

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.

**\$22,365,000
FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BONDS,
SERIES 2006**

Dated: Date of Delivery

Due: October 1, as shown on the inside cover

The Revenue Bonds, Series 2006 (the "Bonds") are being issued by the Florida Municipal Loan Council (the "Issuer"). The Issuer is a separate legal entity created pursuant to an Interlocal Agreement entered into initially by and among the City of Stuart, the City of Deland and the City of Rockledge, each of which is a Florida municipality.

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

Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing April 1, 2007. The principal of, premium, if any, and interest on the Bonds will be paid through the Trustee described herein. So long as DTC or its nominee, Cede & Co., is the registered owner, such payments will be made directly to Cede & Co. Disbursement of such payments to the DTC Participants (as defined herein) is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants (as defined herein), as more fully described herein.

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

The proceeds to be received by the Issuer from the sale of the Bonds will be used by the Issuer to make loans (the "Loans") to five State of Florida municipalities (City of Belle Isle, City of Deerfield Beach, City of South Miami, City of St. Pete Beach and City of Valparaiso) and one State of Florida County (Gadsden County) (collectively referred to as the "Borrowers") pursuant to loan agreements between the Issuer and each of the Borrowers (the "Loan Agreements") for the purposes of (i) providing funds to finance and refinance various governmental undertakings of the Borrowers and (ii) paying costs and expenses related to the issuance of the Bonds, including the premiums for the municipal bond insurance policy and debt service reserve fund surety bond.

Payments made by the Borrowers in repayment of the loans (the "Loan Repayments") will be assigned by the Issuer to the Trustee described herein, pursuant to a Trust Indenture, dated as of December 1, 2006 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, White & Kraker, 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 January 9, 2007.

Banc of America Securities LLC

AMOUNTS, MATURITIES, INTEREST RATES AND PRICES

\$17,855,000 Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>
2007	\$ 395,000	4.000%	100.308%
2008	780,000	4.000	100.693
2009	810,000	4.000	101.000
2010	845,000	4.000	101.309
2011	875,000	4.000	101.546
2012	920,000	4.000	101.634
2013	960,000	4.000	101.588
2014	995,000	5.000	108.034
2015	1,045,000	5.000	108.373
2016	1,100,000	5.000	108.828
2017	1,155,000	5.000	108.575
2018	1,210,000	5.000	108.238
2019	830,000	4.000	98.232
2020	865,000	4.125	98.807
2021	905,000	4.125	98.206
2022	940,000	4.125	97.897
2023	760,000	4.125	97.572
2024	785,000	4.125	96.993
2025	820,000	4.125	96.634
2026	860,000	4.125	96.265

\$2,990,000 4.500% Term Bonds Due October 1, 2031 - Price 99.403%

\$1,520,000 4.500% Term Bonds Due October 1, 2036 - Price 98.861%

Florida Municipal Loan Council

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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.

TABLE OF CONTENTS

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

	<u>Page</u>
INTRODUCTION.....	1
THE BONDS.....	3
General Description.....	3
Redemption Provisions.....	3
Book-Entry Only System.....	5
THE TRUSTEE.....	8
THE ISSUER.....	8
THE ADMINISTRATOR AND THE ADMINISTRATION AGREEMENT.....	9
The Administrator.....	9
The Administration Agreement.....	10
THE BORROWERS.....	10
PURPOSE OF THE BONDS.....	11
In General.....	11
Estimated Sources and Uses.....	12
SECURITY AND SOURCES OF PAYMENT.....	12
Limited Obligations; Trust Estate.....	12
Reserve Fund.....	13
Anti-Dilution Covenant.....	14
Additional Bonds; Permitted Parity Indebtedness.....	15
The Covenants to Budget and Appropriate.....	15
Deerfield Beach Loan.....	16
Financial Statements of the Borrowers.....	16
FINANCIAL GUARANTY INSURANCE.....	16
General.....	16
Financial Guaranty Insurance.....	16
MBIA Insurance Corporation.....	17
Regulation.....	18
Financial Strength Ratings of MBIA.....	18
MBIA Financial Information.....	18
Incorporation of Certain Documents by Reference.....	19
DEBT SERVICE REQUIREMENTS.....	20
TAX MATTERS.....	22
General.....	22
Tax Treatment of Bond Premium.....	23
Tax Treatment of Original Issue Discount.....	23
LITIGATION.....	24
VALIDATION.....	24
LEGAL MATTERS.....	24
RATINGS.....	24
UNDERWRITING.....	25
FINANCIAL ADVISOR TO THE ISSUER.....	25
CONTINUING DISCLOSURE.....	25
ENFORCEABILITY OF REMEDIES.....	26
MISCELLANEOUS.....	26

