally restricted in the statement of net assets are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Capital Projects	\$ 615,265	\$
Grants	32,327	
Confiscated Property	38,144	
Main Street	30,217	
Other	7,573	
Debt Service	37	619,421
Impact Fees		4,090,116
Customer Deposits		351,648
Bond and Loan Reserves		<u>997,081</u>
Total	\$ <u>723,563</u>	\$ <u>6,058,266</u>

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Restricted Assets (Continued)

The balances of the liabilities payable from restricted assets accounts in the government-wide statement of net assets are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accrued interest payable	\$ 65,313	\$ 173,263
Current portion of long-term debt		446,897
Deposits		351,648
Other Liabilities		<u>13,015</u>
Total	\$ <u>65,313</u>	\$ <u>984,823</u>

NOTE 5: OTHER INFORMATION

A. Risk Management

The City's former workers' compensation insurer, Governmental Risk Insurance Trust (GRIT), a governmental insurance pool, filed for Chapter 11 bankruptcy on March 30, 2000. All claims arising on or after July 1, 1998, will be adjusted and handled as if there were no bankruptcy filing. As to claims arising before July 1, 1998, GRIT has not adjusted claims or made payments to claimants for either indemnity or medical expenses, or to any service providers with respect to claims. The amount of these pre-July 1, 1998 claims for the City of Haines City pursuant to GRIT's records is \$348,787. Additionally, premium overpayments of \$48,531 and City-funded claim payments of \$68,027 were made by the City. The sum of these three amounts, which are owed to the City and/or to its claimants, has been filed by the City in a "Proof of Claim/Interest" with the Bankruptcy Court. The amounts of any future liability or bankruptcy award are undeterminable at this time and have therefore not been accrued in the accompanying financial statements. The City is now responsible for administering the remaining open pre-July 1, 1998 claims, and has recorded a designation of fund balance of \$172,562 at September 30, 2003 to help fund future claims payments.

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 for which the City carries commercial insurance. There have been no significant reductions in insurance coverage from the previous year. Settlement amounts have not exceeded insurance coverage for the current year nor the three prior years.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 5: OTHER INFORMATION (CONTINUED)

B. Contingent Liabilities

The City receives revenues from various federal and state grants. These grants are for specific purposes and are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement for expenditures disallowed under the terms of the grants. Based upon prior experience, City management believes such disallowances, if any, will be immaterial.

The City is involved in legal actions which, in the opinion of management, will not have a material effect on the financial statements of the City.

C. Other Postemployment Benefits

The City offers its retirees the option of continuing to participate in health and life insurance plans that are offered to its active employees. Florida Statutes state that the City must offer its retirees this option at a premium cost of no more than that applicable to active employees. Each retiree must pay 100% of the costs of any insurance they elect to continue. Funding is on a "pay as you go" basis. Most of the City's employees would become eligible for those benefits should they reach normal retirement age while working for the City.

Life and health insurance are fully insured and provided through outside providers. Expenses for insurance are recognized in the funds as premiums are paid to the insurance providers. Premium costs are paid in full by the retirees. Expenses for retirees' insurance are commingled with those relating to active employees and cannot be reasonably estimated.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 5: OTHER INFORMATION (CONTINUED)

D. Pension Plan Information

Defined Benefit Plans

The City Commission has established a single-employer public employee retirement system to provide defined retirement benefits to its qualifying employees. Separate plans are maintained for its police officers, firefighters, and other general employees. The City Commission has established separate Boards of Trustees for each of the plans, which have the authority to amend plan provisions, including contribution rates. Stand-alone plan financial reports are not issued, and the plans are not included in the reports of any other public employee retirement system or entity.

The following is a summary of the funding policies, contribution methods and benefit provisions of the defined benefit plans:

	<u>General Employees</u>	<u>Police Officers and Firefighters</u>
Eligibility to Participate	Full-time at date of hire (30 hours per week);	Full-time police officers or firefighters
Determination of Contributions	Actuarially determined	Actuarially determined
Funding of Administration Costs	Included in Normal Cost	Included in Normal Cost
Period Required to Vest	20% after 3 years of service, plus 20% annually thereafter; 100% after 7 years for participants hired after August 1, 1999	100% after 10 years of credited service
Required Contributions	5% of total compensation	9% of salary
Eligibility for Distributions:		
Normal Retirement	Later of age 60 or 5 years of service; Later of age 60 or 7 years of vesting service for participants hired after August 1, 1999	Earlier of age 55 and 10 years of service or age 52 and 25 years of service or age 60
Early Retirement	Age 55 and 10 years of service (unreduced benefit with 25 years of service)	Age 50 and 10 years of credited service
Benefit:		
Normal Retirement	2.5% of average compensation times credited service	3% of average final compensation (afe) times credited service
Early Retirement	Accrued benefit, actuarially reduced	Accrued benefit, reduced 3% for each year prior to normal retirement

The plans also have provisions for benefits in case of termination, disability or death.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 5: OTHER INFORMATION (CONTINUED)

E. Pension Plan Information (Continued)

Defined Benefit Plans (Continued)

MEMBERSHIP

	<u>General Employees</u>	<u>Police Officers</u>	<u>Fire - Fighters</u>
Retirees and Beneficiaries Receiving Benefits and Terminated Employees Not Yet Receiving Benefits	82	11	7
Current Employees:			
Fully Vested	31	10	8
Partially Vested	23		
Non-Vested	<u>42</u>	<u>28</u>	<u>7</u>
Total Membership	<u>178</u>	<u>49</u>	<u>22</u>

Annual Pension Cost

The City's annual pension cost for the year was as follows:

	<u>General Employees</u>	<u>Police Officers</u>	<u>Fire- Fighters</u>
Annual Required Contribution	\$ 400,903	\$ 69,590	\$ 105,033
Interest on Net Pension Obligation	(21,230)		
Adjustments to Annual Required Contribution	<u>30,965</u>		
Annual Pension Cost	\$ <u>410,638</u>	\$ <u>69,590</u>	\$ <u>105,033</u>

Contributions to the plans for the fiscal year ended September 30, 2003 exceed the annual pension cost; therefore, there is no net pension obligation.

Actuarial assumptions and other information used to determine the annual required contributions are located in the Required Supplementary Information section of this report.

CITY OF HAINES CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 5: OTHER INFORMATION (CONTINUED)

D. Pension Plan Information (Continued)

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 Employees' Plan	9/30/03	410,638	102%	0
	9/30/02	361,907	110%	0
	9/30/01	273,705	110%	0
Police Officers' Plan	9/30/03	69,590	100%	0
	9/30/02	52,214	100%	0
	9/30/01	34,181	100%	0
Fire - Fighters' Plan	9/30/03	105,033	100%	0
	9/30/02	79,283	100%	0
	9/30/01	54,095	100%	0

CITY OF HAINES CITY, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
Property Taxes	\$ 2,400,969	\$ 2,400,969	\$ 2,440,778	\$ 39,809
Gas and Fuel Taxes	719,113	719,113	726,872	7,759
Franchise Fees	853,100	853,100	836,651	(16,449)
Utility Taxes	849,800	849,800	812,343	(37,457)
Communications Services Tax	493,000	493,000	562,747	69,747
Licenses and Permits	305,980	305,980	344,035	38,055
Intergovernmental Revenues	2,045,681	4,631,028	2,194,501	(2,436,527)
Charges for Services	1,359,665	1,359,665	1,420,035	60,370
Fines and Forfeitures	116,900	123,400	151,026	27,626
Contributions	105,900	130,760	124,586	(6,174)
Interest Revenue	81,744	81,744	47,991	(33,753)
Other Revenue	<u>55,569</u>	<u>74,418</u>	<u>117,920</u>	<u>43,502</u>
Total Revenues	<u>9,387,421</u>	<u>12,022,977</u>	<u>9,779,485</u>	<u>(2,243,492)</u>
EXPENDITURES				
Current:				
General Government	1,827,021	1,486,809	1,215,067	271,742
Public Safety	4,525,097	4,575,768	4,312,442	263,326
Physical Environment	1,115,731	1,145,632	1,145,542	90
Transportation	804,671	810,615	668,444	142,171
Economic Development	452,988	522,761	520,045	2,716
Culture and Recreation	1,474,490	1,483,345	1,377,446	105,899
Capital Outlay	<u>790,689</u>	<u>4,075,233</u>	<u>1,125,074</u>	<u>2,950,159</u>
Total Expenditures	<u>10,990,687</u>	<u>14,100,163</u>	<u>10,364,060</u>	<u>3,736,103</u>
Excess (Deficiency) of Revenues Over Expenditures	(<u>1,603,266</u>)	(<u>2,077,186</u>)	(<u>584,575</u>)	<u>1,492,611</u>
OTHER FINANCING SOURCES (USES)				
Debt Issued	113,200	113,200	124,140	10,940
Transfers In	1,431,762	954,140	964,916	10,776
Transfers Out	(<u>961,840</u>)	(<u>755,271</u>)	(<u>736,353</u>)	<u>18,918</u>
Total Other Financing Sources (Uses)	<u>583,122</u>	<u>312,069</u>	<u>352,703</u>	<u>40,634</u>
Net Change in Fund Balances	(1,020,144)	(1,765,117)	(231,872)	1,533,245
Fund Balances – Beginning	<u>5,144,113</u>	<u>5,144,113</u>	<u>5,144,113</u>	
Fund Balances – Ending	\$ <u>4,123,969</u>	\$ <u>3,378,996</u>	\$ <u>4,912,241</u>	\$ <u>1,533,245</u>

The notes to the financial statements are an integral part of this statement.

APPENDIX J

FINANCIAL INFORMATION REGARDING THE TOWN OF MELBOURNE BEACH

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TOWN OF MELBOURNE BEACH, FLORIDA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues			
Taxes	\$1,208,033	\$1,180,796	\$1,143,264
Licenses and permits	51,506	45,866	49,511
Intergovernmental	725,325	752,949	524,779
Charges for services	76,522	72,650	69,997
Fines and forfeitures	129,803	151,377	176,658
Interest and other revenue	<u>62,528</u>	<u>134,966</u>	<u>238,353</u>
Total Revenues	<u>\$2,253,717</u>	<u>\$2,338,604</u>	<u>\$2,202,562</u>
Expenditures			
Current:			
General government	479,169	383,598	412,634
Public Safety	973,552	817,911	844,032
Public Works	270,935	320,603	244,596
Recreation	45,065	27,576	27,126
Debt Service:			
Principal retired	81,229	56,215	49,848
Interest	125,919	125,738	128,171
Capital outlay	<u>1,742,361</u>	<u>780,517</u>	<u>134,880</u>
Total expenditures	<u>3,718,230</u>	<u>2,512,158</u>	<u>1,841,287</u>
Deficiency of revenues under expenditures	<u>(1,464,513)</u>	<u>(173,554)</u>	<u>361,275</u>
Other financing sources (uses)			
Capital lease	46,457	--	
Operating transfers in	183,576	644,674	178,019
Operating transfers out	<u>(183,576)</u>	<u>(644,674)</u>	<u>(178,109)</u>
Total other financing sources (uses)	<u>46,457</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(1,418,056)	(173,554)	361,275
Fund balances, beginning of year	<u>3,479,877</u>	<u>3,653,431</u>	<u>3,333,791</u>
Fund balances (deficit), end of year	<u>\$ 2,061,821</u>	<u>\$ 3,479,877</u>	<u>\$ 3,695,066</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.



HOYMAN, DOBSON & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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Eugene K. Bjerning

Independent Auditors' Report

Honorable Mayor and Commissioners
Town of Melbourne Beach, Florida

We have audited the accompanying general purpose financial statements of the Town of Melbourne Beach, Florida, as of and for the year ended September 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Melbourne Beach, Florida's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Melbourne Beach, Florida, as of September 30, 2003, and the results of its operations 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 September 10, 2004 on our consideration of the Town of Melbourne Beach, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The required supplementary pension information listed in the table of contents is not a required part of the general purpose financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are also presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Town of Melbourne Beach, Florida. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Hoyman, Dobson & Company, P.A.
Hoyman, Dobson & Company, P.A.
September 10, 2004

TOWN OF MELBOURNE BEACH, FLORIDA

Combined Balance Sheet - All Fund Types and Account Groups
(with comparative totals for September 30, 2002)

September 30, 2003

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Cash and cash equivalents	\$ 25,453	\$ 5,140	\$ 172,629	\$ 681,009
Investments	995,662	-	-	-
Accounts receivable	102,295	-	-	-
Due from other funds	10,075	-	-	53,353
Due from other governments	55,207	-	-	136,500
Prepaid expenditures	2,730	-	-	-
Property, plant & equipment, net	-	-	-	-
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total assets and other debits	\$ 1,191,422	\$ 5,140	\$ 172,629	\$ 870,862
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities				
Accounts payable and accrued liabilities	\$ 53,184	\$ -	\$ -	\$ 6,634
Deferred revenue	80,809	-	-	-
Due to other funds	53,353	10,075	-	-
Accrued compensated absences	43,884	-	-	-
Obligations under capital lease	-	-	-	-
Bonds payable	-	-	-	-
Total liabilities	231,230	10,075	-	6,634
Fund equity (deficit) and other credits				
Investment in general fixed assets	-	-	-	-
Fund balances:				
Reserved for:				
Law enforcement	-	-	-	-
Police education	-	5,140	-	-
Stormwater utility	-	(10,075)	-	-
Debt service	-	-	172,629	-
Police pension	-	-	-	-
General employees' pension	-	-	-	-
Municipal complex	-	-	-	864,228
Unreserved:				
Designated	2,730	-	-	-
Undesignated	957,462	-	-	-
Total fund equity (deficit) and other credits	960,192	(4,935)	172,629	864,228
Total liabilities, fund equity and other credits	\$ 1,191,422	\$ 5,140	\$ 172,629	\$ 870,862

FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	
	Trust and Agency	General Fixed Assets	General Long-Term Debt	2003
\$ 192,370	\$ -	\$ -	\$ 1,076,601	\$ 544,305
1,764,741	-	-	2,760,403	4,768,400
-	-	-	102,295	104,394
-	-	-	63,428	101,563
-	-	-	191,707	110,511
-	-	-	2,730	3,575
-	5,266,901	-	5,266,901	3,524,540
-	-	172,629	172,629	113,228
-	-	2,128,300	2,128,300	2,220,497
<u>\$ 1,957,111</u>	<u>\$ 5,266,901</u>	<u>\$ 2,300,929</u>	<u>\$ 11,764,994</u>	<u>\$ 11,491,013</u>
\$ 1,806	\$ -	\$ -	\$ 61,624	\$ 99,541
-	-	-	80,809	207,486
-	-	-	63,428	101,563
-	-	87,520	131,404	130,402
-	-	22,885	22,885	-
-	-	2,190,524	2,190,524	2,248,181
<u>1,806</u>	<u>-</u>	<u>2,300,929</u>	<u>2,550,674</u>	<u>2,787,173</u>
-	5,266,901	-	5,266,901	3,524,540
69,707	-	-	69,707	112,492
-	-	-	5,140	11,831
-	-	-	(10,075)	57
-	-	-	172,629	113,228
1,738,421	-	-	1,738,421	1,578,166
147,177	-	-	147,177	121,257
-	-	-	864,228	2,078,352
-	-	-	2,730	3,575
-	-	-	957,462	1,160,342
<u>1,955,305</u>	<u>5,266,901</u>	<u>-</u>	<u>9,214,320</u>	<u>8,703,840</u>
<u>\$ 1,957,111</u>	<u>\$ 5,266,901</u>	<u>\$ 2,300,929</u>	<u>\$ 11,764,994</u>	<u>\$ 11,491,013</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
 All Governmental Fund Types and Expendable Trust Funds
 (with comparative totals for September 30, 2002)

For the Year Ended September 30, 2003

	GOVERNMENTAL			
	FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 1,148,632	\$ -	\$ 59,401	\$ -
Licenses and permits	51,506	-	-	-
Intergovernmental	372,744	-	-	352,581
Charges for services	23,257	53,265	-	-
Fines and forfeitures	129,236	457	-	-
Interest and other revenue	29,599	-	-	32,929
Total revenues	<u>1,754,974</u>	<u>53,722</u>	<u>59,401</u>	<u>385,510</u>
Expenditures				
Current:				
General government	479,169	-	-	-
Public safety	953,959	7,148	-	-
Public works	207,538	63,397	-	-
Recreation	45,065	-	-	-
Debt service:				
Principal retired	23,572	-	57,657	-
Interest	-	-	125,919	-
Capital outlay	112,277	-	-	1,599,634
Total expenditures	<u>1,821,580</u>	<u>70,545</u>	<u>183,576</u>	<u>1,599,634</u>
Deficiency of revenues under expenditures	<u>(66,606)</u>	<u>(16,823)</u>	<u>(124,175)</u>	<u>(1,214,124)</u>
Other financing sources (uses)				
Capital lease	46,457	-	-	-
Operating transfers in	-	-	183,576	-
Operating transfers out	(183,576)	-	-	-
Total other financing sources (uses)	<u>(137,119)</u>	<u>-</u>	<u>183,576</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(203,725)	(16,823)	59,401	(1,214,124)
Fund balances, beginning of year	<u>1,163,917</u>	<u>11,888</u>	<u>113,228</u>	<u>2,078,352</u>
Fund balances (deficit), end of year	<u>\$ 960,192</u>	<u>\$ (4,935)</u>	<u>\$ 172,629</u>	<u>\$ 864,228</u>

FIDUCIARY FUND TYPES	TOTALS	
	(MEMORANDUM ONLY)	
	2003	2002
Expendable Trust		
\$ -	\$ 1,208,033	\$ 1,180,796
-	51,506	45,866
-	725,325	752,949
-	76,522	72,650
110	129,803	151,377
-	62,528	134,966
<u>110</u>	<u>2,253,717</u>	<u>2,338,604</u>
-	479,169	383,598
12,445	973,552	817,911
-	270,935	320,603
-	45,065	27,576
-	81,229	56,215
-	125,919	125,738
30,450	1,742,361	780,517
<u>42,895</u>	<u>3,718,230</u>	<u>2,512,158</u>
<u>(42,785)</u>	<u>(1,464,513)</u>	<u>(173,554)</u>
-	46,457	-
-	183,576	644,674
-	(183,576)	(644,674)
<u>-</u>	<u>46,457</u>	<u>-</u>
(42,785)	(1,418,056)	(173,554)
112,492	3,479,877	3,653,431
<u>\$ 69,707</u>	<u>\$ 2,061,821</u>	<u>\$ 3,479,877</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual -
All Governmental Fund Types

Year Ended September 30, 2003

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 1,248,000	\$ 1,148,632	\$ (99,368)
Licenses and permits	38,500	51,506	13,006
Intergovernmental	252,200	372,744	120,544
Charges for services	20,000	23,257	3,257
Fines and forfeitures	165,100	129,236	(35,864)
Interest and other revenue	48,789	29,599	(19,190)
Total revenues	<u>1,772,589</u>	<u>1,754,974</u>	<u>(17,615)</u>
Expenditures			
Current:			
General government	518,832	479,169	39,663
Public safety	915,209	953,959	(38,750)
Public works	266,345	207,538	58,807
Recreation	50,900	45,065	5,835
Debt service:			
Principal retired	-	23,572	(23,572)
Interest	-	-	-
Capital outlay	95,500	112,277	(16,777)
Total expenditures	<u>1,846,786</u>	<u>1,821,580</u>	<u>25,206</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(74,197)</u>	<u>(66,606)</u>	<u>7,591</u>
Other financing sources (uses)			
Capital lease	-	46,457	46,457
Operating transfers in	5,000	-	(5,000)
Operating transfers out	(437,703)	(183,576)	254,127
Total other financing sources (uses)	<u>(432,703)</u>	<u>(137,119)</u>	<u>295,584</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>(506,900)</u>	<u>(203,725)</u>	<u>303,175</u>
Fund balances, beginning of year	<u>1,163,917</u>	<u>1,163,917</u>	<u>-</u>
Fund balances (deficit), end of year	<u>\$ 657,017</u>	<u>\$ 960,192</u>	<u>\$ 303,175</u>