APPENDIX A --	Form of Continuing Disclosure Agreement for Borrowers
APPENDIX B --	Form of Continuing Disclosure Agreement for Issuer
APPENDIX C --	Form of the Indenture
APPENDIX D --	Form of the Covenant Loan Agreement
APPENDIX E --	Form of Opinion of Bond Counsel
APPENDIX F --	Specimen Financial Guaranty Insurance Policy
APPENDIX G --	Financial Information Regarding City of Belle Isle
APPENDIX H --	Financial Information Regarding City of Deerfield Beach
APPENDIX I --	Financial Information Regarding Gadsden County
APPENDIX J --	Financial Information Regarding City of South Miami
APPENDIX K--	Financial Information Regarding City of St. Pete Beach
APPENDIX L --	Financial Information Regarding City of Valparaiso

OFFICIAL STATEMENT

Relating To

\$22,365,000

FLORIDA MUNICIPAL LOAN COUNCIL

Revenue Bonds

Series 2006

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 \$22,365,000 Florida Municipal Loan Council Revenue Bonds, Series 2006 (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 September 28, 2006 and a Trust Indenture (the "Indenture"), dated as of December 1, 2006, between the Issuer and the trustee hereinafter described (the "Trustee").

The Bonds are being issued to provide funds to make loans to five municipalities and one county 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 City of Belle Isle, City of Deerfield Beach, City of South Miami, City of St. Pete Beach and City of Valparaiso and the State of Florida county of Gadsden County (collectively, the "Borrowers," and individually, a "Borrower") pursuant to Loan Agreements, dated as of December 1, 2006, between the Issuer and each Borrower (collectively, the "Loan Agreements"). Each Borrower will use proceeds of the loan made to it by the Issuer (a "Loan") to finance, refinance or reimburse itself for the cost of a governmental undertaking approved by the governing body of that Borrower for a public purpose (a "Project") and to pay a proportionate share of the costs of issuance of the Bonds. Each Project to be financed or refinanced with proceeds of the Bonds is briefly described herein under the caption "Purpose of the Bonds."

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

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

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

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

The Loan Agreement between the City of Deerfield Beach and the Issuer is referred to herein as the "Deerfield Loan Agreement." In addition to the covenant to budget and appropriate described in the preceding paragraph, the Loan Repayment obligations of the City of Deerfield Beach will be payable from and secured by a pledge of and lien upon the Pledged Funds (hereinafter described) related to the electric franchise fees of the City (hereinafter described). It is the intent of the City of Deerfield Beach to use the electric franchise fees to pay its Loan Repayments prior to using any other funds of the City for that purpose. Further information concerning the Deerfield Loan Agreement is contained herein under the caption "Security and Sources of Payment - Deerfield Beach Loan."

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

The Bonds are not a general debt, liability or obligation of the Issuer, but are limited obligations of the Issuer, payable solely from 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 (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 April 1 and October 1 (each, an "Interest Payment Date,"), commencing April 1, 2007.

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

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

Redemption Provisions

Optional Redemption. The Bonds maturing on or before October 1, 2016 are not subject to optional redemption prior to maturity. The Bonds maturing after October 1, 2016 are subject to redemption at the option of the Issuer on or after October 1, 2016 as a whole or in part at any time, in any manner as determined by the Trustee in its discretion taking into consideration the maturity of the Loan being prepaid by a particular Borrower, at the redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

Scheduled Mandatory Redemption. The Bonds maturing on October 1, 2031 are subject to mandatory redemption, in part, by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2027 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2027	\$545,000
2028	570,000
2029	600,000
2030	625,000
2031*	650,000

*Maturity, not a redemption.