SPECIAL REVENUE FUNDS			DEBT SERVICE FUND		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ 59,401	\$ 59,401
-	-	-	-	-	-
146,655	-	(146,655)	-	-	-
57,500	53,265	(4,235)	-	-	-
3,000	457	(2,543)	-	-	-
-	-	-	-	-	-
<u>207,155</u>	<u>53,722</u>	<u>(153,433)</u>	<u>-</u>	<u>59,401</u>	<u>59,401</u>
-	-	-	-	-	-
19,000	7,148	11,852	-	-	-
166,155	63,397	102,758	-	-	-
-	-	-	-	-	-
-	-	-	56,925	57,657	(732)
-	-	-	130,841	125,919	4,922
-	-	-	-	-	-
<u>185,155</u>	<u>70,545</u>	<u>114,610</u>	<u>187,766</u>	<u>183,576</u>	<u>4,190</u>
<u>22,000</u>	<u>(16,823)</u>	<u>(38,823)</u>	<u>(187,766)</u>	<u>(124,175)</u>	<u>63,591</u>
-	-	-	-	-	-
-	-	-	187,766	183,576	(4,190)
<u>(5,000)</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(5,000)</u>	<u>-</u>	<u>5,000</u>	<u>187,766</u>	<u>183,576</u>	<u>(4,190)</u>
17,000	(16,823)	(33,823)	-	59,401	59,401
11,888	11,888	-	113,228	113,228	-
<u>\$ 28,888</u>	<u>\$ (4,935)</u>	<u>\$ (33,823)</u>	<u>\$ 113,228</u>	<u>\$ 172,629</u>	<u>\$ 59,401</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual -
All Governmental Fund Types (Continued)

Year Ended September 30, 2003

	CAPITAL PROJECTS FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental	357,096	352,581	(4,515)
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest and other revenue	85,050	32,929	(52,121)
Total revenues	<u>442,146</u>	<u>385,510</u>	<u>(56,636)</u>
Expenditures			
Current:			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Recreation	-	-	-
Debt service:			
Principal retired	-	-	-
Interest	-	-	-
Capital outlay	2,764,693	1,599,634	1,165,059
Total expenditures	<u>2,764,693</u>	<u>1,599,634</u>	<u>1,165,059</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,322,547)</u>	<u>(1,214,124)</u>	<u>1,108,423</u>
Other financing sources (uses)			
Capital lease	-	-	-
Operating transfers in	379,909	-	(379,909)
Operating transfers out	(129,972)	-	129,972
Total other financing sources (uses)	<u>249,937</u>	<u>-</u>	<u>(249,937)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>(2,072,610)</u>	<u>(1,214,124)</u>	<u>858,486</u>
Fund balances, beginning of year	<u>2,078,352</u>	<u>2,078,352</u>	<u>-</u>
Fund balances, end of year	<u>\$ 5,742</u>	<u>\$ 864,228</u>	<u>\$ 858,486</u>

TOTALS (MEMORANDUM ONLY)

Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,248,000	\$ 1,208,033	\$ (39,967)
38,500	51,506	13,006
755,951	725,325	(30,626)
77,500	76,522	(978)
168,100	129,693	(38,407)
133,839	62,528	(71,311)
<u>2,421,890</u>	<u>2,253,607</u>	<u>(168,283)</u>
518,832	479,169	39,663
934,209	961,107	(26,898)
432,500	270,935	161,565
50,900	45,065	5,835
56,925	81,229	(24,304)
130,841	125,919	4,922
<u>2,860,193</u>	<u>1,711,911</u>	<u>1,148,282</u>
<u>4,984,400</u>	<u>3,675,335</u>	<u>1,309,065</u>
<u>(2,562,510)</u>	<u>(1,421,728)</u>	<u>1,140,782</u>
-	46,457	46,457
572,675	183,576	(389,099)
<u>(572,675)</u>	<u>(183,576)</u>	<u>389,099</u>
<u>-</u>	<u>46,457</u>	<u>46,457</u>
(2,562,510)	(1,375,271)	1,187,239
<u>3,367,385</u>	<u>3,367,385</u>	<u>-</u>
<u>\$ 804,875</u>	<u>\$ 1,992,114</u>	<u>\$ 1,187,239</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Combined Statement of Changes in Plan Net Assets - All Pension Trust Funds
(with comparative totals for the year ended September 30, 2002)

For the Year Ended September 30, 2003

	2003 Totals	2002 Totals
Additions		
Contributions:		
State contributions	\$ 54,045	\$ 47,539
Town contributions	63,824	24,938
Employee contributions	19,082	29,314
Total contributions	<u>136,951</u>	<u>101,791</u>
Investment income		
Net appreciation (depreciation) in fair value of investments	185,862	(40,822)
Interest and dividends	34	779
	<u>185,896</u>	<u>(40,043)</u>
Less investment expense	<u>(13,840)</u>	<u>(16,023)</u>
Net investment gain (loss)	<u>172,056</u>	<u>(56,066)</u>
Total additions	<u>309,007</u>	<u>45,725</u>
Deductions		
Benefit payments	122,832	60,909
Refunded contributions	-	2,258
Total deductions	<u>122,832</u>	<u>63,167</u>
Net increase (decrease)	186,175	(17,442)
Net assets held in trust for pension benefits:		
Beginning of year	<u>1,699,423</u>	<u>1,716,865</u>
Net assets held in trust for pension benefits:		
End of year	<u>\$ 1,885,598</u>	<u>\$ 1,699,423</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

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TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Melbourne Beach, Florida (Town) was incorporated by Chapter 9833, Laws of Florida, Acts of 1923. The Town operates under a Council-Manager form of government and provides the following services: public safety, highways and streets, recreation and general administrative services.

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The following is a summary of the more significant policies:

A. REPORTING ENTITY

As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

Blended Component Unit. The Town of Melbourne Beach police officers participate in the Melbourne Beach Police Officers' Pension Trust. The Police Officers' Pension Trust functions for the benefit of these employees and is governed by a five member pension board of trustees. The Town appoints three members and the police select two members to serve as trustees. The Town is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels. The Police Officers' Pension Trust is reported as a pension trust fund.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

The Town uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into two categories; governmental and fiduciary. The governmental category, in turn, is divided into separate "fund types".

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (CONTINUED)

Governmental Fund Types

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). Governmental fund types of the Town are:

- **General Fund** - The General Fund is the general operating fund of the Town. It is used to account for all activities of the Town not included in other specified funds.
- **Special Revenue Funds** - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds of the Town are:

Police Education – This fund accounts for certain revenues of the Town for the specific purpose of police training, and for the expenditures related to providing that training in accordance with Florida Statutes.

Stormwater Utility – This fund accounts for certain revenues and expenditures related to the management of stormwater.

- **Debt Service Fund** – The Debt Service Fund is used to set aside monies to meet current and future debt service requirements on general government debt.
- **Capital Projects Fund** – The Capital Projects Fund is used to account for the acquisition and construction of major capital projects.

Fiduciary Fund Type

Trust Funds – These funds are used to account for assets held by the Town in a trustee capacity. The Town's trust funds are separated into the following sub-fund types: expendable trust funds and pension trust funds.

Account Groups

The following is a description of the Town's account groups:

- **General Fixed Assets Account Group** - This account group represents a summary of the fixed assets of the Town other than infrastructure improvements. Capital outlays in governmental funds are recorded as expenditures of those funds at the time of purchase and are subsequently recorded, at cost, for control purposes in this account group.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (CONTINUED)

- **General Long-Term Debt Account Group** - Long-term liabilities expected to be financed from governmental funds are accounted for in this account group.

The accounting and financial reporting applied to a fund is determined by its measurement purpose. All governmental and expendable trust funds are accounted for using current financial resources measurement focus. Only current assets and current liabilities are included on these balance sheets. All pension trust funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the balance sheet.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the "timing" of the measurements made, regardless of the measurement focus applied.

1. Modified Accrual

All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting. Revenues are recognized as soon as they become 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. All material revenues, except for occupational licenses and property taxes, are considered measurable and available and thus are susceptible to accrual. Occupational licenses are not considered measurable and available since neither a legally enforceable claim exists nor were the related services provided prior to fiscal year end. The Town considers property taxes to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, with the exception of principal and interest on general long-term debt which is recognized when due.

2. Accrual

All pension trust funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

D. BUDGETARY DATA

1. Budget Policy

Town Commissioners adopt an annual budget resolution for all governmental and capital project funds prior to September 30, for the next ensuing fiscal year. All budgets are prepared on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at year end.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGETARY DATA (CONTINUED)

Budget control is maintained at the departmental level. Budget transfer authority is provided to the Town Manager within departments in a fund as long as the total budget of the fund is not increased. The Town Manager also has the authority to make budget transfers between departments to implement Commission approved actions. Actions which increase the total budget of a fund must be authorized by the Town Commission.

The governing commission made several supplemental budgetary appropriations throughout the year that were not considered material.

2. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund, special revenue fund, and capital projects fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because these commitments will be honored during the subsequent year. The subsequent year's appropriations provide authority to complete these transactions. There were no encumbrances at year end.

E. ASSETS, LIABILITIES AND FUND EQUITY

1. Cash

Cash includes amounts in checking and savings accounts as well as short-term investments with a maturity date within three months of the date acquired by the Town.

2. Investments

The Town has a pooled investment account with the State Board of Administration, which allows the Town to invest temporarily, idle monies at more favorable interest rates by consolidation of its resources. The investments are stated at amortized cost, which approximates fair value. This pool is regulated by the State and the fair value of the position in the pool is the same as the value of the pool shares.

Pension trust fund investments are reported at fair value. The average cost method is used for computing realized gains and losses on marketable equity securities in the pension funds. The difference between the excess of fair value over cost represents unrealized gain.

3. Accounts Receivable/Due from Other Governments

The Town considers accounts receivable and due from other governments to be fully collectible; accordingly, no allowance for doubtful accounts is required.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

4. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for at historical cost, if purchased, and at fair market value at date of gift, if donated, in the General Fixed Asset Account Group, rather than in the governmental funds. Public domain (infrastructure) general fixed assets consisting of certain improvements including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized as general fixed assets. No depreciation has been provided for assets accounted for in the General Fixed Assets Account Group.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation and sick pay is accrued when incurred and reported as a fund liability. Vacation and sick pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

6. Deferred Revenue

Deferred revenue consists of fines and forfeitures revenue that was overpaid to the Town by the Brevard County Clerk of Courts.

7. Long-Term Liabilities

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only the portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining liability is reported for in the General Long-Term Debt Account Group.

All liabilities (current and non-current) associated with Pension Trusts are included on their balance sheets.

8. Fund Equity - Reserves and Designations

Reserves represent those portions of fund equity not appropriable for expenditure or are legally segregated for a specific use. The Combined Balance Sheet - All Fund Types and Account Groups, report a number of reserves. The nature and purpose of these reserves are explained below:

- Reserved for Law Enforcement - represents amounts from police forfeiture monies, donations and 800 MHZ monies required to be expended for law enforcement.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

- Reserved for Police Education - represents amounts required by Florida Statutes to be spent as specified for police training and education.
- Reserved for Stormwater Utility – represents amounts to be used for the management of stormwater.
- Reserve for Debt Service – represents amounts for payment of principal and interest maturing in subsequent years in accordance with legal restrictions pursuant to debt covenants.
- Reserved for Police and General Employees' Pension - represents amounts for employee pensions in accordance with legal and contractual provisions.
- Reserve for Municipal Complex – represents amount from bond proceeds for the construction and renovation of the Town's municipal complex.

Designated fund balances represent tentative plans for future use of financial resources. The Combined Balance Sheet - All Fund Types and Account Groups reports designations of unreserved fund balances. These designations are not required by law or accounting principles, but are further classifications of fund equity to identify amounts which are earmarked for specific purposes (generally, for subsequent years' expenditures).

F. INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

G. COMPARATIVE DATA

Comparative total data for the prior year has been presented in the accompanying general purpose financial statements in order to provide an understanding of changes in the Town's financial position and operations and are not intended to present all the information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America. Comparative data has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. MEMORANDUM ONLY TOTAL COLUMNS

Total columns on the Combined Statements - Overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles; neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY COMPLIANCE

The Town's budgetary data and actual data are presented on the modified accrual basis for all governmental funds in accordance with accounting principles generally accepted in the United States of America.

B. EXCESS OF BUDGETED AND ACTUAL EXPENDITURES OVER REVENUES

The Town's budgeted and actual expenditures exceeded revenues in the General Fund, Capital Projects Fund, and Police Education Special Revenue Fund; however, this is pursuant to the legally adopted budget to expend available fund equity (cash carryforward) and do not constitute deficits.

The Town budgeted to spend more than was available in the Police Education Special Revenue Fund and the Capital Projects Fund which created a budget deficit in the funds.

C. ACTUAL EXPENDITURES EXCEEDING BUDGET AND FUND DEFICIT

The Stormwater Utility Special Revenue Fund actual expenditures exceeded budget and resulted in a fund deficit of \$10,075. This deficit will be funded by subsequent year revenues.

NOTE 3 - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The investment of municipal funds is authorized by Florida Statutes which allows the Town to invest in the Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, SEC registered money market funds with the highest credit quality rating, interest-bearing time deposits or savings accounts in qualified public depositories, and direct obligations of the U.S. Treasury.

Investment of public funds with the State Board of Administration is governed by Section 218.407, Florida Statutes. These investments consist primarily of Federal Agency obligations, repurchase agreements, bankers' acceptances, U.S. treasury bills, bonds and notes, commercial paper, and certificates of deposit.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 3 - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

Banks and savings and loans must meet the criteria to be a qualified public depository as described in the Florida Security for Public Deposits Act in accordance with Chapter 280, Florida Statutes before any investment of public funds can be made with them. At year end, the carrying amount of the Town's deposits was \$323,625 and the bank balance was \$672,219. These deposits are insured by the FDIC up to \$200,000, \$100,000 for demand deposits and \$100,000 for savings deposits. Monies invested in amounts greater than the insurance coverage are secured by the banks pledging securities with the State Treasurer in the Multiple Financial Institutions Collateral Pool.

The Town's investments are categorized to give an indication of the level of risk assumed by the Town at year end. Those investments assigned a credit risk under Category 1 include investments that are insured or registered, or securities that are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments with the securities being held by the counterparty's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments with the securities being held by the counterparty, or by its trust department or agent, but not in the Town's name.

The following table illustrates the level of risk assumed by the Town at September 30, 2003:

Investments:

	Categories of Credit Risk			Fair Value
	1	2	3	
Pension investments:				
Bonds	\$ -	\$ -	\$ 814,754	\$ 814,754
Common stocks	-	-	802,810	802,810
Variable annuities	-	-	147,177	147,177
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,764,741</u>	<u>1,764,741</u>

Investments not subject to categorization:

Investments with State Board of Administration	995,662
Total investments	<u>\$ 2,760,403</u>

These deposits and investments are reflected on the accompanying balance sheet in the following classifications:

Cash and cash equivalents	\$ 1,076,601
Investments	2,760,403
Total deposits and investments	<u>\$ 3,837,004</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 3 - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

B. PROPERTY TAXES

The Town is permitted to levy taxes up to 10 mills on assessed valuation. 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.

The millage rate levied by the Town for the fiscal year ended September 30, 2003 was 3.7959 mills. Tax collections for the Town were approximately 95% of the total tax levy.

The Town Commissioners levied an additional ad valorem tax to pay the long-term debt for the purchase of the land for the new library. The millage rate levied by the Town for the fiscal year ended September 30, 2003 was .3020 mills. Tax collections for the Town were approximately 95% of the total tax levy.

The tax levy of the Town is established by the Town Commissioners. Under Florida law, the assessment of all properties and the collection of municipal taxes are provided by offices of the County's Property Appraiser and Tax Collector. Ad valorem taxes are levied on property values as of January 1. The fiscal year for which taxes are levied begins October 1. Taxes are due November 1 and become delinquent on April 1. All taxes unpaid as of May 30 are subject to a tax certificate sale.

C. INTERFUND TRANSFERS, RECEIVABLES AND PAYABLES

Interfund transfers for the year ended September 30, 2003 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 183,576
Debt Service Fund	183,576	-
Total	<u>\$ 183,576</u>	<u>\$ 183,576</u>

Interfund receivables and payables at September 30, 2003, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 10,075	\$ 53,353
Stormwater Utility Special Revenue Fund	-	10,075
Capital Projects Fund	53,353	-
Total	<u>\$ 63,428</u>	<u>\$ 63,428</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 3 - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

D. CHANGES IN GENERAL FIXED ASSETS

Changes in general fixed assets during the year ended September 30, 2003 are as follows:

GENERAL FIXED ASSETS	Balance Oct 1, 2002	Additions	Deletions	Balance Sept 30, 2003
Land and buildings	\$ 1,137,603	\$ 1,025,540	\$ -	\$ 2,163,143
Improvements other than buildings	1,446,618	528,970	-	1,975,588
Machinery and equipment	940,319	187,851	-	1,128,170
Total	\$ 3,524,540	\$ 1,742,361	\$ -	\$ 5,266,901

Changes in investment in general fixed assets by source during the year are as follows:

INVESTMENT IN GENERAL FIXED ASSETS FROM:	Balance Oct 1, 2002	Additions	Deletions	Balance Sept 30, 2003
General fund	\$ 2,471,881	\$ 112,277	\$ -	\$ 2,584,158
Special revenue	189,346	-	-	189,346
Radon trust fund contributions	21,020	-	-	21,020
Volunteer fireman's contribution	81,411	-	-	81,411
Federal revenue sharing	19,784	-	-	19,784
Donations	108,966	-	-	108,966
State grants	454,418	-	-	454,418
Law enforcement trust	39,682	30,450	-	70,132
Capital projects fund	138,032	1,599,634	-	1,737,666
Total	\$ 3,524,540	\$ 1,742,361	\$ -	\$ 5,266,901

E. PENSION PLAN - DEFINED CONTRIBUTION

The Town of Melbourne Beach Money Purchase Plan & Trust is a defined contribution pension plan established by Town Ordinance 75-5 to provide benefits at retirement to all of its full-time employees, except police officers. At September 30, 2003, there were 8 plan members. The defined contribution plan is a non-contributory plan for employees. The Town contributes an amount equal to 5% of the employee's total annual compensation. Plan provisions and contribution requirements are established and may be amended by the Town Commission. For the year ended September 30, 2003 the Town contributed \$14,957 to the Plan.

The financial statements of the defined contribution plan are prepared using the accrual basis of accounting. Employer and plan member contributions are recognized in the period that the contributions are due.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 3 - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

F. PENSION PLAN – DEFINED BENEFIT

The Town sponsors a single-employer Police Officers' Retirement Plan (Plan), which is administered through a Board of Trustees pursuant to Chapter 185, Florida Statutes.

It provides retirement benefits to all full-time police officer plan members and their beneficiaries. Membership in the plan consisted of the following at October 1, 2003 the date of the latest actuarial valuation:

Disabled retirees receiving benefits	1
Service retirees	3
Active plan members	<u>9</u>
Total members	<u>13</u>

All full-time police officers are eligible to participate in the plan. Benefits vest after ten years of service. Participants may retire upon attainment of the earlier: age 55 and completion of ten years of credited service, or age 52 and twenty years of credited service. Retirees are entitled to 3.0 percent of average monthly earnings times years of credited service. The plan also provides service-incurred disability compensation and early retirement. Early retirement may be taken at age 50 and ten years of credited service with reduced benefits. Benefit provisions and other requirements of the Plan are established by Florida Statutes and Town Ordinance 81-9.

Police officers are required to contribute five percent of their annual salary to the Plan. The Town is required to contribute the remaining amount, including a premium tax on property insurance pursuant to Chapter 185, F.S., necessary to fund the Plan, using an actuarial basis specified by law. The total contributions to the plan, including plan member contributions, are 19.5% of annual covered payroll. Administrative costs are financed through investment earnings.

The 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 are recognized when due and the employer has made a formal commitment to provide the contributions.

The Town's annual pension cost and net pension obligation for the Plan for the current year were:

Annual required contribution	\$ 48,867
Adjustment to annual required contribution	<u>-</u>
Annual pension cost	48,867
Contributions made	<u>48,867</u>
Net pension obligation beginning of year	-
Net pension obligation end of year	<u>\$ -</u>

The annual required contribution for the current year was determined as part of the October 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 6.0% per year.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 3 - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

F. PENSION PLAN - DEFINED BENEFIT (CONTINUED)

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, 2003, was 29 years.

Required trend information for the police pension plan for the three recent fiscal years available is presented below:

	As of September 30,		
	2001	2002	2003
Annual Pension Cost (APC)	\$ -	\$ 11,866	\$ 48,867
Percentage of APC Contributed	308%	100%	100%
Net Pension Obligation	-	-	-

G. CAPITAL LEASE

The Town is obligated under a capital lease. The lease/purchase agreement is for two vehicles and was authorized in July 2003. The assets related to the lease total \$46,457 at September 30, 2003 and are accounted for in the General Fixed Asset Account Group. The obligations related to assets under the capital lease total \$22,885 and are accounted for in the General Long-Term Debt Account Group.

Under the terms of the lease agreement, the principal and interest installments shall be made in two annual installments of \$23,572, which began July 2003 and will extend through July 2004. The implicit rate of interest of this lease agreement is 3%. The obligation is secured by a first priority security interest in the vehicles.

The following is a schedule of future minimum lease payments under this capital lease:

Year ending September 30, 2004	\$ 23,572
Less amount representing interest	<u>(687)</u>
Present value of net minimum lease payments	<u>\$ 22,885</u>

Lease payments for fiscal year 2003 totaled \$23,572.

H. OPERATING LEASE

The Town leases office space for a period of 18 months commencing on October 1, 2003. Future minimum rental payments under this operating lease are \$11,550. Total rent expense charged to operations in 2003 was \$23,100.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 3 - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

I. CHANGES IN GENERAL LONG-TERM DEBT

The following is a summary of changes in general long-term debt of the Town for the year ended September 30, 2003:

	Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003
Compensated absences	\$ 85,544	\$ 1,976	\$ -	\$ 87,520
Capital lease obligations	-	46,457	23,572	22,885
Bonds payable	2,248,181	-	57,657	2,190,524
Total	\$ 2,333,725	\$ 48,433	\$ 81,229	\$ 2,300,929

J. SUMMARY OF GENERAL LONG-TERM DEBT SERVICE REQUIREMENTS TO MATURITY

The annual requirements to amortize all general long-term debt outstanding as of September 30, 2003, excluding \$87,520 for accrued compensated absences, are as follows:

Year Ending September 30,	Principal	Interest	Total
2004	\$ 82,063	\$ 120,285	\$ 202,348
2005	65,783	117,265	183,048
2006	67,476	114,015	181,491
2007	69,262	110,637	179,899
2008	71,147	107,125	178,272
Subsequent Years	1,857,678	1,297,830	3,155,508
Total	\$ 2,213,409	\$ 1,867,157	\$ 4,080,566

On September 24, 1999, the Town issued Limited Ad Valorem Tax Bond, Series 1999 in the amount of \$525,000 for the purpose of purchasing a 50% interest in real property located in the Town. This property is to be used by the County for the purposes of constructing and operating a new library, pursuant to an Interlocal Operating Agreement dated March 23, 1999 with the Town for the Melbourne Beach Public Library.

Payment of the principal and interest on the Bond is secured by a pledge of real property ad valorem tax revenues assessed at an annual millage rate not to exceed .5 mills on all property within the Town. Principal is payable annually on May 1. Interest is payable on May 1 and November 1 of each year commencing on May 1, 2000, with a final payment on May 1, 2014. The interest rate is 5.5%.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2003

NOTE 3 - DETAIL NOTES - ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

J. SUMMARY OF GENERAL LONG-TERM DEBT SERVICE REQUIREMENTS TO MATURITY (CONTINUED)

On November 1, 1999, the Town issued Florida Municipal Loan Council Revenue Bonds, Series 1999B in the amount of \$1,850,000 for the purpose of constructing and renovating a municipal complex. The bonds are to be repaid with Non-Advalorem Revenues of the Town. The bonds were issued for a period of 30 years with an interest rate ranging from 3.85% to 5.75%. Principal is payable annually on November 1. Interest is payable on May 1 and November 1 of each year commencing on May 1, 2000, with a final payment on November 1, 2029.

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APPENDIX K

FINANCIAL INFORMATION REGARDING THE CITY OF PLANT CITY

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CITY OF PLANT CITY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues			
Property Taxes	\$6,297,220		
Taxes		\$12,437,160	\$12,892,881
Franchise Taxes	1,899,040		
Utility Taxes	2,983,261		
Licenses and Permits	713,458	718,289	716,818
Intergovernmental Revenues	10,172,574	10,309,044	6,217,799
Charges for Services	884,920	717,469	521,357
Fines and Forfeitures	284,276	365,906	308,639
Impact Fees	425,573	165,770	308,978
Contributions	112,550	165,994	392,072
Interest Revenue	338,634		
Other Revenue	<u>327,826</u>	<u>1,861,845</u>	<u>2,654,151</u>
Total Revenues	<u>24,439,332</u>	<u>26,741,477</u>	<u>24,012,695</u>
Expenditures			
Current:			
General Government	2,473,448	3,446,314	2,406,359
Public Safety	8,801,087	8,854,339	7,515,380
Physical Environment	764,761	6,262,977	4,023,223
Transportation	2,419,699	2,246,812	1,855,809
Economic Development	279,947	609,780	587,477
Culture and Recreation	5,800,239	4,701,199	5,777,758
Principal Retirement		340,378	342,298
Interest and Fiscal Charges		<u>544,685</u>	<u>569,742</u>
Debt Service:			
Principal	350,848		
Interest	541,051		
Other Debt Service Costs	15,905		
Capital Outlay	<u>4,032,374</u>		
Total Expenditures	<u>25,479,359</u>	<u>27,006,484</u>	<u>23,078,046</u>
Excess (Deficiency) of Revenues Total Expenditures	<u>(1,040,027)</u>	<u>(265,007)</u>	<u>934,649</u>
Other Financing Sources (Uses)			
Debt Issued	509,313		
Sale of Capital Assets	100,648		
Transfers in	7,255,890	5,441,337	3,913,561
Transfers Out	(7,255,790)	(5,441,337)	(3,925,080)
Loan Proceeds			<u>16,493</u>
Total Other Financing Sources (Uses)	<u>609,961</u>	<u> </u>	<u>4,974</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u> </u>	<u>(265,007)</u>	<u>939,623</u>
Net Change in Fund Balances	(430,066)		
Fund Balances - Beginning	<u>19,607,219</u>	<u>19,872,225</u>	<u>18,932,602</u>
Fund Balances - Ending	<u>\$19,177,154</u>	<u>\$19,607,218</u>	<u>\$19,872,225</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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BELLA, HERMIDA,
GILLMAN, HANCOCK
MUELLER
CERTIFIED PUBLIC ACCOUNTANTS

Members

Florida Institute of
Certified Public Accountants

American Institute of
Certified Public Accountants
S.E.C. Practice Section

Nicholas J. Bella
(1952-1971)

Remy Hermida*

H. Leo Gillman

William H. Hancock

W. Andrew Mueller, Jr.

James E. Hurn

Charlotte M. Stertzer

Leslie B. Gray

*Consultant to the Firm

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Board
of City Commissioners
City of Plant City, 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 Plant City, Florida ("the City"), as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Plant City, Florida's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Plant City, Florida, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, effective October 1, 2002, the City adopted a new financial reporting model, as required by provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2004 on our consideration of the City of Plant City, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Honorable Mayor and Board
of City Commissioners
City of Plant City, Florida
Page 2

The Management's Discussion and Analysis, budgetary schedules and pension plan required supplementary information on pages 4 through 11, 53 through 55, and 56 through 57, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the City of Plant City, Florida's basic financial statements taken as a whole. The combining statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 accompanying schedule of expenditures of federal, state and local awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Section 215.97, Florida Statutes and Chapter 10.550 Rules of the Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

BELLA, HERMIDA, GILLMAN, HANCOCK & MUELLER

Bella, Hermida, Gillman, Hancock & Mueller

Certified Public Accountants
March 26, 2004

CITY OF PLANT CITY, FLORIDA

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 9,564,602	\$ 6,187,264	\$ 15,751,866
Investments	9,822,866	30,701,839	40,524,705
Accounts Receivable	446,185	1,678,974	2,125,159
Accrued Interest Receivable	6,835	3,611	10,446
Internal Balances	(171,263)	171,263	
Due from Other Governments	7,604,185		7,604,185
Inventory	23,509	192,528	216,037
Other Current Assets	193,983		193,983
Restricted Assets:			
Cash and Cash Equivalents		205,959	205,959
Investments		1,839,863	1,839,863
Cash and Investments with Fiscal Agents	995,549	1,121,232	2,116,781
Deposits	30,000	158,513	188,513
Deferred Charges	204,570	246,365	450,935
Land Held for Resale		1,002,659	1,002,659
Capital Assets (net of Accum. Deprec.):			
Land	7,097,085	1,055,393	8,152,478
Improvements	10,208,146	349,354	10,557,500
Plant and Plant Improvements		38,696,496	38,696,496
Buildings	15,132,164	8,131	15,140,295
Equipment	2,194,653	531,772	2,726,425
Transportation Equipment	1,842,642	1,772,233	3,614,875
Library Books	490,529		490,529
Construction in Progress	1,123,946	595,868	1,719,814
Total Assets	<u>66,810,186</u>	<u>86,519,317</u>	<u>153,329,503</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	814,656	777,879	1,592,535
Due to Other Governments	141,492		141,492
Other Current Liabilities	638,686	341,769	980,455
Deferred Revenue	71,151		71,151
Other Liabilities	48,931		48,931
Current Portion of LT Liabilities	1,518,419		1,518,419
Current Liabilities Payable from Restricted Assets:			
Current Portion of LT Debt		665,000	665,000
Accrued Interest Payable	100,767	456,232	556,999
Deposits		1,485,816	1,485,816
Noncurrent Liabilities:			
Long-Term Debt	10,795,672	16,664,743	27,460,415
Accrued Landfill Closure Costs		206,506	206,506
Total Liabilities	<u>14,129,774</u>	<u>20,597,945</u>	<u>34,727,719</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	26,922,845	25,925,868	52,848,713
Restricted for:			
Debt Service	949,550	1,838,163	2,787,713
Capital Projects	6,456,872	625,594	7,082,466
Other Purposes	734,542		734,542
Community Development	468,350		468,350
Stormwater Improvements	1,332,546		1,332,546
Unrestricted	15,815,707	37,531,747	53,347,454
Total Net Assets	<u>\$ 52,680,412</u>	<u>\$ 65,921,372</u>	<u>\$ 118,601,784</u>

CITY OF PLANT CITY, FLORIDA

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>PROGRAM REVENUES</u>	
			<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>
Governmental Activities:				
General Government	\$ 2,667,450	\$ 942,051	\$ 1,412,653	\$
Public Safety	9,469,775	810,923	444,433	102,478
Physical Environment	1,091,014	341,063		96,659
Transportation	2,188,935	126,081	1,913,043	213,111
Economic Development	267,636		477,866	142,883
Culture and Recreation	6,267,243	312,400	284,132	591,344
Interest on Long-Term Debt	556,956			
Total Governmental Activities	<u>22,509,009</u>	<u>2,532,518</u>	<u>4,532,127</u>	<u>1,146,475</u>
Business-Type Activities:				
Water/Sewer Utility	10,367,692	11,360,967	2,000	330,013
Sanitary Services	4,183,712	4,000,171		
Industrial Park	37,402			
Total Business-Type Activities	<u>14,588,806</u>	<u>15,361,138</u>	<u>2,000</u>	<u>330,013</u>
Total	<u>\$ 37,097,815</u>	<u>\$ 17,893,656</u>	<u>\$ 4,534,127</u>	<u>\$ 1,476,488</u>
General Revenues:				
Property Taxes				
Franchise Fees				
Utility Taxes				
Communications Services Tax				
State Revenue Sharing				
Sales Taxes				
Unrestricted Investment Earnings				
Gain on Disposal of Capital Assets				
Total General Revenue				
Transfers				
Change in Net Assets				
Net Assets - Beginning, as Restated				
Net Assets - Ending				

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ (312,746)	\$	\$ (312,746)
(8,111,941)		(8,111,941)
(653,292)		(653,292)
63,300		63,300
353,113		353,113
(5,079,367)		(5,079,367)
(556,956)		(556,956)
<u>(14,297,889)</u>		<u>(14,297,889)</u>
	1,325,288	1,325,288
	(183,541)	(183,541)
	(37,402)	(37,402)
	<u>1,104,345</u>	<u>1,104,345</u>
<u>\$ (14,297,889)</u>	<u>\$ 1,104,345</u>	<u>\$ (13,193,544)</u>
6,523,792		6,523,792
1,899,040		1,899,040
2,983,261		2,983,261
1,513,208		1,513,208
557,294		557,294
2,639,555		2,639,555
359,180	617,737	976,917
87,459	57,783	145,242
<u>16,562,789</u>	<u>675,520</u>	<u>17,238,309</u>
<u>1,464,000</u>	<u>(1,464,000)</u>	
3,728,900	315,865	4,044,765
<u>48,951,512</u>	<u>65,605,507</u>	<u>114,557,019</u>
<u>\$ 52,680,412</u>	<u>\$ 65,921,372</u>	<u>\$ 118,601,784</u>

CITY OF PLANT CITY, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2003

	MAJOR FUNDS		NONMAJOR	TOTAL
	GENERAL	STORMWATER	GOVERNMENTAL	GOVERNMENTAL
	FUND	FUND	FUNDS	FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 1,857,330	\$ 1,384,790	\$ 4,910,666	\$ 8,152,786
Investments	7,848,101		2,174,765	9,822,866
Accounts Receivable	429,328	16,857		446,185
Accrued Interest Receivable	26	1,097	4,431	5,554
Due from Other Funds	432,700	14,419	545,889	993,008
Due from Other Governments	6,410,460	223,232	970,493	7,604,185
Inventory	23,509			23,509
Other Current Assets	169,264			169,264
Advances to Other Funds			472,109	472,109
Restricted Assets:				
Cash and Investments with Fiscal Agents			995,549	995,549
Total Assets	<u>\$ 16,970,718</u>	<u>\$ 1,640,395</u>	<u>\$ 10,073,902</u>	<u>\$ 28,685,015</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 550,619	\$ 215,105	\$ 27,877	\$ 793,601
Due to Other Funds	136,702	88,244	528,441	753,387
Due to Other Governments	4,571		136,921	141,492
Other Current Liabilities	398,415			398,415
Deferred Revenue	5,911,631		683,313	6,594,944
Advances from Other Funds			777,091	777,091
Other Liabilities		4,500	44,431	48,931
Total Liabilities	<u>7,001,938</u>	<u>307,849</u>	<u>2,198,074</u>	<u>9,507,861</u>
Fund Balances:				
Reserved for:				
Encumbrances	203,891	73,971		277,862
Debt Service			949,550	949,550
Other Purposes	530,651			530,651
Unreserved, reported in:				
General Fund:				
Designated for Liability Claims	650,636			650,636
Undesignated	8,583,602			8,583,602
Special Revenue Funds:				
Undesignated		1,258,575	468,350	1,726,925
Debt Service Funds:				
Undesignated			1,056	1,056
Capital Projects Funds:				
Designated for Capital Outlays			6,456,872	6,456,872
Total Fund Balances	<u>9,968,780</u>	<u>1,332,546</u>	<u>7,875,828</u>	<u>19,177,154</u>
Total Liabilities and Fund Balances	<u>\$ 16,970,718</u>	<u>\$ 1,640,395</u>	<u>\$ 10,073,902</u>	<u>\$ 28,685,015</u>

CITY OF PLANT CITY, FLORIDA

RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

Total Fund Balances of Governmental Funds in the Balance Sheet	\$ 19,177,154
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.	38,089,163
An internal service fund is used by management to charge the costs of workers' compensation insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	1,203,130
"Look-back" adjustment to enterprise funds for internal service fund.	(102,540)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(12,109,521)
Property tax receipts provide current financial resources in the funds. In the Statement of Net Assets, a portion of the revenue is deferred because the calendar year for which the tax is levied extends beyond the current fiscal year.	6,523,793
Interest payable on long-term debt does not require current financial resources; therefore, it is not reported as a liability in the funds.	<u>(100,767)</u>
Net Assets of Governmental Activities	<u>\$ 52,680,412</u>

CITY OF PLANT CITY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	MAJOR FUNDS		NONMAJOR	TOTAL
	GENERAL	STORMWATER	GOVERNMENTAL	GOVERNMENTAL
	FUND	FUND	FUNDS	FUNDS
REVENUES				
Property Taxes	\$ 5,678,278	\$	\$ 618,942	\$ 6,297,220
Franchise Fees	1,899,040			1,899,040
Utility Taxes	2,983,261			2,983,261
Licenses and Permits	713,458			713,458
Intergovernmental Revenues	6,121,281	1,849,757	2,201,536	10,172,574
Charges for Services	544,985	339,935		884,920
Fines and Forfeitures	284,276			284,276
Impact Fees			425,573	425,573
Contributions	112,550			112,550
Interest Revenue	141,093	17,601	179,940	338,634
Other Revenue	107,374	1,128	219,324	327,826
Total Revenues	<u>18,585,596</u>	<u>2,208,421</u>	<u>3,645,315</u>	<u>24,439,332</u>
EXPENDITURES				
Current:				
General Government	2,297,725		175,723	2,473,448
Public Safety	8,801,087			8,801,087
Physical Environment		680,966	83,795	764,761
Transportation	322,889	1,796,983	299,827	2,419,699
Economic Development	13,544		266,403	279,947
Culture and Recreation	3,892,823		1,907,416	5,800,239
Debt Service:				
Principal			350,848	350,848
Interest		63	540,987	541,051
Other Debt Service Costs		9,700	6,205	15,905
Capital Outlay	826,911	148,728	3,056,735	4,032,374
Total Expenditures	<u>16,154,979</u>	<u>2,636,440</u>	<u>6,687,939</u>	<u>25,479,359</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,430,617</u>	<u>(428,019)</u>	<u>(3,042,624)</u>	<u>(1,040,027)</u>
OTHER FINANCING SOURCES (USES)				
Debt Issued		509,313		509,313
Sale of Capital Assets	94,622	6,026		100,648
Transfers In		1,501,700	5,754,090	7,255,790
Transfers Out	(2,576,200)	(1,628,426)	(3,051,164)	(7,255,790)
Total Other Financing Sources (Uses)	<u>(2,481,578)</u>	<u>388,613</u>	<u>2,702,926</u>	<u>609,961</u>
Net Change in Fund Balances	(50,961)	(39,406)	(339,698)	(430,066)
Fund Balances - Beginning	<u>10,019,741</u>	<u>1,371,952</u>	<u>8,215,526</u>	<u>19,607,219</u>
Fund Balances - Ending	<u>\$ 9,968,780</u>	<u>\$ 1,332,546</u>	<u>\$ 7,875,828</u>	<u>\$ 19,177,154</u>

CITY OF PLANT CITY, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ (430,066)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 4,170,972

The net effect of various transactions involving fixed assets (i.e., donations, disposals and sales) is to decrease net assets. (13,188)

Revenues that provide current financial resources are reported in the funds. In the Statement of Activities, the revenues are recognized in the year for which the tax is levied. This amount is the net effect of this difference. 226,573

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of 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. (177,523)

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. This is the adjustment for accrued interest on long-term debt. (9,425)

The net revenue of certain activities of internal service funds is reported with governmental activities. (38,443)

Change in Net Assets of Governmental Activities \$ 3,728,900

CITY OF PLANT CITY, FLORIDA

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2003

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	MAJOR FUNDS		NONMAJOR FUND		
	WATER AND SEWER FUND	SANITARY SERVICE FUND	INDUSTRIAL PARK FUND	TOTAL	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 2,268,817	\$ 2,315,000	\$ 1,603,447	\$ 6,187,264	\$ 1,411,816
Investments	30,117,047	584,792		30,701,839	
Accounts Receivable	1,481,772	197,202		1,678,974	
Accrued Interest Receivable	7	1,865	1,739	3,611	1,281
Due from Other Funds	157,273	30,974	2,350	190,597	
Inventory	192,528			192,528	
Prepaid Expenses					24,719
Total Current Assets	<u>34,217,444</u>	<u>3,129,833</u>	<u>1,607,536</u>	<u>38,954,813</u>	<u>1,437,816</u>
Noncurrent Assets:					
Restricted Assets:					
Cash and Cash Equivalents	205,959			205,959	
Investments	1,839,863			1,839,863	
Cash and Investments with Fiscal Agents	1,121,232			1,121,232	
Deposits	116,857	41,656		158,513	30,000
Deferred Charges	246,365			246,365	
Advances to Other Funds			304,982	304,982	
Land Held for Resale			1,002,659	1,002,659	
Capital Assets:					
Land	1,055,393			1,055,393	
Improvements			935,046	935,046	
Plant and Plant Improvements	59,297,502			59,297,502	
Buildings		12,504		12,504	
Equipment	1,725,214	536,517		2,261,731	
Transportation Equipment	1,544,017	2,213,101		3,757,118	
Construction in Progress	554,581	23,300	17,987	595,868	
Less: Accumulated Depreciation	(22,642,545)	(1,677,678)	(585,692)	(24,905,915)	
Total Noncurrent Assets	<u>45,064,438</u>	<u>1,149,400</u>	<u>1,674,982</u>	<u>47,888,820</u>	<u>30,000</u>
Total Assets	<u>79,281,882</u>	<u>4,279,233</u>	<u>3,282,518</u>	<u>86,843,633</u>	<u>1,467,816</u>