The Bonds maturing on October 1, 2036 are subject to mandatory redemption, in part, by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2032 and on each October 1 thereafter, in the following principal amounts in the following years:

<u>Year</u>	<u>Principal Amount</u>
2032	\$275,000
2033	290,000
2034	305,000
2035	320,000
2036*	330,000

*Maturity, not a redemption.

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

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

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

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

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

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

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

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

Book-Entry Only System

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participant's accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, 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.

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 upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent on a payment date in accordance with their respective holdings shown on DTC's records. 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 TRUSTEE

As noted elsewhere herein, the Issuer has previously issued 16 series of bonds in furtherance of its program of making loans to participating governmental units. The Trustee for these prior bonds, as of the date of this Official Statement, is U.S. Bank National Association, as successor to Wachovia Bank, National Association.

The Issuer, U.S. Bank National Association and Deutsche Bank Trust Company Americas have entered into discussions that are expected to lead to the resignation of U.S. Bank National Association as trustee for all of the Issuer's outstanding bonds, and the replacement of U.S. Bank National Association with Deutsche Bank Trust Company Americas. Although it is expected that the resignation and replacement will occur prior to the issuance of the Bonds, it is not possible to predict with certainty whether this resignation and replacement will occur, and if it does occur, whether it would occur prior to or after issuance of the Bonds. Therefore, at the time of issuance of the Bonds, either U.S. Bank National Association or Deutsche Bank Trust Company Americas will be trustee, subject to change in the future in accordance with the Indenture.

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 seventeenth series of bonds to be issued by the Issuer.

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

Chairman Jay Chernoff, Councilman, City of North Miami Beach
Vice-Chair Rene Flowers, Council Vice-Chair, City of St. Petersburg
Larry Ady, Commissioner, City of Belle Isle
Lizbeth Benaquisto, Council Member, Village of Wellington
Isaac Salver, Mayor, Town of Bay Harbor Islands
Sarah Seevers, Council Member, City of Destin
H.L. (Roy) Tyler, Commissioner, City of Haines City

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 sixteen 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 \$23.0 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 five municipalities and one county 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 Belle Isle - The City of Belle Isle is located in Orange County, Florida and was incorporated in 1924. The City of Belle Isle has an estimated population of approximately 6,500 people.

The City of Deerfield Beach - The City of Deerfield Beach is located in Broward County, Florida and was incorporated in 1925. The City of Deerfield Beach has an estimated population of approximately 77,000 people.

Gadsden County - Gadsden County is located in Northwest Florida. The County has an estimated population of approximately 46,500 people.

The City of South Miami - The City of South Miami is located in Miami-Dade County, Florida and was incorporated in 1927. The City of South Miami has an estimated population of approximately 10,700 people.

The City of St. Pete Beach - The City of St. Pete Beach is located in Pinellas County, Florida and was incorporated in 1957. The City of St. Pete Beach has an estimated population of approximately 10,000 people.

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

PURPOSE OF THE BONDS

In General

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

Under the terms of the Indenture, proceeds of the Bonds representing accrued interest will be deposited into the Revenue Fund, an amount sufficient to pay the costs of issuance of the Bonds will be deposited into the Costs of Issuance Fund and the balance of the proceeds of the Bonds will be deposited into accounts in the Project Loan Fund, to be disbursed upon requisition therefor to the respective Borrowers. Although not actually disbursed to each Borrower, each Borrower is responsible for repayment of that portion of the Bonds corresponding to its pro-rata share of costs of issuance. 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 Belle Isle- The City of Belle Isle is borrowing the proceeds of \$1,480,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$1,495,326.25) for the purposes of financing the costs of bridge repairs and stormwater projects. The City of Belle Isle Loan is expected to be repaid over a period of 20 years.

City of Deerfield Beach- The City of Deerfield Beach is borrowing the proceeds of \$5,965,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$5,997,678.55) for the purposes of financing costs of a public works and mitigation operations center. The City of Deerfield Beach Loan is expected to be repaid over a period of 25 years.

Gadsden County - Gadsden County is borrowing the proceeds of \$2,415,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$2,480,629.15) for the purposes of financing and refinancing costs of library facilities. The Gadsden County Loan is expected to be repaid over a period of 16 years.

City of South Miami- The City of South Miami is borrowing the proceeds of \$5,625,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$5,629,708.40) for the purposes of financing a public parking garage. The City of South Miami Loan is expected to be repaid over a period of 30 years.

City of St. Pete Beach- The City of St. Pete Beach is borrowing the proceeds of \$3,915,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$4,100,597.90) for the purposes of financing a recreation center complex. The City of St. Pete Beach Loan is expected to be repaid over a period of 12 years.

City of Valparaiso - The City of Valparaiso is borrowing the proceeds of \$2,965,000 principal amount of the Bonds (which inclusive of original issue discount/premium is \$2,995,972.30) for the purposes of rebuilding of a CATV distribution plant and updating technology fiber to the plant. The City of Valparaiso Loan is expected to be repaid over a period of 20 years.

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

Estimated Sources and Uses

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

SOURCES OF FUNDS:	
Par Amount	\$22,365,000.00
Net Original Issue Premium.	<u>334,912.55</u>
TOTAL SOURCES:	\$22,699,912.55
USES OF FUNDS:	
Deposit to Project Loan Fund.	\$22,237,489.95
Costs of Issuance(1).	<u>462,422.60</u>
TOTAL USES:	\$22,699,912.55

- (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 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.

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 \$74,110,000, (ii) Revenue Bonds, Series 2002A, issued May 17, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$43,515,000, (iii) Revenue Bonds, Series 2002B, issued August 15, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$66,170,000, (iv) Revenue Bonds, Series 2002C, issued November 22, 2002, and outstanding as of the date of this Official Statement in the principal amount of \$23,185,000, (v) Revenue Bonds, Series 2003A, issued May 16, 2003, and outstanding as of the date of this Official Statement in the principal amount of \$72,185,000, (vi) Revenue Bonds, Series 2003B, issued December 17, 2003, and outstanding as of the date of this Official Statement in the principal amount of \$42,140,000 (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 \$14,605,000, (viii) Revenue Bonds, Series 2005A, issued February 15, 2005, and outstanding as of the date of this Official Statement in the principal amount of \$54,425,000, (ix) Revenue Refunding Bonds, Series 2005B, issued May 26, 2005, and outstanding as of the date of this Official Statement in the principal amount of \$17,915,000, (x) Revenue Refunding Bonds, Series 2005C, issued July 12, 2005, and outstanding as of the date of this Official Statement in the principal amount of \$15,330,000 and (xi) Revenue Bonds, Series 2005D, issued September 13, 2005 and outstanding as of the date of this Official Statement in the principal amount of \$24,370,000. 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. 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 \$18,526,250 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 \$1,118,250 (five percent of the stated principal amount of the Bonds) to \$19,644,500, 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 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.

Deerfield Beach Loan

The Loan Repayment obligations of the City of Deerfield Beach are secured by and payable from the Covenant to Budget and Appropriate. In addition to the Covenant to Budget and Appropriate, the Loan Repayment obligations of the City of Deerfield Beach will be payable from and secured by a pledge of and lien upon the Pledged Funds (hereinafter described) related to the electric franchise fees of the City (hereinafter described). It is the intent of the City of Deerfield Beach to use the electric franchise fees to pay its Loan Repayments prior to using any other funds of the City for that purpose.

As permitted by Florida law, the City of Deerfield Beach has granted Florida Power & Light Company ("FPL") the nonexclusive right, privilege and franchise (the "Franchise") to construct, operate and maintain in, under, upon and across the present and future roads, streets and other public places within the City for the purpose of supplying electricity. The Franchise has no scheduled expiration date, but may be terminated under certain circumstances. In consideration of the grant of the Franchise, FPL agrees to pay the City an amount equal to 5.9 percent of FPL's billed revenues, less write-offs, from the sale of electrical energy within the incorporated limits of the City.

For the fiscal years of the City ended September 30, 2003, 2004 and 2005, the City received franchise fees of \$3,642,820, \$3,960,723 and \$4,263,366, respectively. Maximum annual debt service on the Deerfield Beach Loan is \$405,250.

Financial Statements of the Borrowers

Appendices G through K 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 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 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 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 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.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") 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 MBIA. MBIA 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. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company license to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

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

Financial Strength Ratings of MBIA

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

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

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

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA 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. MBIA 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.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of \$11.5 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$4.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine

month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

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, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006) 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 at its principal executive offices.