CITY OF PLANT CITY, FLORIDA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2003**

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS

	MAJOR FUNDS			NONMAJOR	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	WATER AND	SANITARY	INDUSTRIAL	TOTAL	
	SEWER	SERVICE			
	FUND	FUND	FUND		FUND
LIABILITIES					
Current Liabilities:					
Accounts Payable	596,731	181,150		777,881	21,053
Due to Other Funds	203,608	223,248		426,856	3,362
Other Current Liabilities	308,471	33,298		341,769	240,271
Total Current Liabilities	<u>1,108,810</u>	<u>437,696</u>		<u>1,546,506</u>	<u>264,686</u>
Current Liabilities Payable from Restricted Assets:					
Current Portion of Long-Term Debt	665,000			665,000	
Accrued Interest Payable	456,232			456,232	
Deposits	1,485,816			1,485,816	
Total Current Liabilities Payable from Restricted Assets	<u>2,607,048</u>			<u>2,607,048</u>	
Noncurrent Liabilities:					
Long-Term Debt	16,664,743			16,664,743	
Accrued Landfill Closure Costs		206,506		206,506	
Total Noncurrent Liabilities	<u>16,664,743</u>	<u>206,506</u>		<u>16,871,249</u>	
Total Liabilities	<u>20,380,601</u>	<u>644,202</u>		<u>21,024,803</u>	<u>264,686</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	24,450,783	1,107,744	367,341	25,925,868	
Restricted For:					
Debt Service	1,838,163			1,838,163	
Capital Projects	625,594			625,594	
Unrestricted	<u>31,986,741</u>	<u>2,527,289</u>	<u>2,915,177</u>	<u>37,429,207</u>	<u>1,203,130</u>
Total Net Assets	<u>\$ 58,901,281</u>	<u>\$ 3,635,033</u>	<u>\$ 3,282,518</u>	<u>\$ 65,818,832</u>	<u>\$ 1,203,130</u>

CITY OF PLANT CITY, FLORIDA

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	MAJOR FUNDS		NONMAJOR FUND	TOTAL	
	WATER AND SEWER FUND	SANITARY SERVICE FUND	INDUSTRIAL PARK FUND		
OPERATING REVENUES					
Charges for Services	\$ 11,360,967	\$ 4,000,171	\$	\$15,361,138	\$
Charges for Insurance Premiums					249,999
Total Operating Revenues	11,360,967	4,000,171		15,361,138	249,999
OPERATING EXPENSES					
Personal Services	2,696,422	1,092,085		3,788,507	
Other Services and Charges	4,697,156	2,808,281		7,505,437	206,448
Depreciation	2,015,690	333,283	37,402	2,386,375	
Total Operating Expenses	9,409,268	4,233,649	37,402	13,680,319	206,448
Operating Income (Loss)	1,951,699	(233,478)	(37,402)	1,680,819	43,551
NONOPERATING REVENUES (EXPENSES)					
Grants	49,153			49,153	
Interest Revenue	514,836	44,477	58,424	617,737	20,546
Development Fees	280,860			280,860	
Interest Expense and Paying Agent Fees	(1,011,027)			(1,011,027)	
Other Nonoperating Revenues (Expenses)	46,626	13,157		59,783	
Total Nonoperating Revenues (Expenses)	(119,552)	57,634	58,424	(3,494)	20,546
Income Before Contributions and Transfers	1,832,147	(175,844)	21,022	1,677,325	64,097
TRANSFERS OUT	(69,000)		(1,395,000)	(1,464,000)	
Change in Net Assets	1,763,147	(175,844)	(1,373,978)	213,325	64,097
Net Assets - Beginning of Year	57,138,134	3,810,877	4,656,496	65,605,507	1,139,033
Net Assets - End of Year	\$ 58,901,281	\$ 3,635,033	\$ 3,282,518	\$ 65,818,832	\$ 1,203,130

CITY OF PLANT CITY, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS OF PROPRIETARY FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Net Change in Net Assets - Total Proprietary Funds \$ 213,325

Amounts recorded for business-type activities in the Statement of Activities are different because:

An internal service fund is used by management to charge the costs of workers' compensation insurance to individual funds. This represents the elimination of transactions between the Internal Service Fund and Proprietary Funds (the "look-back" adjustment).

102,540

Change in Net Assets of Business-type Activities

\$ 315,865

CITY OF PLANT CITY, FLORIDA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	MAJOR FUNDS		NONMAJOR FUND	TOTAL	
	WATER AND SEWER FUND	SANITARY SERVICE FUND	INDUSTRIAL PARK FUND		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 11,587,698	\$ 3,975,093	\$	\$ 15,562,791	\$
Payments to Suppliers for Goods and Services	(4,662,927)	(3,045,609)		(7,708,536)	(274,924)
Payments to Employees for Services	(2,665,647)	(1,088,881)		(3,754,528)	
Receipts from Other Funds for Insurance Premiums					249,999
Net Cash Provided by (Used in) Operating Activities	<u>4,259,124</u>	<u>(159,397)</u>		<u>4,099,727</u>	<u>(24,925)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Repayment of Advances			166,788	166,788	
Grants Received	52,403			52,403	
Loans to Other Funds			(2,350)	(2,350)	
Loans from Other Funds	<u>199,613</u>	<u>137,225</u>		<u>336,838</u>	<u>2,362</u>
Net Cash Provided by Noncapital Financing Activities	<u>252,016</u>	<u>137,225</u>	<u>164,438</u>	<u>553,679</u>	<u>2,362</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and Construction of Capital Assets	(1,734,805)	(446,917)	(17,986)	(2,199,708)	
Disposal of Capital Assets	46,842	13,157		59,999	
Interest Payments on Debt	(930,939)			(930,939)	
Transfers of Capital Assets	(69,000)		(1,265,000)	(1,334,000)	
Development Fees	280,860			280,860	
Completed Construction in Progress	593,128			593,128	
Principal Payments on Long-Term Debt	<u>(646,068)</u>			<u>(646,068)</u>	
Net Cash Used in Capital and Related Financing Activities	<u>(2,459,982)</u>	<u>(433,760)</u>	<u>(1,282,986)</u>	<u>(4,176,728)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES					
SBA Investment (Additions) Withdrawals-Net of Interest	(17,592,379)	91,973		(17,500,406)	
Interest	<u>541,988</u>	<u>46,555</u>	<u>62,292</u>	<u>650,835</u>	<u>22,006</u>
Net Cash Provided by (Used in) Investing Activities	<u>(17,050,391)</u>	<u>138,528</u>	<u>62,292</u>	<u>(16,849,571)</u>	<u>22,006</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,999,233)	(317,404)	(1,056,256)	(16,372,893)	(557)
CASH AND CASH EQUIVALENTS AT BEG. OF YEAR	18,595,241	2,632,404	2,659,703	23,887,348	1,412,372
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,596,008	\$ 2,315,000	\$ 1,603,447	\$ 7,514,455	\$ 1,411,815

CITY OF PLANT CITY, FLORIDA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	MAJOR FUNDS		NONMAJOR FUND	TOTAL	
	WATER AND SEWER FUND	SANITARY SERVICE FUND	INDUSTRIAL PARK FUND		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 1,951,699	\$ (233,478)	\$ (37,402)	\$ 1,680,819	\$ 43,551
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Depreciation	2,015,690	333,283	37,402	2,386,375	
Change in Assets and Liabilities:					
Accounts Receivable	158,093	(25,078)		133,015	
Inventory	(9,368)			(9,368)	
Other Current Assets					(24,719)
Deposits	(5,332)			(5,332)	
Accounts Payable	48,929	(237,328)		(188,399)	18,446
Customer Deposits	68,638			68,638	
Other Current Liabilities	30,775	3,204		33,979	(62,203)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 4,259,124</u>	<u>\$ (159,397)</u>	<u>\$</u>	<u>\$ 4,099,727</u>	<u>\$ (24,925)</u>

CITY OF PLANT CITY, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
SEPTEMBER 30, 2003

	SAFETY EMPLOYEES' RETIREMENT FUND	GENERAL EMPLOYEES' RETIREMENT FUND	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 659,071	\$	\$ 659,071
Receivables:			
Contributions	107,313	16,984	124,297
Accrued Interest and Dividends	38,700		38,700
Total Receivables	<u>146,013</u>	<u>16,984</u>	<u>162,997</u>
Investments, at Fair Value:			
US Treasury Bonds and Notes	1,092,550		1,092,550
US Government Agencies	1,656,231		1,656,231
Corporate Bonds and Notes	1,226,759		1,226,759
Common Stocks	4,618,606		4,618,606
Mutual Funds	1,156,996		1,156,996
Investment Contract with Insurance Company:			
Transamerica Equity		2,755,041	2,755,041
Transamerica Equity Index		596,530	596,530
Transamerica Balanced		1,480,904	1,480,904
Transamerica Bond		676,453	676,453
Transamerica Cash Manager		2,806,993	2,806,993
Transamerica Others		<u>585,782</u>	<u>585,782</u>
Total Investments	<u>9,751,142</u>	<u>8,901,703</u>	<u>18,652,845</u>
Total Assets	<u>10,556,226</u>	<u>8,918,687</u>	<u>19,474,913</u>
LIABILITIES			
Due to Broker	<u>56,110</u>		<u>56,110</u>
Total Liabilities	<u>56,110</u>		<u>56,110</u>
NET ASSETS			
Held in Trust for Pension Benefits	<u>\$ 10,500,116</u>	<u>\$ 8,918,687</u>	<u>\$ 19,418,803</u>

CITY OF PLANT CITY, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	SAFETY EMPLOYEES' RETIREMENT FUND	GENERAL EMPLOYEES' RETIREMENT FUND	TOTAL
ADDITIONS			
Contributions:			
Employer	\$ 274,396	\$ 639,934	\$ 914,330
Employees	618,430		618,430
State of Florida	<u>368,501</u>		<u>368,501</u>
 Total Contributions	 <u>1,261,327</u>	 <u>639,934</u>	 <u>1,901,261</u>
Investment Income:			
Interest and Dividends	268,013		268,013
Net Appreciation in Fair Value of Investments	1,100,388		1,100,388
Net Increase in Value of Investment Contract with Insurance Company		<u>1,132,002</u>	<u>1,132,002</u>
 Net Investment Income	 <u>1,368,401</u>	 <u>1,132,002</u>	 <u>2,500,403</u>
 Total Contributions and Investment Income	 <u>2,629,728</u>	 <u>1,771,936</u>	 <u>4,401,664</u>
DEDUCTIONS			
Pension Benefits	500,818	238,897	739,715
Administrative Expenses	<u>80,793</u>	<u>18,108</u>	<u>98,901</u>
 Total Deductions	 <u>581,611</u>	 <u>257,005</u>	 <u>838,616</u>
 Change in Net Assets	 2,048,117	 1,514,931	 3,563,048
Net Assets - Beginning of Year	<u>8,451,999</u>	<u>7,403,756</u>	<u>15,855,755</u>
Net Assets - End of Year	<u>\$ 10,500,116</u>	<u>\$ 8,918,687</u>	<u>\$ 19,418,803</u>

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The City of Plant City, Florida was incorporated under the 1927 law of Florida, Chapter 13282, Section 2. It operates under the Commission – Manager Plan form of government. The City provides traditional municipal services as authorized by its charter. These include police and fire protection, public works, public improvements, water, sewer and sanitary services, parks and recreation, planning and zoning, cultural and general administrative services.

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

In evaluating the City as a reporting entity, management has included all component units in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*". The Financial Reporting Entity consists of the City of Plant City, Florida (the primary government) and its blended component units. Blended component units are legally separate organizations for which the City is financially accountable. The component units discussed below are included in the City's reporting entity.

Blended Component Units

The following component units are blended with the primary government for financial statement purposes because the component unit's governing body is substantially the same as the City Commission or because the component unit exclusively serves the City.

Community Redevelopment Agency (CRA)

The CRA was created in 1969 under local ordinance 12-1981 and under Section 163.356 of the Florida Statutes. Its sole purpose is to finance and redevelop the City's designated redevelopment areas. The agency is governed by a board of commissioners, all of whom are members of the City Commission and are appointed by the City Commission. The CRA is reported as a non-major special revenue fund.

Walden Lake Community Association Local Government Neighborhood Improvement District (District)

The District was formed under local ordinance 03-1993 and under Section 163.503 Florida Statutes.

The District is authorized to levy an ad valorem tax on real and personal property located in the District of up to 2 mills annually. Proceeds collected are to be used to facilitate planning and improvements in the Walden Lakes Master Community. The City Commission of the City of Plant City, Florida, serves as the Board of Directors for the District. At this time, the District has not levied or collected any ad valorem taxes and its operations are dormant.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements

The City of Plant City has adopted the provisions of GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", GASB Statement 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures." The basic financial statements consist of the government-wide financial statements and fund financial statements. The government-wide financial statements required under this statement (the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City and its blended component unit. For the most part, the effect of interfund activity has been removed from these statements so as not to distort financial results. Fiduciary funds are also excluded from the government-wide financial statements since by definition these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 (fund financial statements) are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City's fiduciary funds are presented in the fund financial statements but as noted above are not included in the government-wide statements. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

The City's Internal Service Fund (which provides services to other funds of the City) is presented as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate governmental activities.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements, the proprietary fund financial statements and the fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Operating revenues shown for proprietary operations generally result from producing or providing goods and services such as water, sewer and solid waste collection. Operating expenses for these operations include all costs related to providing the service or product. These costs include salaries, supplies, travel, contract services, depreciation, administrative expenses and other expenses directly related to costs of services. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, 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 financial transactions of the City are recorded in individual funds. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined), for the determination of major funds.

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 Stormwater Fund accounts for the proceeds of the stormwater utility fee collected by the City to be used for stormwater improvements.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the operations of the City's regional water and sewer system.

The Sanitary Service Fund accounts for the operations of the City's garbage and recycling programs.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for its uninsured risk of loss due to work-related injuries suffered by employees of the City.

The Pension Trust Funds account for the activities of the Safety Employees Retirement Plan and the General Employees Retirement Plan, which accumulate resources for pension benefit payments to qualified employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The 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.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, as well as fees, fines and forfeitures (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 producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

The City allocates charges for indirect services provided by various funds based on a cost allocation plan. The costs are included in the program expense reported by functional activity in the Statement of Activities.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents include cash on hand, time and demand deposits and short-term investments. For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with an original maturity of four months or less when purchased to be cash equivalents.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Deposits and Investments (Continued)

All investments, including Pension Funds, are stated at fair value, with the exception of investments in the Florida Local Government Surplus Funds Trust Fund (SBA), an external 2a7-like investment pool which is presented at share price. All fair market valuations are based on quoted market prices; SBA pool shares are based on amortized cost, which approximates fair market value, of the SBA's underlying portfolio.

Receivables and Payables

Receivables consist of trade receivables, due from other governments and interest receivable, and are recorded at gross amount. The City has recorded an allowance related to property taxes receivable (included in Due from Other Governments). All other receivables are considered fully collectible.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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.

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.

Restricted Assets

Certain proceeds of revenue bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond/loan covenants.

Capital Assets

Capital assets, which include land, land improvements, plant and plant improvements, buildings, building improvements, furniture and equipment, and infrastructure (i.e., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 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 value at the time of donation.

The costs of normal maintenance and repairs that do not add to the fair value of the asset or materially extend assets lives are not capitalized.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. None was capitalized during the current year.

Depreciable capital assets are amortized using the straight-line method (except library books, which use a composite method) over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvements	5 – 50 Years
Plant and Plant Improvements	5 – 50 Years
Buildings	5 – 50 Years
Equipment	4 – 20 Years
Transportation Equipment	3 – 10 Years
Library Books	3 – 7 Years

Pursuant to GASB Statement No. 34, an extended period of deferral (until fiscal year ending September 30, 2007) is available before the requirement to record and depreciate general infrastructure assets acquired before the implementation date. This category is likely to be one of the largest asset classes of the City and its cost has not historically been recorded nor has depreciation been charged. General infrastructure assets include roads, bridges, underground pipe (other than related to utilities), sidewalks, street lights, traffic signals, etc.

Compensated Absences

All regular employees with less than five years continuous service earn 80 hours of annual leave. The number of hours of annual leave increases relative to the number of years of continuous service, in increments of five years. The maximum of 160 hours of annual leave is obtained after twenty years of continuous service. There is no maximum number of annual leave days which may be accumulated. Employees who terminate with more than one year's service are paid for 100% of their unused annual leave. The City has accrued 100% of the annual leave liability.

All regular employees earn eight hours of sick leave per month. There is no maximum limitation on the number of sick leave days which may be accumulated. Employees who voluntarily terminate or retire after ten years of continuous service are paid for 50% of their accumulated sick leave balance. The City has accrued the estimated amount of vested sick leave for employees who have completed 10 years of continuous service.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

Encumbrance accounting is employed in all governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because commitments will be reappropriated and honored during the subsequent year. Since project-length budgets are adopted for capital projects funds, their appropriations do not lapse and are automatically carried over to the next year.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from management's estimates.

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, 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:

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
 (CONTINUED)

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets (Continued)

1999 Infrastructure Bonds	\$ (6,000,000)
Less: Debt Issuance Costs	139,544
Florida Municipal Loan Council Loan	(4,300,000)
Less: Debt Issuance Costs	65,026
State Revolving Fund Loan	(866,319)
Compensated Absences	(<u>1,147,772</u>)
 Net Adjustment to reduce fund balance – total governmental funds, to arrive at net assets – governmental activities	 \$ (<u>12,109,521</u>)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes 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 this difference are as follows:

Capital outlay	\$ 4,966,222
Asset transfers	1,464,000
Depreciation expense	(<u>2,259,250</u>)
 Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	 \$ <u>4,170,972</u>

Another element of that reconciliation states that "The net effect of various transactions involving capital assets (i.e., donations, disposals and sales) is to decrease net assets." The details of this difference are as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.	\$ (<u>13,188</u>)
 Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	 \$ (<u>13,188</u>)

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

**NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(CONTINUED)**

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities (continued)

Another element of that reconciliation states that "the issuance of long-term debt 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." The details of this difference are as follows:

Debt issued or incurred:		
State Revolving Fund Loan		\$ (509,313)
Principal repayments:		
1999 Infrastructure Bonds	\$ 175,000	
Florida Municipal Loan Council Loan	160,000	
State Revolving Fund Loan	<u>15,848</u>	350,848
Compensated Absences – current year activity		(<u>19,058</u>)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities		\$ (<u>177,523</u>)

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Excess of expenditures over appropriations

During the year ended September 30, 2003, no expenditures exceeded appropriations at the legal level of control (i.e. the department level).

B. Deficit fund equity

At September 30, 2003, there were no funds with a deficit fund equity balance.

C. Property Taxes

Property tax collections are governed by Chapter 197, Florida Statutes. The Hillsborough County Tax Collector bills and collects all property taxes levied within the county. Discounts of 4, 3, 2 and 1% are allowed for early payment in November, December, January and February, respectively.

The Tax Collector remits collected taxes at least monthly to the City. The City recognizes property tax revenue as it is received from the Tax Collector since virtually all taxes levied will be collected through the tax collection process.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

C. Property Taxes (Continued)

Calendar of events is as follows:

January 1	Property taxes are based on assessed value at this date as determined by the Hillsborough County Property Appraiser.
July 1	Assessment roll approved by the state.
September 30	Millage resolution approved by the City Commission.
October 1	Beginning of fiscal year for which taxes have been levied.
November 1	Property taxes due and payable.
November 30	Last day for 4% maximum discount.
April 1	Unpaid property taxes become delinquent.
May 15	Tax certificates are sold by the Hillsborough County Tax Collector. This is the first lien date on the properties.

NOTE 4: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Unless otherwise directed by the City Commission, the City Treasurer is authorized to invest and reinvest any surplus public funds of the City in:

1. The Local Government Surplus Funds Trust Fund as provided by state law;
2. Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government at the then prevailing market price for such securities;
3. Interest bearing time deposits or savings accounts in banks organized under the laws of this state, in national banks organized under laws of the United States and doing business and situated in Florida, in savings and loan associations which are under state supervision, or in federal savings and loan associations located in Florida and organized under federal law and federal supervision, provided that any such deposits are secured by collateral as may be prescribed by law; or
4. Obligations of the Federal Farm Credit Bank, Federal Home Mortgage Corporation, or Federal Home Loan Bank or its district banks, including Federal Home Loan Mortgage Corporation participation certificates, or obligations guaranteed by the Government National Mortgage Association.

The Pension Trust Funds are also authorized to invest in corporate bonds and notes, common stocks, mutual funds and other investments.

At September 30, 2003, the carrying amount of the City's deposits was \$7,135,786 and the bank balance was \$6,149,132. These bank balances are covered by either the Federal Deposit Insurance Corporation (FDIC) or by the State of Florida Collateral Pool (Category I). The Florida Statutes authorize, and the state administers, a collateral pool which ensures no loss of public funds. The City also carried petty cash on hand at September 30, 2003 in the amount of \$1,602.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

The City invests some of its excess cash in certificates of deposit. The total amount of these certificates of deposit on September 30, 2003 is \$10,200,000. All certificates of deposit are either insured by the FDIC or collateralized by the State of Florida Collateral Pool (Category I).

Cash and investments held by fiscal agents includes \$45,384 in money market funds. Such investments are exempt from the credit risk categorization requirement. The remaining excess cash is invested by the City in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool, which is governed by Chapter 19-7 of the Florida Administrative Code. The Fund is not a registrant with the Securities and Exchange Commission; however, the State Board of Administration has adopted operating procedures consistent with the requirements for a 2a-7 fund. This investment pool purchases low risk government securities, high grade commercial debt and equity securities, commercial paper, investment companies, repurchase and reverse repurchase agreements, real estate, futures, options and a broad range of other instruments. The City's fair value for financial reporting is its share of the pool's account balance, which is reported by the pool at amortized cost, in accordance with GASB Statement 31. The fair value of investments is determined on a monthly basis. The method used by the pool to determine participants' shares sold and redeemed is the amortized cost method. The pool has not provided or obtained any legally binding guarantees during the year to support the value of its shares. There is no requirement for involuntary participation in the pool. This investment pool is not insured by the State of Florida or the Federal Deposit Insurance Corporation. GASB Statement 31 exempts such investments from the credit risk categorization requirement. Total held by the State Board of Administration at year end is \$43,056,400.

Cash and investments held by custodians for the Pension Trust Funds totaled \$19,311,916.

Real Estate held for investment by the Industrial Park at year end was \$1,002,659.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not primarily in the City's name.

At year end, the City's investment balances were as follows:

	Category <u>2</u>	Reported Amount/ <u>Fair Value</u>
U.S. Treasury Bonds and Notes	\$ 1,092,550	\$ 1,092,550
U.S. Government Agencies	1,656,231	1,656,231
Corporate Bonds and Notes	1,226,759	1,226,759
Common Stocks	<u>4,618,606</u>	4,618,606
Total	<u>\$ 8,594,146</u>	

CITY OF PLANT CITY, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

	Reported Amount/ Fair Value
<u>Investments not subject to categorization:</u>	
Money Market Funds	45,384
State Board of Administration Investment Pool (SBA)	43,056,400
Investment Contract with Insurance Company	8,901,703
Mutual Funds	1,156,996
Real Estate Held for Investment	<u>1,002,659</u>
 Total Investments	 \$ <u>62,757,288</u>

B. Receivables

As of year-end, receivables for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for collectible accounts are as follows:

	<u>General</u>	<u>Stormwater</u>	<u>Other Governmental</u>	<u>Total Governmental Activities</u>
Governmental Activities:				
Property Taxes	\$ 6,147,874	\$	\$ 683,313	\$ 6,831,187
Accounts Receivable	429,328	16,857		446,185
Intergovernmental	569,980	223,232	287,180	1,080,392
Interest	<u>26</u>	<u>1,097</u>	<u>4,431</u>	<u>5,554</u>
 Gross Receivables	 7,147,208	 241,186	 974,924	 8,363,318
 Less: Allowance for Uncollectibles	 <u>307,394</u>	 <u> </u>	 <u> </u>	 <u>307,394</u>
 Net Total Accounts Receivable	 \$ <u>6,839,814</u>	 \$ <u>241,186</u>	 \$ <u>974,924</u>	 \$ <u>8,055,924</u>
	<u>Water & Sewer</u>	<u>Sanitary Service</u>	<u>Other Proprietary</u>	<u>Total Business-type Activities</u>
Business-type Activities:				
Accounts	\$ 1,481,772	\$ 197,202	\$	\$ 1,678,974
Interest	<u>7</u>	<u>1,865</u>	<u>1,739</u>	<u>3,611</u>
 Net Total Accounts Receivable	 \$ <u>1,481,779</u>	 \$ <u>199,067</u>	 \$ <u>1,739</u>	 \$ <u>1,682,585</u>

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property Tax Revenue (General Fund)	\$ 5,840,480	\$
Property Tax Revenue (CRA Fund)	683,313	
Grant Revenue (General Fund)	<u> </u>	<u>71,151</u>
Total Deferred/Unearned Revenue for Governmental Funds	\$ <u>6,523,793</u>	\$ <u>71,151</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,297,110	\$ 799,975	\$	\$ 7,097,085
Construction in progress	<u>569,584</u>	<u>554,362</u>	<u> </u>	<u>1,123,946</u>
Total capital assets not being depreciated	<u>6,866,694</u>	<u>1,354,337</u>	<u> </u>	<u>8,221,031</u>
Capital assets being depreciated:				
Improvements	11,286,672	1,309,978	(2,152)	12,594,498
Buildings	17,981,934	2,741,380		20,723,314
Equipment	6,240,329	571,001	(197,253)	6,614,077
Transportation equipment	5,541,428	439,092	(258,948)	5,721,572
Library books	<u>1,449,208</u>	<u>163,861</u>	(<u>94,577</u>)	<u>1,518,492</u>
Total capital assets being depreciated	<u>42,499,571</u>	<u>5,225,312</u>	(<u>552,930</u>)	<u>47,171,953</u>
Less: accumulated depreciation for:				
Improvements	1,923,655	(464,849)	2,152	2,386,352
Buildings	5,117,709	(473,441)		5,591,150
Equipment	3,945,404	(659,981)	185,961	4,419,424
Transportation equipment	3,525,516	(535,453)	182,039	3,878,930
Library books	<u>997,014</u>	(<u>125,526</u>)	<u>94,577</u>	<u>1,027,963</u>
Total accumulated depreciation	<u>15,509,298</u>	(<u>2,259,250</u>)	<u>464,729</u>	<u>17,303,819</u>
Total capital assets, being depreciated, net	<u>26,990,273</u>	<u>2,966,062</u>	(<u>88,201</u>)	<u>29,868,134</u>
Governmental activities capital assets, net	\$ <u>33,856,967</u>	\$ <u>4,320,399</u>	\$ (<u>88,201</u>)	\$ <u>38,089,165</u>

CITY OF PLANT CITY, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,023,778	\$ 210,615	\$ (179,000)	\$ 1,055,393
Construction in progress	<u>332,898</u>	<u>856,098</u>	<u>(593,128)</u>	<u>595,868</u>
Total capital assets not being depreciated	<u>1,356,676</u>	<u>1,066,713</u>	<u>(772,128)</u>	<u>1,651,261</u>
Capital assets being depreciated:				
Improvements	935,046			935,046
Plant and Plant Improvements	58,819,173	488,929	(10,600)	59,297,502
Buildings	7,504	1,091,000	(1,086,000)	12,504
Equipment	2,086,864	276,837	(101,970)	2,261,731
Transportation Equipment	<u>3,507,599</u>	<u>610,358</u>	<u>(360,839)</u>	<u>3,757,118</u>
Total capital assets being depreciated	<u>65,356,186</u>	<u>2,467,124</u>	<u>(1,559,409)</u>	<u>66,263,901</u>
Less: accumulated depreciation for:				
Improvements	548,290	(37,402)		585,692
Plant and Plant Improvements	18,844,286	(1,767,320)	10,600	20,601,006
Buildings	3,178	(1,195)		4,373
Equipment	1,646,492	(115,329)	31,862	1,729,959
Transportation Equipment	<u>1,879,469</u>	<u>(465,127)</u>	<u>359,711</u>	<u>1,984,885</u>
Total accumulated depreciation	<u>22,921,715</u>	<u>(2,386,373)</u>	<u>402,173</u>	<u>24,905,915</u>
Total capital assets, being depreciated, net	<u>42,434,471</u>	<u>80,751</u>	<u>(1,157,236)</u>	<u>41,357,986</u>
Business-type activities capital assets, net	\$ <u>43,791,147</u>	\$ <u>1,147,464</u>	\$ (<u>1,929,364</u>)	\$ <u>43,009,247</u>

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

Governmental activities:	
General Government	\$ 294,197
Public Safety	652,369
Physical Environment	398,854
Transportation	66,836
Economic Environment	404
Culture and Recreation	<u>846,590</u>
Total depreciation expense – governmental activities	\$ <u>2,259,250</u>

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

Business-type activities:	
Water and Sewer	\$ 2,015,690
Sanitary Service	333,283
Industrial Park (nonmajor)	<u>37,402</u>
 Total depreciation expense – business-type activities	 \$ <u>2,386,375</u>

Construction and Other Significant Commitments

Outstanding purchase order commitments, including construction commitments, are recorded in the governmental funds as a reservation of fund balance for encumbrances. Enterprise funds do not record such commitments as a reservation of fund balance. Total commitments by fund are as follows:

	<u>Remaining Commitment</u>
General Fund	\$ 203,891
Stormwater Fund	73,971
Water and Sewer Fund	402,927
Sanitary Service Fund	<u>99,946</u>
	\$ <u>780,735</u>

D. Interfund Receivables, Payables and Transfers – The composition of interfund balances as of September 30, 2003, is as follows:

DUE TO/FROM OTHER FUNDS:

(Represents cash loaned and outstanding between funds for short-term operating purposes)

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 432,700	\$ 136,702
Stormwater Fund	14,419	88,244
Nonmajor Governmental Funds	545,889	528,441
Water and Sewer Fund	157,273	203,608
Sanitary Service Fund	30,974	223,248
Industrial Park Fund	2,350	
Internal Service Fund		<u>3,362</u>
	\$ <u>1,183,605</u>	\$ <u>1,183,605</u>

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Receivables, Payables and Transfers (continued):

ADVANCES FROM/TO OTHER FUNDS:

(Represents long-term advances made for the library facility and for the Jenkins Street drainage project)

	<u>Receivable</u>	<u>Payable</u>
CRA Fund	\$ 304,982	\$
Industrial Park Fund		304,982
Community Investment Tax Fund	472,109	
Community Redevelopment Agency Fund	<u> </u>	<u>472,109</u>
	\$ <u>777,091</u>	\$ <u>777,091</u>

INTERFUND TRANSFERS:

(Represents transfers of funds for operating purposes from the fund that collected them to the fund that is authorized to expend them)

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$	\$ 2,576,200
Stormwater Fund	1,501,700	1,628,426
Nonmajor Governmental Funds	<u>5,754,090</u>	<u>3,051,164</u>
	\$ <u>7,255,790</u>	\$ <u>7,255,790</u>

Additionally, the Water and Sewer Fund and Industrial Park Fund had Interfund Transfers Out of \$69,000 and \$1,395,000, respectively, for transfers of capital assets to governmental funds. These transfers are eliminated at the government-wide financial statement level.

E. Leases

The City leases various equipment under operating leases. Although the terms of these leases generally contain a "non-appropriation of funds" clause, which allows the City to cancel the lease if budgeted funds are not available to make the lease payments, the likelihood of that occurring is considered remote. Total costs for such leases were \$43,856 for the year ended September 30, 2003. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING SEPTEMBER 30,</u>	<u>AMOUNT</u>
2004	\$ 41,191
2005	34,956
2006	33,488
2007	23,225
2008	<u>425</u>
TOTAL	\$ <u>133,285</u>

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Leases (Continued)

The City has entered into a 20-year operating lease under which the City has leased a building located in South Madison Park, at no cost, to The Boys and Girls Club of Tampa Bay, Inc., (Club) a nonprofit organization, which will operate the leased facility as a recreation center.

F. Long-Term Debt

Summarized below are the City's debt issued to finance the acquisition and construction of major capital facilities that were outstanding as of September 30, 2003:

1. GOVERNMENTAL ACTIVITIES DEBT:

\$6,670,000 Infrastructure Sales Tax Revenue Bonds, Series 1999 – Issued to finance the construction of a new City Hall and other capital improvements, the certificates are secured by a lien upon and a pledge of (1) proceeds received by the City as its share from the collection of the one-half cent discretionary infrastructure sales surtax, and (2), until applied in accordance with the provisions of the bond resolution, all monies in the funds and accounts established by the bond resolution, with the exception of the unrestricted revenue account. Certain reserves and covenants must be met. Interest is payable semiannually at rates varying between 3.5% and 5.0% until September 1, 2024.

\$4,775,000 Loan Payable – Florida Municipal Loan Council – Funds borrowed to finance improvements to the City's stadium facilities and to payoff a previous stadium bank loan. The City has pledged the \$400,000 annual proceeds from its share of the County's tourist development tax as collateral for the loan. The loan is payable over 20 years, with semi-annual interest payable at rates varying from 3.85% to 5.625%.

\$405,530 State Revolving Fund Loan – Funds borrowed to finance the construction of the Pistol Range Regional Stormwater Facility. The loan is secured by pledged revenues of stormwater utility fees, and certain reserves and covenants must be met. The loan will be repaid in 40 semiannual payments including interest at 3.03%.

\$509,313 State Revolving Fund Loan – Funds borrowed to finance the construction of stormwater pollution control facilities (Grant Hunter Pond). The loan is secured by pledged revenues of stormwater utility fees, and certain reserves and covenants must be met. The loan will be repaid in 40 semiannual payments including interest at 2.95%.

2. BUSINESS-TYPE ACTIVITIES DEBT:

\$20,515,000 Utility System Refunding and Improvement Revenue Bonds, Series 1995 – Issued to refund a loan with the Florida Department of Environmental Regulation, construct improvements to the City's water and sewer utility system, fund a debt service reserve and pay certain costs of issuance. These bonds and the interest thereon are payable solely from the net revenues derived from the operation of the City's water and sewer utility system and amounts in deposit in the debt service reserve fund. Certain reserves and covenants must be met. Interest is payable semiannually at rates varying between 4.95% and 6.0% until final maturity on October 1, 2015.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

2. BUSINESS-TYPE ACTIVITIES DEBT (CONTINUED):

\$12,370,000 Utility System Refunding and Improvement Revenue Bonds, Series 1999 – Issued to refund that portion of the City's Utility System Refunding and Improvement Revenue Bonds, Series 1995 (the refunded bonds), which mature on October 1, 2005 through October 1, 2010, inclusive, and October 1, 2016 through October 1, 2020; finance the construction and acquisition of improvements to the City's Utility System; and pay certain costs of issuance. These bonds and the interest thereon are payable solely from the net revenues derived from the operation of the City's water and sewer utility system and amounts on deposit in the debt service reserve fund. Certain reserves and covenants must be met. Interest is payable semiannually at rates varying between 3.8% and 5.0% until the final maturity on October 1, 2020.

3. DEFEASANCE OF LONG-TERM DEBT

A portion of the proceeds of the Series 1999 Revenue Bonds was deposited in trust in an escrow account to provide for future debt service on a portion of the City's Series 1995 Revenue Bonds. As a result, that portion of the Series 1995 Revenue Bonds is considered defeased, and the City has removed that liability from its accounts. The outstanding principal balance of the defeased bonds is \$11,070,000 at September 30, 2003.

4. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in Long-Term Debt of the City for the year ended September 30, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<u>Governmental Activities:</u>					
Infrastructure Sales Tax Revenue Bonds, Series 1999	\$ 6,175,000	\$	\$ 175,000	\$ 6,000,000	\$ 180,000
Florida Municipal Loan Council Loan Payable	4,460,000		160,000	4,300,000	165,000
State Revolving Fund Loan – Pistol Range	372,854		15,848	357,006	16,332
State Revolving Fund Loan – Grant Hunter Pond		509,313		509,313	9,315
Compensated Absences	<u>1,128,714</u>	<u>19,058</u>		<u>1,147,772</u>	<u>1,147,772</u>
 Total Governmental Activities Long-Term Liabilities	 \$ <u>12,136,568</u>	 \$ <u>528,371</u>	 \$ <u>350,848</u>	 \$ <u>12,314,091</u>	 \$ <u>1,518,419</u>

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

4. CHANGES IN LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<u>Business-type Activities:</u>					
Revenue Bonds – Series 1995	\$ 6,725,000	\$	\$ 545,000	\$ 6,180,000	\$ 575,000
Less: Deferred amounts for original issue discount	(34,263)		(2,098)	(32,165)	
Revenue Bonds – Series 1999	12,210,000		85,000	12,125,000	90,000
Less: Deferred amounts for original issue discount	(80,552)		(4,931)	(75,621)	
Less: Loss on Refunding	(924,045)		(56,574)	(867,471)	
Landfill Closure Costs	<u>206,506</u>			<u>206,506</u>	
Total Business-type Activities Long-Term Liabilities	\$ <u>18,102,646</u>	\$ <u> </u>	\$ <u>566,397</u>	\$ <u>17,536,249</u>	\$ <u>665,000</u>

5. SUMMARY OF ANNUAL DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity for debt outstanding as of September 30, 2003 are as follows:

<u>Fiscal Year Ending</u>	<u>Governmental Activities Debt</u>			
	<u>Infrastructure Sales Tax Revenue Bonds, Series 1999</u>		<u>Florida Municipal Loan Council Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 180,000	\$ 278,362	\$ 165,000	\$ 222,625
2005	190,000	271,701	175,000	215,228
2006	195,000	264,576	180,000	207,328
2007	200,000	257,020	190,000	198,908
2008	210,000	249,020	200,000	189,838
2009 – 2013	1,200,000	1,103,710	1,155,000	787,422
2014 – 2018	1,490,000	803,493	1,505,000	424,780
2019 – 2023	1,895,000	402,569	730,000	41,625
2024 – 2028	<u>440,000</u>	<u>22,000</u>		
	\$ <u>6,000,000</u>	\$ <u>3,652,451</u>	\$ <u>4,300,000</u>	\$ <u>2,287,754</u>

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Long-Term Debt (Continued)

5. SUMMARY OF ANNUAL DEBT SERVICE REQUIREMENTS (CONTINUED)

Fiscal Year Ending	Governmental Activities Debt (Continued)			
	State Revolving Fund Loan – Pistol Range		State Revolving Fund Loan – Grant Hunter Pond	
	Principal	Interest	Principal	Interest
2004	\$ 16,332	\$ 10,694	\$ 19,038	\$ 14,738
2005	16,831	10,195	19,573	14,320
2006	17,344	9,682	20,154	13,738
2007	17,874	9,152	20,754	13,140
2008	18,420	8,607	21,370	12,524
2009 – 2013	100,885		116,762	52,702
2014 – 2018	117,255		135,174	34,288
2019 – 2023	52,065		156,488	12,974
	<u>\$ 357,006</u>	<u>\$ 48,330</u>	<u>\$ 509,313</u>	<u>\$ 168,424</u>

Fiscal Year Ending	Business-type Activities Debt			
	Revenue Bonds – Series 1995		Revenue Bonds – Series 1999	
	Principal	Interest	Principal	Interest
2004	\$ 575,000	\$ 346,712	\$ 90,000	\$ 549,092
2005	605,000	315,881	90,000	545,672
2006		300,000	730,000	529,910
2007		300,000	760,000	500,847
2008		300,000	785,000	470,137
2009 – 2013	1,830,000	1,391,700	2,660,000	1,899,705
2014 – 2018	3,170,000	292,800	2,710,000	1,560,813
2019 – 2023			4,300,000	314,494
	<u>\$ 6,180,000</u>	<u>\$ 3,247,093</u>	<u>\$ 12,125,000</u>	<u>\$ 6,370,670</u>

6. CONDUIT DEBT OBLIGATIONS

In prior years, the City issued Nursing Home Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2003, the aggregate principal amount payable was \$1,470,630.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Restricted assets

Certain cash and investments that are legally restricted in the statement of net assets are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Debt Service	\$ 995,549	\$ 1,121,232
Water/Sewer Renewal and Replacement		1,839,863
Water/Sewer RRI		94,309
Water Development		36,930
Wastewater Development		<u>74,720</u>
Total	<u>\$ 995,549</u>	<u>\$ 3,167,054</u>

The balances of the liabilities payable from restricted assets accounts in the government-wide statement of net assets are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accrued interest payable	\$ 100,767	\$ 456,232
Current portion of long-term debt		665,000
Deposits		<u>1,485,816</u>
Total	<u>\$ 100,767</u>	<u>\$ 2,607,048</u>

H. CRA FUND

In accordance with the provisions of Florida Statutes, the City has established a Community Redevelopment Trust Fund to account for funds held by the City of Plant City for and on behalf of the Community Redevelopment Agency. These funds, which arise from incremental increases in ad valorem taxes levied each year, are disbursed to the agency as provided by appropriation ordinance. The funds are to be used for community redevelopment activities as approved by the Community Redevelopment Agency and pursuant to the City's community redevelopment plan.