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

DEBT SERVICE REQUIREMENTS

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

Year Ending October 1 (Inclusive)	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Debt Service</u>
2007	\$ 395,000	\$ 712,944.78	\$ 1,107,944.78
2008	780,000	963,818.78	1,743,818.78
2009	810,000	932,618.78	1,742,618.78
2010	845,000	900,218.78	1,745,218.78
2011	875,000	866,418.78	1,741,418.78
2012	920,000	831,418.78	1,751,418.78
2013	960,000	794,618.78	1,754,618.78
2014	995,000	756,218.78	1,751,218.78
2015	1,045,000	706,468.78	1,751,468.78
2016	1,100,000	654,218.78	1,754,218.78
2017	1,155,000	599,218.78	1,754,218.78
2018	1,210,000	541,468.78	1,751,468.78
2019	830,000	480,968.78	1,310,968.78
2020	865,000	447,768.78	1,312,768.78
2021	905,000	412,087.54	1,317,087.54
2022	940,000	374,756.30	1,314,756.30
2023	760,000	335,981.28	1,095,981.28
2024	785,000	304,631.28	1,089,631.28
2025	820,000	272,250.02	1,092,250.02
2026	860,000	238,425.02	1,098,425.02
2027	545,000	202,950.00	747,950.00
2028	570,000	178,425.00	748,425.00
2029	600,000	152,775.00	752,775.00
2030	625,000	125,775.00	750,775.00
2031	650,000	97,650.00	747,650.00
2032	275,000	68,400.00	343,400.00
2033	290,000	56,025.00	346,025.00
2034	305,000	42,975.00	347,975.00
2035	320,000	29,250.00	349,250.00
2036	<u>330,000</u>	<u>14,850.00</u>	<u>344,850.00</u>
Total	\$22,365,000	\$13,095,595.36	\$35,460,595.36

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

Year Ending October 1 (inclusive)	City of Belle <u>Isle</u>	City of Deerfield <u>Beach</u>	Gadsden <u>County</u>	City of South <u>Miami</u>	City of St. <u>Pete Beach</u>	City of <u>Valparaiso</u>
2007	\$ 81,286.67	\$289,126.71	\$ 76,876.08	\$249,893.03	\$317,906.94	\$ 92,855.35
2008	112,200.00	395,868.76	220,631.26	344,381.26	438,150.00	232,587.50
2009	110,200.00	400,268.76	221,031.26	340,381.26	442,350.00	228,387.50
2010	113,200.00	399,268.76	221,231.26	341,381.26	440,950.00	229,187.50
2011	111,000.00	398,068.76	221,231.26	342,181.26	439,150.00	229,787.50
2012	113,800.00	396,668.76	226,031.26	342,781.26	441,950.00	230,187.50
2013	111,400.00	400,068.76	225,431.26	343,181.26	444,150.00	230,387.50
2014	114,000.00	398,068.76	224,631.26	343,381.26	440,750.00	230,387.50
2015	110,750.00	399,068.76	222,131.26	342,131.26	443,500.00	233,887.50
2016	112,500.00	399,568.76	224,381.26	340,631.26	445,250.00	231,887.50
2017	114,000.00	399,568.76	226,131.26	343,881.26	441,000.00	229,637.50
2018	115,250.00	399,068.76	222,381.26	341,631.26	441,000.00	232,137.50
2019	111,250.00	398,068.76	223,381.26	344,131.26		234,137.50
2020	113,050.00	398,868.76	225,781.26	342,731.26		232,337.50
2021	114,543.76	398,968.76	227,531.26	345,925.00		230,118.76
2022	115,831.26	398,656.26	223,868.76	343,706.26		232,693.76
2023	111,912.50	402,931.26		346,281.26		234,856.26
2024	112,993.76	401,587.50		343,443.76		231,606.26
2025	113,868.76	399,831.26		345,400.00		233,150.00
2026	114,537.50	402,662.50		346,943.76		234,281.26
2027		404,875.00		343,075.00		
2028		405,250.00		343,175.00		
2029		404,950.00		347,825.00		
2030		403,975.00		346,800.00		
2031		402,325.00		345,325.00		
2032				343,400.00		
2033				346,025.00		
2034				347,975.00		
2035				349,250.00		
2036				344,850.00		
Total	\$2,227,574.21	\$9,897,633.13	\$3,432,682.48	\$10,232,099.45	\$5,176,106.94	\$4,494,499.15

TAX MATTERS

General

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements which must be met subsequent to the issuance 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.

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 2007 through 2018 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 2017 and 2018 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 2019 and thereafter 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, each Borrower will certify that there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending, or to the best of such Borrower's knowledge, threatened, against or affecting such Borrower wherein an unfavorable decision, ruling or finding would materially and adversely affect such Borrower, its financial condition or its ability to comply with its obligations under the Loan Agreement or the validity or enforceability of the Loan Agreement.

On the date of delivery of the Bonds, the Issuer will certify that there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending, or to the best knowledge of the Issuer, threatened, against or affecting the Issuer, wherein an unfavorable decision, ruling or finding would materially and adversely affect the validity of the Bonds, the Indenture or the Loan Agreements.

VALIDATION

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

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, White & Krasker, 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 \$22,565,946.20 (which includes net original issue premium of \$334,912.55 and underwriter's discount of \$133,966.35), and to reoffer the Bonds at the prices shown on the inside cover hereof. If obligated to purchase any of the Bonds, the Underwriter will be obligated to purchase all of the Bonds. The initial public offering prices may be changed from time to time by the Underwriter.

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

FINANCIAL ADVISOR TO THE ISSUER

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

CONTINUING DISCLOSURE

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

As noted elsewhere in this Official Statement, the Bonds constitute the seventeenth series of bonds issued by the Issuer. The Issuer's prior bond issues funded loans to various borrowers (the "Prior Borrowers") in a fashion similar to that described herein with respect to the Bonds. In connection with its prior bond issues, the Issuer and each of the Prior Borrowers entered into continuing disclosure agreements (the "Prior Undertakings") pursuant to the Rule. Pursuant to the Prior Undertakings, the Issuer and each Prior Borrower agreed to provide certain annual financial information on or before the date 270 days after the end of each fiscal year of the Issuer and the respective Prior Borrowers. The Issuer has complied with its Prior Undertakings, however, certain of the Prior Borrowers (the "Delinquent Borrowers") have failed to provide annual financial information as required by the Prior Undertakings. The Delinquent Borrowers have provided the information required by the Prior Undertakings, although not in a timely manner. The City of Port Richey

and the City of Lauderdale Lakes both failed to timely provide their annual financial statements for the fiscal year ended September 30, 2003, although such information was subsequently provided. The Issuer has notified the Nationally Recognized Municipal Securities Information Repositories of the failure of the Prior Borrowers to timely file the annual financial information. None of the Borrowers is a Delinquent Borrower.

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/Jay Chernoff

Its Chairman

APPENDIX A

FORM OF CONTINUING DISCLOSURE AGREEMENT FOR BORROWERS

This **CONTINUING DISCLOSURE AGREEMENT** dated as of December 1, 2006 (the "Continuing Disclosure Agreement") is executed and delivered by _____, a Florida _____ ("Borrower"), and by Florida League of Cities, Inc., a Florida corporation not-for-profit, as Dissemination Agent (the "Dissemination Agent") hereunder. Additional capitalized terms used herein shall have the meanings ascribed thereto in Section 2 hereof.

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

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

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

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

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

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

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

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

"Bonds" means the \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2006.

"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 of even date herewith by and between Florida Municipal Loan Council, as Issuer, and _____, as Trustee.

"Insurer" means MBIA Insurance Corporation.

"Issuer" means Florida Municipal Loan Council.

"Loan Agreement" means the Loan Agreement dated of even date herewith, between the Issuer and the Borrower.

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

"MSRB" means the Municipal Securities Rulemaking Board.

"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 _____, 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 _____, 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 December 1, 2006 (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 December 1, 2006 (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 December, 2006.

_____, 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 December 1, 2006 (the "Continuing Disclosure Agreement") is executed and delivered by Florida Municipal Loan Council, ("Issuer"), and by Florida League of Cities, Inc., a Florida corporation not-for-profit, as Dissemination Agent (the "Dissemination Agent") hereunder. Additional capitalized terms used herein shall have the meanings ascribed thereto in Section 2 hereof.