A summary of the available funding for future projects of the CRA Fund at year end are as follows:

INFLOWS:

County Property Tax Increment	\$ 361,734
Plant City Property Tax Increment	242,260
Tampa Port Authority	14,948
Interest Income	12,056
Committed Funds – Reappropriated (Budgetary)	<u>567,440</u>

\$ 1,198,438.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 4: DETAILED NOTES ON ALL FUNDS (CONTINUED)

H. CRA FUND (CONTINUED)

OUTFLOWS:

Snowden Park Restrooms and Pavilion	73,679
Marie B. Ellis Park Improvements	10,041
State Filing Fee	175
Howard Street Crossing	82,465
Library Parking Lot	224,674
Library Exterior Retrofit	4,788
Principal Payment on Advances from Other Funds	<u>13,351</u>

409,173

FUNDS AVAILABLE AT YEAR END
FOR FUTURE PROJECTS

\$ 789,265

SUMMARY OF FUNDS AVAILABLE:

Cash Balance 9/30/03	\$ 790,858
Due from Other Funds	7,850
Accrued Interest	598
Less, Due to Other Funds	(<u>10,041</u>)

FUNDS AVAILABLE AT YEAR END
FOR FUTURE PROJECTS

\$ 789,265

BUDGETARY COMMITMENTS OF FUNDS
AT YEAR END:

Committed money for purchase of land to reduce slum and blight	\$ 383,013
Committed money for downtown revitalization	200,000
Howard Street Crossing	117,535
Library Exterior Retrofit	85,258
Repayment of loans from the Industrial Park Fund (*)	<u>304,982</u>

TOTAL COMMITTED FUNDS FOR
FUTURE PROJECTS

\$ 1,090,788

(*) The Industrial Park Fund loaned the CRA \$900,000 to fund the building of the library.
The loan balance is only partially funded at year end.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 5: OTHER INFORMATION

A. Risk Management

The City has established a Workers' Compensation Partial Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss due to work-related injuries suffered by employees of the City. Under this program, the Workers' Compensation Partial Self-Insurance Fund provides coverage of up to \$250,000 in claims per employee, per incident, to an annual maximum liability of \$500,000 in aggregate claims. The City has purchased workers' compensation insurance for claims in excess of the coverages provided by the fund.

All departments of the City participate in the program and make payments to the Workers' Compensation Partial Self-Insurance Fund based on estimates, by an outside administrator, of the amounts needed to pay prior and current year claims and to accumulate a reserve for future catastrophic losses. Accumulations in retained earnings are \$1,203,130 at September 30, 2003.

The claims liability of \$240,271 reported in the Fund at year end is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's estimated claims liability amounts in fiscal years 2003, 2002 and 2001 were:

	BEGINNING OF FISCAL-YEAR LIABILITY	CURRENT YEAR CLAIMS AND CHANGES IN ESTIMATES	CLAIMS PAYMENTS	BALANCE AT FISCAL YEAR-END
2002 - 2003	\$ 302,474	\$ 32,206	\$ (94,409)	\$ 240,271
2001 - 2002	330,912	42,252	(70,690)	302,474
2000 - 2001	313,318	130,704	(113,110)	330,912

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 for which the City carries commercial insurance. There have been no significant reductions in insurance coverage from the previous year. Settlement amounts have not exceeded insurance coverage for the current year nor the three prior years.

B. Subsequent Events

Subsequent to year end, the City issued the \$5,340,000 City of Plant City, Florida Infrastructure Sales Tax Revenue Bonds, Series 2004. The bonds were issued to pay the costs of land acquisition and reconstruction and equipping of buildings thereon into a police station, a general services facility and a fleet maintenance facility.

C. Contingent Liabilities

The City receives revenues from various federal grants. These grants are for specific purposes and are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement for expenditures disallowed under the terms of the grants. Based upon prior experience, City management believes such disallowances, if any, will be immaterial.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 5: OTHER INFORMATION (CONTINUED)

C. Contingent Liabilities (Continued)

The City is involved in legal actions which, in the opinion of management, will not have a material effect on the financial statements of the City.

D. Landfill Postclosure Care Costs

The City operated a solid waste landfill from September 1976 until April 1981. Final closure of the landfill was in September 1989. State and federal laws and regulations require the City to perform certain ongoing maintenance and monitoring functions at the landfill site for 30 years after closure. The amount of landfill postclosure liability recorded at September 30, 2003 is \$206,506, which represents the estimated remaining current cost of all postclosure care. Due to changes in site conditions, inflation, technology, laws or regulations, these costs may change in the future. These costs are being funded on a cash basis.

E. Other Postemployment Benefits

The City offers its retirees the option of continuing to participate in health and life insurance plans that are offered to its active employees. Florida Statutes state that the City must offer its retirees this option at a premium cost of no more than that applicable to active employees. Each retiree must pay 100% of the costs of any insurance they elect to continue to participate in. Funding is on a "pay as you go" basis. Most of the City's employees would become eligible for those benefits if they reach normal retirement age while working for the City.

Life and health insurance are fully insured and provided through outside providers. Expenses for insurance are recognized in the funds as premiums are paid to the insurance providers. Premium costs are paid in full by the retirees. Expenses for retiree's insurance are commingled with those relating to active employees and cannot be reasonably estimated.

F. Pension Plan Information

Defined Contribution Plan

The City provides pension benefits for all other employees through a defined contribution plan (The City of Plant City Miscellaneous Employees' Money Purchase Retirement Plan), which is administered by Transamerica Life Insurance and Annuity Company. It is a qualified plan under section 401(a) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amount contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The City contributes an amount equal to 8% of the total wage for each eligible employee. The City's contributions for each employee and earnings on investments allocated to the employee's account are fully vested after five years of continuous service. City contributions for, and investment earnings forfeited by, employees who leave employment before five years of service are used to reduce the City's current period contribution requirement. There were no forfeitures for the year ended September 30, 2003. The City Commission has the authority to amend plan provisions, including contribution rates.

The City's contributions to the plan for the year ended September 30, 2003 totaled \$639,934.

CITY OF PLANT CITY, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 5: OTHER INFORMATION (CONTINUED)

F. Pension Plan Information (Continued)

Defined Benefit Plan

The City maintains for its safety employees a single-employer defined benefit pension plan administered by Salem Trust. The Safety Employees' Retirement Plan provides retirement, disability and death benefits to all of its police and fire department employees who qualify as plan members. The plan has been in existence since October 1, 1960 and is a deposit administration type plan. The City Commission has the authority to amend plan provisions, including contribution rates. Participants in the Safety Employees' Retirement Plan are required to make contributions to the plan equal to 13.6% of the participant's earnings. Contributions from participants in the Safety Employees' Retirement Plan amounted to \$618,430 for the fiscal year ended September 30, 2003. The State and City contribute the remaining required annual contribution, which amounted to \$642,897 for the fiscal year ended September 30, 2003.

The following is a summary of the funding policies, contribution methods and benefit provisions of the defined benefit plan for safety employees:

Eligibility to Participate	Full-time sworn police officers or full-time certified firefighters
Determination of Contribution Requirements	Actuarially determined
Funding of Administrative Costs	Investment Earnings
Period Required to Vest	10 Years
Required Member Contributions	13.6% of total W-2 income, plus tax-exempt and tax-deferred items of income
Eligibility for distributions:	
Normal Retirement	Earlier of age 60 or 20 years of credited service, regardless of age, or age 55 with 10 years of credited service
Early Retirement	Age 50 and 10 years of credited service
Benefit:	
Normal Retirement	3.75% of Average Final Compensation times credited service
Early Retirement	Accrued benefit, reduced 3% per year

The plan also has provision for benefits in case of death or disability.

CITY OF PLANT CITY, FLORIDA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 5: OTHER INFORMATION (CONTINUED)

F. Pension Plan Information (Continued)

Defined Benefit Plan (Continued)

MEMBERSHIP

Membership in the Plan consisted of the following at October 1, 2002, the date of the latest actuarial valuation:

Retirees and Beneficiaries Receiving Benefits	16
Terminated Plan members entitled to but not yet receiving benefits	10
Active Plan members:	
Vested	37
Nonvested	<u>68</u>
 Total	 <u>131</u>

Annual Pension Cost

The City's annual pension cost for the Safety Employees' Retirement Plan for the year ended September 30, 2003 was as follows:

Annual Required Contribution	\$ 156,854
Interest on Net Pension Obligation	(24,723)
Adjustments to Annual Required Contribution	(<u>28,116</u>)
 Annual Pension Cost	 \$ <u>104,015</u>

Contributions to the plan for the fiscal year ended September 30, 2003 exceed the annual pension cost; therefore, there is no net pension obligation.

Actuarial assumptions and other information used to determine the annual required contributions are located in the Required Supplementary Information section of this report.

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 (BENEFIT)</u>
9/30/02	\$ 156,854	100%	\$ (361,872)
9/30/01	79,329	100%	(309,032)
9/30/00	29,656	100%	(263,908)

CITY OF PLANT CITY, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET-
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES				
Property Taxes	\$ 5,482,200	\$ 5,482,200	\$ 5,678,278	\$ 196,078
Franchise Fees	1,745,000	1,745,000	1,899,040	154,040
Utility Taxes	2,795,000	2,795,000	2,983,261	188,261
Licenses and Permits	668,500	668,500	713,458	44,958
Intergovernmental Revenues	5,415,000	5,664,578	6,121,281	456,703
Charges for Services	422,700	485,700	544,985	59,285
Fines and Forfeitures	270,000	270,000	284,276	14,276
Contributions	101,000	104,500	112,550	8,050
Interest Revenue	201,000	201,000	141,093	(59,907)
Other Revenue	1,325	1,325	107,374	106,049
Total Revenues	<u>17,101,725</u>	<u>17,417,803</u>	<u>18,585,596</u>	<u>1,167,793</u>
EXPENDITURES				
Current:				
General Government	4,706,450	4,521,181	2,297,725	2,223,456
Public Safety	9,542,725	9,587,873	8,801,087	786,786
Transportation	418,400	410,400	322,889	87,511
Economic Development	30,000	30,000	13,544	16,456
Culture and Recreation	3,928,350	3,995,654	3,892,823	102,831
Capital Outlay	745,200	840,603	826,911	13,692
Total Expenditures	<u>19,371,125</u>	<u>19,385,711</u>	<u>16,154,979</u>	<u>3,230,732</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,269,400)</u>	<u>(1,967,908)</u>	<u>2,430,617</u>	<u>4,398,525</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	35,000	35,000	94,622	59,622
Transfers Out	(2,154,700)	(2,591,200)	(2,576,200)	15,000
Total Other Financing Sources (Uses)	<u>(2,119,700)</u>	<u>(2,556,200)</u>	<u>(2,481,578)</u>	<u>74,622</u>
Net Change in Fund Balances	<u>(4,389,100)</u>	<u>(4,524,108)</u>	<u>(50,961)</u>	<u>4,473,147</u>
Fund Balances - Beginning	<u>10,019,741</u>	<u>10,019,741</u>	<u>10,019,741</u>	
Fund Balances - Ending	<u>\$ 5,630,641</u>	<u>\$ 5,495,633</u>	<u>\$ 9,968,780</u>	<u>\$ 4,473,147</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PLANT CITY, FLORIDA

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
STORMWATER FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET-
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES				
Intergovernmental Revenues	\$ 1,479,000	\$ 1,744,000	\$ 1,849,757	\$ 105,757
Charges for Services	335,000	335,000	339,935	4,935
Interest Revenue	16,000	16,000	17,601	1,601
Other Revenue			1,128	1,128
Total Revenues	1,830,000	2,095,000	2,208,421	113,421
EXPENDITURES				
Current:				
Physical Environment	370,600	791,900	680,966	110,934
Transportation	2,440,800	1,887,800	1,796,983	90,817
Debt Service:				
Interest		900	63	837
Other Debt Service Costs		9,700	9,700	
Capital Outlay	140,700	150,190	148,728	1,462
Total Expenditures	2,952,100	2,840,490	2,636,440	204,050
Excess (Deficiency) of Revenues Over Expenditures	(1,122,100)	(745,490)	(428,019)	317,471
OTHER FINANCING SOURCES (USES)				
Debt Issued		500,450	509,313	8,863
Sale of Capital Assets			6,026	6,026
Transfers In	1,501,700	1,501,700	1,501,700	
Transfers Out	(688,000)	(1,630,800)	(1,628,426)	2,374
Total Other Financing Sources (Uses)	813,700	371,350	388,613	17,263
Net Change in Fund Balances	(308,400)	(374,140)	(39,406)	334,734
Fund Balances - Beginning	1,371,952	1,371,952	1,371,952	
Fund Balances - Ending	\$ 1,063,552	\$ 997,812	\$ 1,332,546	\$ 334,734

The notes to the financial statements are an integral part of this statement

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APPENDIX L

FINANCIAL INFORMATION REGARDING THE CITY OF SEMINOLE

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CITY OF SEMINOLE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues			
Taxes	\$5,463,493	\$5,210,651	\$4,980,990
Licenses and permits	298,514	275,279	294,162
Intergovernmental revenue	1,956,083	1,848,935	1,411,601
Charges for services	6,669,721	5,967,100	5,665,373
Fines and forfeitures	243,898	163,911	93,700
Miscellaneous revenues	<u>270,596</u>	<u>313,859</u>	<u>423,143</u>
Total Revenues	\$14,902,305	\$13,779,735	\$12,868,969
Expenditures			
Current			
General government	1,005,492	954,954	986,089
Public safety	8,484,029	7,799,607	7,194,323
Physical environment	604,259	342,132	780,962
Transportation	-	647,955	574,873
Public works	671,229	-	-
Culture and recreation	1,863,372	1,434,746	1,250,805
Capital Outlay	504,637	1,536,319	5,721,898
Debt Service			
Principal retirement	458,949	448,949	571,777
Interest and fiscal charges	283,387	303,226	323,876
Total Expenditures	<u>13,875,354</u>	<u>13,467,888</u>	<u>17,404,603</u>
Excess of Revenues Over (Under) Expenditures	<u>1,026,951</u>	<u>311,847</u>	<u>(4,535,634)</u>
Other Financing Sources (Uses)			
Sale of capital assets	1,975	5,604	161,960
Transfers in	2,324,199	730,814	2,759,051
Transfers out	<u>(2,324,199)</u>	<u>(730,814)</u>	<u>(2,759,051)</u>
Total other Financing Sources (Uses)	1,975	5,604	161,960
Net Change in Fund Balances	1,028,926	317,451	(4,373,674)
Fund Balances - Beginning of Year	<u>6,648,513</u>	<u>6,331,062</u>	<u>10,704,735</u>
Fund Balances - End of Year	<u>\$ 7,677,439</u>	<u>\$ 6,648,513</u>	<u>\$ 6,331,061</u>

Certain of the above revenues are not legally available to make the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Council,
and City Manager
City of Seminole, Florida

We have audited the accompanying basic financial statements of the City of Seminole, Florida (the City) as of and for the year ended September 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the City's 2002 financial statements and, in our report dated January 6, 2003, we expressed an unqualified opinion on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City as of September 30, 2003, and the results of its operations 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 a report dated November 26, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the budgetary information on pages 3 and 45, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements and other supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



Honorable Mayor, City Council,
And City Manager
City of Seminole, Florida

The information presented in the Statistical Section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such 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.

Wells, Kavanagh & Seitzel, P.A.

November 26, 2003

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CITY OF SEMINOLE, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2003

With Comparative Amounts for the Year Ended September 30, 2002

	Governmental Activities	
	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash, pooled cash, and cash equivalents	\$ 6,761,549	\$ 5,657,735
Investments	13,498	18,463
Receivables		
Accounts	9,288	6,358
Taxes	181,831	208,572
Due from other governments	1,165,907	1,210,024
Inventories - at cost	40,958	44,041
Prepaid items	146,799	143,463
Total current assets	<u>8,319,830</u>	<u>7,288,656</u>
NON-CURRENT ASSETS		
Land and improvements	8,872,368	8,872,368
Buildings	10,942,578	10,928,957
Improvements other than buildings	2,313,154	2,285,211
Equipment	4,489,027	4,517,067
Infrastructure	4,473,471	4,258,632
Construction in progress	113,800	-
Accumulated depreciation	(5,405,808)	(4,781,353)
Total non-current assets	<u>25,798,590</u>	<u>26,080,882</u>
TOTAL ASSETS	<u>\$ 34,118,420</u>	<u>\$ 33,369,538</u>

	Governmental Activities	
	2003	2002
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 118,560	\$ 320,294
Accrued liabilities	299,107	264,434
Retainage payable	-	39,850
Due to other governments	185,045	346
Deferred revenue	146,712	127,902
Current portion of		
Compensated absences	598,126	475,506
Promissory note payable	148,949	148,949
Revenue bonds payable	325,000	310,000
Total current liabilities	<u>1,821,499</u>	<u>1,687,281</u>
NONCURRENT LIABILITIES		
Compensated absences	103,350	114,560
Promissory note payable	211,010	359,959
Revenue bonds payable	4,725,000	5,050,000
Total non-current liabilities	<u>5,039,360</u>	<u>5,524,519</u>
TOTAL LIABILITIES	<u>6,860,859</u>	<u>7,211,800</u>
NET ASSETS		
Investment in capital assets, net of related debt	20,388,631	20,211,974
Restricted:		
Infrastructure	924,428	680,057
Training	36,674	36,674
Impact fees	412,970	318,466
Fire control		
Debt repayment	436,954	607,794
General		100,823
Building	50,000	50,000
Equipment	748,250	726,790
Donations	24,277	
Library	499	10,333
Unrestricted	<u>4,234,878</u>	<u>3,414,827</u>
TOTAL NET ASSETS	<u>27,257,561</u>	<u>26,157,738</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,118,420</u>	<u>\$ 33,369,538</u>

CITY OF SEMINOLE, FLORIDA

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2003

With Comparative Amounts for the Year Ended September 30, 2002

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 1,032,076	\$ 255,255	\$ -	\$ -
Law enforcement	960,695	214,720	3,228	
Fire	7,639,664	6,077,178	51,020	
Code enforcement	315,547	167,625		
Physical environment	779,270			
Public works	714,573	8,904		94,069
Library	1,059,298	15,838	215,309	280,000
Recreation	1,298,830	506,967	51,054	
TOTAL GOVERNMENTAL ACTIVITIES	13,799,953	7,246,487	320,611	374,069

General Revenues

Taxes:

Ad valorem

Franchise Fees

Utility taxes

Communication services tax

State revenue sharing

Half-cent sales tax

Infrastructure tax

Local option gas tax

Other taxes

Investment income

Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning of year

Net assets - end of year

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets -
Governmental Activities

2003	2002
\$ (776,821)	\$ (823,456)
(742,747)	(745,793)
(1,511,466)	(1,443,177)
(147,922)	(112,873)
(779,270)	(408,494)
(611,600)	(475,890)
(548,151)	(496,484)
(740,809)	(515,374)
<u>(5,858,786)</u>	<u>(5,021,541)</u>

2,149,240	2,018,518
969,650	916,022
851,412	829,321
683,411	662,373
290,812	250,969
896,302	837,810
809,780	784,417
86,477	85,260
21,238	20,695
83,516	104,216
116,771	164,788
<u>6,958,609</u>	<u>6,674,389</u>
1,099,823	1,652,848
26,157,738	24,504,890
<u>\$ 27,257,561</u>	<u>\$ 26,157,738</u>

CITY OF SEMINOLE, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2003

With Comparative Amounts for the Year Ended September 30, 2002

	2003				
	General	Transportation Impact Fee	Grants	Infrastructure Sales Surtax	Capital Improvement
ASSETS					
Cash, pooled cash, and cash equivalents	\$ 2,029,151	\$ 507,686	\$ 326,244	\$ 736,597	\$ 3,127,370
Investments					13,498
Receivables:					
Accounts	9,288				
Taxes	181,831				
Due from other governments	888,076		90,000	187,831	
Inventories - at cost	40,958				
Prepaid items	146,799				
TOTAL ASSETS	\$ 3,296,103	\$ 507,686	\$ 416,244	\$ 924,428	\$ 3,140,868
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 86,940	\$ -	\$ 10,500	\$ -	\$ 19,452
Accrued liabilities	190,129				
Retainage payable					
Due to other governments	329	94,716	90,000		
Deferred revenue	117,229		29,483		
TOTAL LIABILITIES	394,627	94,716	129,983	-	19,452
FUND BALANCES					
Fund balances					
Reserved for:					
Inventories	40,958				
Prepaid items	146,799				
Encumbrances			5,250		122,975
Infrastructure				924,428	
Training	36,674				
Impact fees		412,970			
Fire control					
Debt repayment	436,954				
General					
Building	50,000				
Fire equipment - County					748,250
Donations	24,277				
Library					
Unreserved:					
Designated - Capital projects	665,814				
Undesignated, reported in					
General fund	1,500,000				
Special revenue funds			281,011		
Capital projects fund					2,250,191
TOTAL FUND BALANCES	2,901,476	412,970	286,261	924,428	3,121,416
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,296,103	\$ 507,686	\$ 416,244	\$ 924,428	\$ 3,140,868

			2002		
Other	Total		Other	Total	
Governmental	Governmental		Governmental	Governmental	
Funds	Funds	Total	Funds	Funds	Total
\$ 34,501	\$ 6,761,549	\$ 5,657,735			
	13,498	18,463			
	9,288	6,358			
	181,831	208,572			
	1,165,907	1,210,024			
	40,958	44,041			
	146,799	143,463			
<u>\$ 34,501</u>	<u>\$ 8,319,830</u>	<u>\$ 7,288,656</u>			
\$ 1,668	\$ 118,560	\$ 320,294			
1,945	192,074	151,751			
	-	39,850			
	185,045	346			
	146,712	127,902			
<u>3,613</u>	<u>642,391</u>	<u>640,143</u>			
	40,958	44,041			
	146,799	143,463			
	128,225	91,497			
	924,428	680,057			
	36,674	36,674			
	412,970	316,709			
	436,954	607,794			
	-	100,823			
	50,000	50,000			
	748,250	726,790			
	24,277	-			
499	499	10,333			
	665,814	1,427,195			
	1,500,000	1,500,000			
30,389	311,400	333,943			
	2,250,191	579,194			
<u>30,888</u>	<u>7,677,439</u>	<u>6,648,513</u>			
<u>\$ 34,501</u>	<u>\$ 8,319,830</u>	<u>\$ 7,288,656</u>			

CITY OF SEMINOLE, FLORIDA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS

September 30, 2003

Fund Balances - total governmental funds \$ 7,677,439

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the governmental funds.

Governmental capital assets	\$ 31,204,398	
Less accumulated depreciation	<u>(5,405,808)</u>	25,798,590

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the governmental funds.

Accrued interest payable	(107,033)	
Compensated absences	(701,476)	
Promissory note payable	(359,959)	
Revenue bonds payable	<u>(5,050,000)</u>	<u>(6,218,468)</u>

Net assets of governmental activities. \$ 27,257,561

The notes to the financial statements are an integral part of this statement.

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CITY OF SEMINOLE, FLORIDA

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

For the Year Ended September 30, 2003
With Comparative Amounts for the Year Ended September 30, 2002

	2003				
	General	Transportation Impact Fee	Grants	Infrastructure Sales Surtax	Capital Improvement
REVENUES					
Taxes	\$ 4,653,713	\$ -	\$ -	\$ 809,780	\$ -
Licenses and permits	298,514				
Intergovernmental revenue	1,535,864	94,069	326,150		
Charges for services	6,669,721				
Fines and forfeitures	243,898				
Miscellaneous revenues	208,030	2,138		12,510	2,831
TOTAL REVENUES	13,609,740	96,207	326,150	822,290	2,831
EXPENDITURES					
Current					
General government	960,407	32			8,909
Public safety	8,211,457		45,868		224,341
Physical environment	604,207				52
Public works	629,372				41,857
Culture and recreation	1,539,716		280,000	6,372	19,045
Capital Outlay	180,535	1,671	15,750		306,681
Debt service					
Principal retirement	148,949			310,000	-
Interest and fiscal charges	21,840			261,547	
TOTAL EXPENDITURES	12,296,483	1,703	341,618	577,919	600,889
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,313,257	94,504	(15,468)	244,371	(598,058)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	1,975				
Transfers in					2,324,199
Transfers out	(2,324,199)				
TOTAL OTHER FINANCING SOURCES (USES)	(2,322,224)	-	-	-	2,324,199
NET CHANGE IN FUND BALANCES	(1,008,967)	94,504	(15,468)	244,371	1,726,145
FUND BALANCES - BEGINNING OF YEAR	3,910,443	318,466	301,729	680,057	1,395,271
FUND BALANCES - END OF YEAR	\$ 2,901,476	\$ 412,970	\$ 286,261	\$ 924,428	\$ 3,121,416

The notes to the financial statements are an integral part of this statement.

		2002	
Other Governmental Funds	Total Governmental Funds	Total	
\$ -	\$ 5,463,493	\$ 5,210,651	
	298,514	275,279	
	1,956,083	1,848,935	
	6,669,721	5,967,100	
	243,898	163,911	
45,087	270,596	313,859	
<u>45,087</u>	<u>14,902,305</u>	<u>13,779,735</u>	
36,144	1,005,492	954,954	
2,363	8,484,029	7,799,607	
	604,259	342,132	
	671,229	647,955	
18,239	1,863,372	1,434,746	
	504,637	1,536,319	
	458,949	448,949	
	283,387	303,226	
<u>56,746</u>	<u>13,875,354</u>	<u>13,467,888</u>	
<u>(11,659)</u>	<u>1,026,951</u>	<u>311,847</u>	
	1,975	5,604	
	2,324,199	730,814	
	(2,324,199)	(730,814)	
<u>-</u>	<u>1,975</u>	<u>5,604</u>	
<u>(11,659)</u>	<u>1,028,926</u>	<u>317,451</u>	
<u>42,547</u>	<u>6,648,513</u>	<u>6,331,062</u>	
<u>\$ 30,888</u>	<u>\$ 7,677,439</u>	<u>\$ 6,648,513</u>	

CITY OF SEMINOLE, FLORIDA

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

For the Year Ended September 30, 2003

Net change in fund balances - total governmental funds \$ 1,028,926

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	\$ 504,637	
Less current year depreciation	<u>(782,425)</u>	(277,788)

In the statement of activities, only the loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold.

(4,504)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

458,949

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest	5,650	
Change in compensated absences	<u>(111,410)</u>	<u>(105,760)</u>

Change in net assets of governmental activities.		<u>\$ 1,099,823</u>
--	--	---------------------

The notes to the financial statements are an integral part of this statement.

CITY OF SEMINOLE, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

September 30, 2003

With Comparative Amounts for the Year Ended September 30, 2002

	<u>Pension Trust Funds</u>	
	<u>2003</u>	<u>2002</u>
ASSETS		
Investments		
U.S. government securities	\$ 1,432,448	\$ 2,069,052
U.S. government agencies	1,811,224	1,197,796
Fixed income securities	1,439,324	1,111,307
Equity investments	11,269,100	8,509,019
Asset backed securities	903,606	1,466,657
Temporary investment funds	1,225,420	956,586
ICMA investment fund	520,076	319,413
Receivables		
Accounts	2,361	1,425
Accrued dividends and interest	78,391	74,394
Contributions	166,209	207,549
Prepaid items	4,331	8,043
TOTAL ASSETS	<u>18,852,490</u>	<u>15,921,241</u>
LIABILITIES		
Accounts payable	<u>96,910</u>	<u>23,185</u>
TOTAL LIABILITIES	<u>96,910</u>	<u>23,185</u>
NET ASSETS		
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 18,755,580</u>	<u>\$ 15,898,056</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SEMINOLE, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Year Ended September 30, 2003

With Comparative Amounts for the Year Ended September 30, 2002

	Pension Trust Funds	
	2003	2002
ADDITIONS		
Contributions:		
Employer	\$ 829,500	\$ 764,197
Employee	253,793	248,484
State	108,947	133,924
Total contributions	<u>1,192,240</u>	<u>1,146,605</u>
Investment earnings:		
Net increase (decrease) in fair value of investments	1,913,873	(1,576,464)
Interest and dividends	475,739	505,531
Total investment earnings	<u>2,389,612</u>	<u>(1,070,933)</u>
Less investment expense	95,768	107,247
Net investment earnings	<u>2,293,844</u>	<u>(1,178,180)</u>
TOTAL ADDITIONS	<u>3,486,084</u>	<u>(31,575)</u>
DEDUCTIONS		
Benefits	555,861	531,677
Refunds of contributions	45,168	-
Administrative expenses	27,531	18,087
TOTAL DEDUCTIONS	<u>628,560</u>	<u>549,764</u>
CHANGE IN NET ASSETS	2,857,524	(581,339)
NET ASSETS - BEGINNING OF YEAR	<u>15,898,056</u>	<u>16,479,395</u>
NET ASSETS - END OF YEAR	<u>\$ 18,755,580</u>	<u>\$ 15,898,056</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Seminole (City) maintains its accounting records in accordance with generally accepted accounting principles (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 City's accounting policies are described below.

The City is a political subdivision of the State of Florida, located in Pinellas County in the southwest portion of the State. The City incorporated on January 4, 1972 under the provisions of the Laws of Florida, Chapter 165.04 under a mayor-council structure. On September 8, 1994, the Charter was amended to provide for the appointment of a City Manager, among other items. The City is approximately 5.3 square miles in area. The City provides its citizens with a full complement of municipal services. These services include public safety (police and fire), construction and maintenance of street and sidewalks, stormwater management, recreation, public improvements, planning and zoning and general administrative services.

1. Defining the Financial Reporting Entity: In accordance with Governmental Accounting Standards Board Statement Number 14, the financial reporting entity includes the primary government, organizations for which the primary government is financially accountable and other organizations for which, if excluded, would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority to an organization's board and either the ability to impose its will on that organization or the possibility that the organization will impose or provide a financial burden or benefit to the primary government. The City has no such applicable organizations that meet these requirements; therefore, the accompanying financial statements include only information relative to the primary government.

2. Governmental Accounting Standards Board Statement 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments": The City has implemented the provisions of Statement Number 34 which establishes new financial reporting requirements for state and local governments. The Statement establishes specific standards for the basic financial statements, management's discussion and analysis (MD&A), and certain required supplementary information.

The basic financial statements include both government-wide and fund financial statements. The government-wide statements are presented using a full accrual, economic resource basis, which incorporates long-term assets and receivables and long-term liabilities. Governmental activities include the General Fund, Special Revenue Fund, and Capital Projects Fund. The City's Fiduciary Fund is not included in the government-wide statements since by definition these assets are being held for the benefit of a third-party and cannot be used to address activities or obligations of the government.

The government-wide Statement of Activities reports the gross and net cost for the various functional categories of the City that are otherwise supported by general government revenues. The expenses for each functional category are reduced by program revenues to ascertain the net costs for that function. Program revenues are defined as charges for services, operating grants, and capital grants that specifically relate to a specific program function. Charges for services include revenues arising from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Operating grants and capital grants consist of revenues received from other governments, organizations, or individuals that are specifically attributable to a program and are restricted for either operating expenditures/expenses or capital expenditures/expenses associated with a specific program.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The fund financial statements are very similar to the financial statements presented in the previous model. The emphasis in the new model is on major funds and non-major funds are summarized into a single column.

3. Measurement Focus: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund statements are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The measurement focus is the determination of financial position and sources and uses of resources, rather than net income determination.

The fiduciary fund statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements of these funds present increases (e.g. additions) and decreases (e.g. deductions) in net assets.

4. Fund Accounting: The City organizes its accounting system on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. The various funds are grouped in the financial statements as follows:

Governmental Fund Types:

General Fund: This fund type is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund.

Special Revenue Funds: This fund type is used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes.

Major Funds:

Transportation Impact Fee Fund – This fund accounts for the proceeds of transportation impact fees that are restricted for capital outlays associated with roads and streets.

Grant Fund – This fund accounts for the proceeds of grants that have restrictions placed on their use.

Infrastructure Sales Surtax Fund – This fund accounts for the proceeds of the infrastructure sales surtax which is restricted for fixed capital outlays associated with the construction, reconstruction, or improvement of public facilities that have a life expectancy of five or more years or emergency vehicles for the fire department.

Capital Projects Fund: This fund type includes the Capital Improvement Fund which accounts for financial resources earmarked or segregated for the acquisition and construction of capital assets.

Fiduciary Fund Types:

Trust Funds: This fund type accounts for the activities of the pension funds, which accumulate resources for pension benefit payments to qualified employees.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements and the fiduciary fund financial statement are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available (susceptible to accrual). Revenues are generally considered available when they are received in cash (unless legally restricted to some future period) or when earned and expected to be collected soon enough after year-end to pay liabilities of the current period. Revenues that are susceptible to accrual include franchise fees, sales tax, local option gas tax, interest revenue, state revenue sharing entitlements, and intergovernmental grants. Expenditures are recorded at the time the related fund liabilities are incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Under the accrual basis of accounting, revenues are recognized in the period when earned and expenses are recognized in the period when incurred.

6. Budgets and Budgetary Accounting: The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. On or before June 1 of each year, the department heads submit requests for appropriations to the City Manager so that a budget may be prepared. The budget is prepared by fund, function and activity (departments), and includes information for the prior fiscal year, current year estimates, and requested appropriations for the next fiscal year.
- b. The City Manager presents the proposed budget to the City Council by July 1. The budget contains proposed expenditures and the means to finance them, including a proposed property tax millage. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager and the department heads, or the revenue estimates may be changed by an affirmative vote of a majority of the City Council.
- c. Public hearings are conducted to obtain taxpayer comments on the proposed budget and property tax millage rate.
- d. The budget and property tax millage is approved by the City Council in September.
- e. An annual budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.
- f. Expenditures may not exceed legal appropriations at the department level. The City Manager is authorized to transfer budget amounts within departments; however, any revision that alters the total expenditures of any department must be approved by the City Council. Appropriations lapse at year-end. All budget amounts presented in the accompanying financial statements have been adjusted for revisions as approved by the City Council during the year. General Fund appropriations were increased \$2,011,941 as a result of these approved revisions.
- g. For the year ended September 30, 2003, expenditures exceeded appropriations in the legal, facilities, and fire control departments of the general fund by \$7,280, \$1,066, and \$38,367, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Property Taxes: Under Florida Law, the assessment of all properties and the collection of all City property taxes are consolidated in the offices of the Pinellas County Property Appraiser and Pinellas County Tax Collector. The laws of the State regulating tax assessments are also designed to assure a consistent property valuation method statewide. Florida Statutes permit municipalities to levy property taxes at a rate up to 10 mills. The millage rate in effect for the fiscal year ended September 30, 2003 was 2.9396.

The tax levy of the City is established by the City Council prior to October 1 of each year. The Pinellas County Property Appraiser incorporates the City millage into the total tax levy, which includes the tax requirements of the county, municipalities, independent districts, and the Pinellas County School Board.

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

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

Delinquent taxes on real property bear interest at 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on property. Tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. The certificate holder may make application for a tax deed on any unredeemed tax certificates after a period of two years.

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

Because of the Pinellas County Tax Collector's efficient system for selling tax certificates and remitting the proceeds to the City, any delinquent or uncollected property taxes at year-end are immaterial. The City's tax calendar is as follows:

Valuation Date:	January 1
Levy Date:	November 1
Due Date:	March 31, succeeding year
Lien Date:	April 1, succeeding year

8. Assets, Liabilities, and Fund Equity:

Cash, Pooled Cash, Cash Equivalents, and Investments: The City utilizes a consolidated cash pool to account for cash and cash equivalents of all City funds. The consolidated cash pool concept allows each participating fund to benefit from the economies of scale and improved yield that are inherent to a larger pool. Formal accounting records detail the individual equities of the participating funds.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City's investment policy is to maintain funds in investments that yield the highest possible efficiency and return within the limitations established by the Florida Statutes. F.S. 218.415(17) authorizes the City to invest in the Local Government Surplus Funds Trust Fund, SEC registered money market funds with the highest credit quality rating, interest-bearing time deposits or saving accounts in qualified public depositories, direct obligations of the United States Treasury, and federal agencies and their instrumentalities.

The City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The majority of the City's pooled investments have the general characteristics of demand deposits, in that additional funds may be deposited at any time and funds may be withdrawn at any time without prior notice or penalty. Therefore, all of the pooled investments regardless of their maturities are considered cash equivalents.

The Florida State Board of Administration Local Government Surplus Funds Trust Fund is treated as a "2a-7 like" investment pool in accordance with GASB Statement Number 31 and is valued using the pooled share price, which approximates fair value.

Investments are reported at fair value. Investments in common stocks and bonds traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. Investments in mutual fund type securities are valued at the net asset value of the fund based on the underlying assets held in the fund. The fair value of an investment is the amount at which an investment could be exchanged in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale.

Inventories: Inventories are valued at average cost. Inventories in the governmental funds are accounted for by the consumption method, wherein inventories are charged as expenditures when used.

Prepaid Items: Payments made to vendors for services that will benefit periods beyond September 30, 2003 are recorded as prepaid items.

Capital Assets: Capital assets acquired or constructed in excess of \$5,000 are capitalized at historical cost. Donated assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that extend the useful life of an asset are capitalized. Other costs incurred for repair and maintenance are expensed as incurred. Depreciation is provided using the straight-line method. The estimated useful lives of the various classes of depreciable assets is as follows:

Buildings	50 years
Improvements other than buildings	10-30 years
Equipment	3-15 years
Infrastructure	15-50 years

Interest cost is not capitalized on assets in the governmental funds.

Compensated Absences: Employees earn vacation and sick leave beginning with their first pay period.

Vacation Leave: Annual vacation accrues according to the number of regularly scheduled hours an employee works and the employee's length of service. The vacation accrual for part-time employees is calculated on a pro-rated basis. It is the intent of the City that employees will use their vacation leave during the year following the year in which it is earned. If vacation time is not used in the subsequent year,

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

it is forfeited, unless a specific waiver is obtained from the City Manager. At termination employees are paid for any accumulated vacation leave that is available at that time.

Sick Leave: It is the City's policy that all full-time (forty hour per week) employees earn eight (8) hours of sick leave for each full month of employment and all full-time (fifty-six hour per week) employees earn twelve (12) hours of sick leave for each full month of employment. Sick leave may be accumulated up to a maximum of nine hundred-sixty hours for all forty hour per week employees and one thousand four hundred forty hours for all fifty-six hour per week employees. Employees who have completed ten years of service with the City and are in good standing upon separation are entitled to receive ten percent (10%) of accumulated sick leave. Employees who have reached normal retirement age who will retire from their position and are in good standing are entitled to receive thirty percent (30%) of accumulated sick leave.

All compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Net Assets: The government-wide financial statements utilize a net asset presentation. Net assets are presented in three components – invested in capital assets (net of related debt), restricted, and unrestricted.

- **Invested in Capital Assets (net of related debt)** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets. This component does not include the portion of debt attributable to the unspent proceeds.
- **Restricted** – This component consists of net assets that have constraints placed on them either externally by third-parties (creditors, grantors, and contributors) or by law through constitutional provisions of enabling legislation. The City would typically use restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use of these funds.
- **Unrestricted** – This component consists of net assets that do not meet the definition of “invested in capital assets, net of related debt” and “restricted”. Designations of net assets made by the City's management are included in this component because these types of constraints are internal and management can remove or modify them.

Reserves and Designations: 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 for future use of financial resources.

Encumbrances: Encumbrances represent contractual commitments in the form of purchase orders and contracts relating to the governmental funds. Such encumbrances are not recorded as expenditures, but rather as reservations of fund balance for subsequent years' appropriation.

9. Interfund Transactions: Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. 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.

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Estimates: The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

11. Comparative data/reclassifications: The financial statements include summarized prior year comparative information that does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended September 30, 2002, from which such summarized information was derived. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

12. Change in Accounting Method: For the fiscal year ending September 30, 2003, the Transportation Impact Fee Fund and Grants Fund met the criteria established for major fund reporting requirements under Governmental Accounting Standards Board Statement 34. As a result, beginning fund balance for the nonmajor funds has been restated.

	Other Governmental Funds
Beginning Fund Balance -- Nonmajor Funds, September 30, 2002	\$ 662,742
Less Beginning Fund Balance of:	
Transportation Impact Fee Fund	318,466
Grants Fund	301,729
	<hr/>
Beginning Fund Balance -- Nonmajor Funds, October 1, 2002	\$ 42,547
	<hr/>

NOTE B - CASH, POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, Pooled Cash, and Cash Equivalents: Florida Statutes require qualified public depositories of public funds to deposit eligible collateral equal to or in excess of the required collateral as determined by the provisions of the State of Florida's Security for Public Deposits Act. All of the City's pooled cash funds are deposited in qualified public depositories, and are considered insured for risk categorization.

The Local Government Surplus Funds Trust Fund (Fund) is an investment pool administered by the Florida State Board of Administration which is a three member board made up of the State elected officials of Governor, Treasurer and Comptroller. This Board is empowered by Florida law to invest funds at the request of local governments. Investments held in the Fund consist of short-term federal agency obligations, treasury bills, repurchase agreements, floating/variable rate notes, commercial paper, and certificates of deposit. Investment income is recognized as earned and is allocated to participants of the Fund based on their equity participation.

As of September 30, 2003, the Local Government Surplus Funds Trust Fund contained certain floating rate and adjustable rate securities, which could be classified as "derivative" investments. Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate or index. Floating rate and adjustable rate securities are debt instruments with variable interest rates generally tied to prevailing short-term interest rates. These instruments are used as part of the investment strategy to hedge against interest rate risk and provide diversification to the portfolio.

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE B - CASH, POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

The City's cash, pooled cash, cash equivalents, and investments are categorized by type to give an indication of the level of credit risk assumed by the City at year-end.

Cash, Pooled Cash and Cash Equivalents:

Category 1 – Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uncollateralized, including balances that are collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

Investments:

Category A – Insured or registered, or securities held by the City or its agent in the City's name.

Category B – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category C – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Uncategorized – Investments in external investment pools and in open-end mutual funds are not categorized by investment risk, as these investments are not evidenced by securities that exist in physical or book entry form.

A schedule of cash, pooled cash, cash equivalents, and investments as of September 30, 2003, is summarized below:

<u>Cash, Pooled Cash and Cash Equivalents</u>	<u>Category</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Petty Cash	Uncategorized	\$ 965	\$ -
Demand Deposits			
Infrastructure Checking Account	1	1,269,267	1,269,267
Pooled Cash Checking Account	1	1,298,019	1,958,237
Florida State Board of Administration			
Local Government Pooled Investment Fund	Uncategorized	4,193,298	-
Total Cash, Pooled Cash, and Cash Equivalents		\$ 6,761,549	\$ 3,221,983

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE B - CASH, POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

<u>Investments</u>	<u>Category</u>	<u>Fair Value</u>
Investments held in trust for Revenue Bonds, Series 1999B:		
Money market funds	C	\$ 13,498
Firefighters' Pension Fund:		
U.S. Government Securities	C	\$ 1,432,448
U.S. Government Agencies	C	1,811,224
Fixed Income Securities	C	1,439,324
Equity Investments	C	11,269,100
Asset Backed Securities	C	903,606
Temporary Investment Funds	Uncategorized	1,225,420
Employees' Pension Fund:		
ICMA Investment Fund	Uncategorized	520,076
		<u>\$ 18,601,198</u>

NOTE C - CAPITAL ASSETS

Capital asset activity for the fiscal year ending September 30, 2003 was as follows:

	<u>Balance 10/1/02</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Balance 9/30/03</u>
Non-Depreciable assets				
Land and improvements	\$ 3,900,921	\$ -	\$ -	\$ 3,900,921
Land improvements - roadway base	4,971,447			4,971,447
Depreciable assets				
Buildings	10,928,957	13,621		10,942,578
Improvements other than buildings	2,285,211	27,943		2,313,154
Equipment	4,517,067	134,434	162,474	4,489,027
Infrastructure	4,258,632	214,839		4,473,471
Construction in progress	-	113,800		113,800
Total at historical cost	<u>30,862,235</u>	<u>504,637</u>	<u>162,474</u>	<u>31,204,398</u>
Less accumulated depreciation for:				
Buildings	1,172,696	219,322		1,392,018
Improvements other than buildings	180,755	101,451		282,206
Equipment	1,685,824	344,695	157,970	1,872,549
Infrastructure	1,742,078	116,957		1,859,035
Total accumulated depreciation	<u>4,781,353</u>	<u>782,425</u>	<u>157,970</u>	<u>5,405,808</u>
Capital assets, net	<u>\$ 26,080,882</u>	<u>\$ (277,788)</u>	<u>\$ 4,504</u>	<u>\$ 25,798,590</u>

The City has determined that the cost of land improvements – roadway base represents an inexhaustible asset and therefore these costs are not being depreciated. The cost of land improvement – roadway base includes site preparation, excavating, fill dirt, and compaction.

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE C - CAPITAL ASSETS (continued)

Depreciation was charged to the governmental activities as follows:

General government	\$ 30,296
Fire	326,966
Physical environment	170,286
Public works	35,430
Library	41,891
Recreation	177,556
	<hr/>
	\$ 782,425

NOTE D - LONG-TERM DEBT

Long-term debt activity for the fiscal year ending September 30, 2003 was as follows:

	Balance 10/1/02	Additions	Reductions	Balance 9/30/03	Amounts Due Within One Year
Promissory note payable	\$ 508,908	\$	\$ 148,949	\$ 359,959	\$ 148,949
Revenue bonds payable	5,360,000		310,000	5,050,000	325,000
Compensated absences	590,066	598,126	486,716	701,476	598,126
	<hr/>		<hr/>	<hr/>	<hr/>
Totals	\$ 6,458,974	\$ 598,126	\$ 945,665	\$ 6,111,435	\$ 1,072,075

The compensated absences liability at September 30, 2003 will be liquidated by the general fund.

Long-term debt is comprised of the following at September 30, 2003:

Promissory Note, Series 1996A, in the amount of \$1,489,486 was issued to refinance a fire department loan and the Series 1992 Note. Variable interest on the promissory note is set at 8.59% (the bank's prime rate). The City, simultaneously with issuing these notes, entered an interest rate swap agreement with the lender. The swap was locked in at fifty-seven percent of the lender's prime rate at February 14, 1996, (the date that the notes were issued) which resulted in a fixed effective rate of 4.90%. Principal and interest on the note is payable monthly and secured by revenue from the fire protection services contract, infrastructure sales surtax, and other non-ad valorem revenues.

\$ 359,959

Revenue Bonds, Series 1999B, in the amount of \$5,945,000 was acquired to finance the cost of improvements to the Seminole Recreation Facility. Interest rates range from 3.85% to 5.75% and is payable semiannually on November 1 and May 1. The payment of principal and interest on the bonds is secured by revenue from other non-ad valorem revenue.

5,050,000

Compensated absences, consisting of the vested portion of accumulated vacation and sick pay benefits due employees.

701,476

Total long-term debt

\$ 6,111,435

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE D - LONG-TERM DEBT (continued)

The annual requirements to amortize the long-term debt as of September 30, 2003 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Promissory Note, Series 1996A</u>			
2004	\$ 148,949	\$ 14,522	\$ 163,471
2005	148,949	7,082	156,031
2006	62,061	773	62,834
	<u>\$ 359,959</u>	<u>\$ 22,377</u>	<u>\$ 382,336</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Revenue Bond, Series 1999B</u>			
2004	\$ 325,000	\$ 255,115	\$ 580,115
2005	335,000	241,140	576,140
2006	350,000	226,400	576,400
2007	370,000	210,650	580,650
2008	385,000	193,630	578,630
2009-2013	2,225,000	668,730	2,893,730
2014-2015	1,060,000	92,287	1,152,287
	<u>\$ 5,050,000</u>	<u>\$ 1,887,952</u>	<u>\$ 6,937,952</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Total Annual Requirements</u>			
<u>Excluding Compensated Absences</u>			
2004	\$ 473,949	\$ 269,637	\$ 743,586
2005	483,949	248,222	732,171
2006	412,061	227,173	639,234
2007	370,000	210,650	580,650
2008	385,000	193,630	578,630
2009-2013	2,225,000	668,730	2,893,730
2014-2015	1,060,000	92,287	1,152,287
	<u>\$ 5,409,959</u>	<u>\$ 1,910,329</u>	<u>\$ 7,320,288</u>

Interest expense for the promissory note in the amount of \$21,536 is reported in the Statement of Activities as a direct expense of the fire function. Interest expense for the Revenue Bonds in the amount of \$256,201 is reported in the Statement of Activities as a direct expense of the recreation function. Total interest expense for the fiscal year ending September 30, 2003 was \$277,737.

Restrictions:

The Revenue Bonds, Series 1999B have a debt service reserve requirement equal to 5% of the par amount of the issue. This requirement has been satisfied by a surety policy issued by Florida Municipal Insurance Trust, a division of the Florida League of Cities, Inc.

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE D - LONG-TERM DEBT (continued)

The Revenue Bonds, Series 1999B maturing on or prior to November 1, 2009, are not subject to optional redemption prior to maturity. The bonds maturing after November 1, 2009 are subject to payment redemption at the option of the City on or after November 1, 2009, as a whole at any time, or in part on any interest date, during the following periods and at the following redemption prices plus accrued interest to the redemption date:

November 1, 2009 to October 31, 2010	101%
November 1, 2010 and thereafter	100%

NOTE E - RETIREMENT PLANS

The City maintains a single employer, defined benefit pension plan (Firefighters' Pension Plan) which covers all of its firefighters as well as a defined contribution 401 (a) plan which covers the City's general employees hired on or after January 1, 1996. General employees hired prior to January 1, 1996 participate in the Florida Retirement System (System), a cost-sharing multiple-employer public employee retirement system (PERS).

Florida Retirement System

Plan Description. The City of Seminole contributes to the Florida Retirement System (FRS), a cost-sharing multiple-employer PERS defined benefit pension plan controlled by the State Legislature and administered by the Florida Department of Management Services, Division of Retirement. The System provides retirement and disability benefits, annual cost-of-living adjustments, a health insurance subsidy, and survivor benefits to plan members and beneficiaries. Chapter 121 of the Florida Statutes assigns the authority to establish and amend benefit provisions to the State of Florida Department of Management Services. The Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The report may be obtained by writing to the Department of Management Services, Division of Retirement, Research, Education & Policy Section, Cedars Executive Center, Building C, 2639 North Monroe Street, Tallahassee, Florida 32399-1560 or by calling (850) 488-5706.

Funding Policy. The FRS does not require contributions from covered members. The City is required by State Statute to contribute, on a monthly basis, an actuarially determined rate. The current rates, based upon employees' gross earnings are 7.39% for regular employees and 15.23% for elected city officers. The City's contributions to the FRS for the fiscal years ending September 30, 2003, 2002, and 2001 were approximately \$38,530, \$40,916, and \$54,312, respectively, equal to the required contributions for each year.

Deferred Retirement Option Program. The FRS Deferred Retirement Option Program (DROP) is available to a member when the member first reaches eligibility for normal retirement. DROP allows a member to retire while continuing employment up to 60 months. During DROP participation, the member's retirement benefits (increased by a cost-of-living adjustment each July) accumulate in the FRS Trust Fund and earn monthly interest equivalent to an annual rate of 6.5%. The member must cease employment after a maximum of 60 months, must satisfy the termination requirements for retirement, and is subject to reemployment restrictions thereafter. The member's DROP accumulation may be paid out as a lump sum payment, a rollover, or a combination partial lump sum payment and rollover. The current rates, based upon employees' gross earnings are 9.11%.

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE E - RETIREMENT PLANS (continued)

Firefighters' Pension Fund

Plan Description. The City contributes to a single-employer defined benefit pension plan that covers all firefighters'. Firefighters who retire at age 55 and the completion of ten years of credited service or at age 52 and the completion of twenty-five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to three percent of their average annual compensation times their years of credited service. The Plan permits early retirement at age 50 and the completion of ten years of credited service. Benefits vest upon completing ten years of credited service. Cost of living adjustments are not provided.

The Plan also provides death and disability benefits. The death benefit is the greater of the firefighter's accumulated contributions or his accrued benefit. Disability payments will be equal to three percent of the firefighter's average annual compensation times his years of credited service plus forty-two percent of his last two years' average monthly salary but shall not be more than seventy-five percent of his average monthly compensation of his early retirement date.

Basis of Accounting. The plans' financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Expenses are recognized when due and payable in accordance with the terms of the plan. The plan does not issue stand-alone financial reports.

Funding Policy. Firefighters contribution rates are established at seven percent of salary. Accumulated firefighter contributions are refunded if a firefighter leaves covered employment before completing ten years of credited service. Interest is not paid on contributions of terminated firefighters. Excise tax payments are also received from the State of Florida under Florida Statutes, Chapter 175. The City's contributions are made in amounts sufficient to fund the plan at an actuarially determined rate. The Plan's administrative costs are financed through investment earnings.

The annual required contribution for the current year was determined as part of the September 30, 2002 (most recent) actuarial valuation using the frozen entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% reinvestment rate of return (net of administrative expenses) and (b) projected salary increases of 6.5% per year. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments adjusted for a surplus contribution account.

Membership in the plan consisted of the following at the October 1, 2002 actuarial date:

<u>Group</u>	
Retirees and beneficiaries currently receiving benefits	24
Terminated plan members entitled to but not yet receiving benefits	10
Active plan members:	<u>79</u>
Total	<u>113</u>

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE E - RETIREMENT PLANS (continued)

Three-year trend information as of the October 1, 2002 actuarial date was as follows:

Fiscal Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
9/30/00	\$ 665,236	100.0%	-
9/30/01	633,632	100.0%	-
9/30/02	720,176	100.0%	-

Employees' Pension Fund

Plan Description. The City, in accordance with Florida Statute 121, elected to opt out of the Florida Retirement System for newly hired employees effective January 1, 1996, and subsequently established a non-contributory defined contribution 401(a) plan administered by the ICMA Retirement Corporation under their prototype Profit-Sharing Plan and Trust Agreement. All new full time employees, except firefighters who are covered by a separate plan, are eligible to participate in the plan after one year of employment. Employees are fully vested after five years of service. Plan provisions and contribution requirements are established and may be amended by the City Council.

Funding Policy. The plan does not require contributions from members. The City contributes 10% of the annual compensation for general employees and 16% for executive employees. For fiscal years ending September 30, 2003, 2002, and 2001 the City contributed approximately \$142,551, \$108,696, and \$92,786, respectively, to the plan. Contributions made by the City were equal to the required contributions.

Any portion of the unvested City contributions for employees who leave employment before five years of service are used to reduce the City's current period contribution requirement.

NOTE F - POST EMPLOYMENT BENEFITS

The City does not provide post employment benefits for firefighters or general employees other than pension benefits. Post employment health care benefits are made available to the City's terminated employees in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Under COBRA, the City is required to offer an election to deceased or terminated participants, their spouses or dependents, to continue coverage in the health plan provided by the City. The cost of coverage that the City may charge the participant may not exceed 102% of the applicable premium.

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE G - FIRE PROTECTION FEES

Fire protection fee revenue for the year ended September 30, 2003 was as follows:

Fire protection fee – County	\$ 4,022,700
Fire equipment – County	178,268
Fire protection fee – Bay Pines	176,760
Fire protection fee – Redington Shores	70,666
Fire protection fee – North Redington Beach	52,982
Fire protection fee – Redington Beach	38,800
Fire protection fee – Parsley	7,933
Emergency service fee – County	<u>1,402,518</u>
	<u>\$ 5,950,627</u>

NOTE H – INTERFUND TRANSFERS

	<u>Transfer in</u>	<u>Transfer out</u>
General Fund	\$ -	\$ 2,324,199
Capital Improvement Fund	2,324,199	
	<u>\$ 2,324,199</u>	<u>\$ 2,324,199</u>

The net transfer from the General Fund to the Capital Improvement Fund in the amount of \$2,324,199 was for the acquisition and construction of capital assets.

NOTE I - RISK MANAGEMENT

The City is subject to losses in the normal course of operations resulting from general liability; property and casualty; workers' compensation; employee health and accident, environmental and antitrust matters. In an effort to reduce the rising costs of commercial insurance, the City purchases all of its insurance coverages, except for health coverage, from the Florida Municipal Insurance Trust (FMIT), which is serviced by the Florida League of Cities, Inc. The City does not retain any risk of loss as a member of the FMIT program.

The FMIT is a public entity risk pool currently operating as a common risk management and insurance program for local municipalities. The City pays an annual premium for property, liability, and workers' compensation based on members' experience. The City continues to carry commercial insurance for all other risks of loss including health and employee accident insurance.

During the fiscal year ended September 30, 2003, the City had no significant reductions of insurance coverage from the prior year. In addition, there have been no settlements that have exceeded the City's insurance coverage in any of the past three fiscal years.

NOTE J - COMMITMENTS

Grants: Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Florida. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the 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.

CITY OF SEMINOLE

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

NOTE J – COMMITMENTS (continued)

Law Enforcement: The City annually contracts with the Sheriff of Pinellas County, Florida for law enforcement services. The cost of this contract for services for the fiscal year ended September 30, 2003 was \$956,566.

Recycling: The City has contracted with Waste Management of Pinellas County, Inc. for curbside recycling. Curbside recycling expenditures for the year ended September 30, 2003 were \$92,109.

Fire Control: The City provides fire protection and EMS services to unincorporated areas of Pinellas County, Florida known as the Seminole Fire District under contracts expiring September 30, 2009 and 2007 respectively. Proceeds from these contracts for the fiscal year ended September 30, 2003 were \$5,421,618. Expenditures are subject to review for compliance. At September 30, 2003, the City recorded a receivable from the County in the amount of \$748,250 for future capital outlays of fire protection equipment.

Construction: The City has contracted for final design and contract documents for the City Hall conversion project in the amount of \$122,775.

NOTE K - DEFERRED COMPENSATION PLAN

The City maintains a deferred compensation plan (plan) under the provisions of Section 457 of the Internal Revenue Code, as amended. This law stipulates that all assets and income of the plan must be held in trust for the exclusive benefit of the Plan participants and their beneficiaries. The City's plan is administered by the International City Management Association Retirement Corporation and Nationwide Retirement Solutions and provides the plan participants with the option to invest in over twenty different registered investment funds (mutual funds). Although the City is the Trustee of the plan, the City has no administrative involvement and performs no investing function for the plan and has not, therefore, included the plan in this financial report.

NOTE L – JOINT USE LIBRARY

In May 2000, the City contracted with St. Petersburg Junior College to develop, maintain, and operate a community library. The library serves as a multipurpose building for College and community use, including library program rooms, conference rooms, study rooms, offices, classrooms, computer lab rooms, a food service area, exhibition space, and College library instruction. The library was built and is owned by the College. The College is responsible for maintaining and repairing the facility, utilities, custodial services, security services, and all capital maintenance. The City is responsible for managing the daily operations of the library including the staffing of the library for a minimum of 62 hours per week with eight full-time and fifteen part-time employees. Additional staff positions or operating hours in excess of 62 hours per week are reimbursed by the College. In addition, the City is responsible for maintaining the collection.

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