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

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

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

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

Agent pursuant to Section 5(b) hereof, contains (in the case of the Annual Report disseminated on or immediately after the date such Continuing Disclosure Certificate is so delivered) a narrative explanation of the reasons for the changes in Financial Information and/or Operating Data set forth in such Continuing Disclosure Certificate and the effect of the changes on the types of Financial Information and/or Operating Data being provided in such Annual Report; and (d) in the event that the Issuer authorizes a change in the accounting principles by which its Audited Financial Statements are prepared, contains (in the case of the Annual Report disseminated on or immediately after the date of such change) (1) a comparison between the Financial Information prepared on the basis of the new accounting principles which is contained in such Annual Report and the Financial Information prepared on the basis of the former accounting principles which was contained in the previous Annual Report disseminated immediately prior to such Annual Report and (2) a discussion of the differences between such accounting principles and the effect of such change on the presentation of the Financial Information being provided in such Annual Report.

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

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

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

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

"Bonds" means the \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2006.

"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 December 1, 2006, by and between the Issuer and _____, 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 _____, 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 December 1, 2006 (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

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 December 1, 2006 (the "Continuing Disclosure Agreement") executed and delivered by the Issuer and accepted by Florida League of Cities, Inc., as Dissemination Agent (the "Dissemination Agent"), as follows:

1. Definitions. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Continuing Disclosure Agreement.
2. Purpose. The Issuer is delivering this Continuing Disclosure Certificate to the Dissemination Agent pursuant to Section 5(a) of the Continuing Disclosure Agreement.
3. Written Undertaking. On behalf of the Issuer, the Issuer hereby designates the Continuing Disclosure Agreement to be the written undertaking under paragraph (b)(5) of the Rule with respect to the \$ _____ Florida Municipal Loan Council Revenue Bonds, Series 2006.
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 December, 2006.

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

TRUST INDENTURE

FORM OF INDENTURE

FLORIDA MUNICIPAL LOAN COUNCIL,

Issuer

and

Trustee

TRUST INDENTURE

\$ _____

Florida Municipal Loan Council
Revenue Bonds, Series 2006

Dated as of December 1, 2006

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

This Instrument Prepared by:

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

and

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

C-1

WHEREAS, the Council has now determined to issue its \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2006 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

C-3

THIS TRUST INDENTURE is made and entered into as of December 1, 2006, 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 _____, a national banking association, duly organized, existing and authorized to accept and execute trusts of the character herein set out, as Trustee (the "Trustee").

WITNESSETH:

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

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

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

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

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

C-2

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

C-4

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 Term 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.

C-5

"Bond Year" means a 12-month period beginning on _____ 2, ending on and including the following _____ 1, except for the first period which begins on _____, 2006.

"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.

C-7

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

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

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

"Board" means the governing body of the Borrower.

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

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

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

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

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

"Bonds" means the \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2006 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.

C-6

"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 _____, 2006 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, instrumentality 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:

C-8

(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 _____, 2006 between the Council and the Trustee, including any indentures supplemental thereto, pursuant to which (i) the Bonds are authorized to be issued and (ii) the Council's interest in the Trust Estate is pledged as security for the payment of principal of, premium, if any, and interest on the Bonds.

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

"Interest Payment Date" means April 1 and October 1 of each year, beginning April 1, 2007.

"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.

C-9

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.

C-11

"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
- 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

C-12

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 March 20, 2007 and thereafter each September 20th and March 20th or if such day is not a Business Day, the next preceding Business Day.

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

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

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

"Moody's" means Moody's Investors Service and its successors and assigns.

C-13

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

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

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

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

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

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

"Registrar" means the Trustee.

"Representation Letter" shall mean the Representation Letter from the Council to DTC.

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

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

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

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

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

C-15

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

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

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

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

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

"Paying Agent" means the Trustee.

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

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

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

"Program" means the Council's program of making Loans under the Act and pursuant to this Indenture.

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

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

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

C-14

"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 _____, 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.

C-16

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

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

ARTICLE II

THE BONDS

SECTION 2.01. Authorization; Book-Entry System.

(a) **Authorization, Issuance and Execution of Bonds.** A single series of Bonds may be issued hereunder in order to obtain moneys to carry out the purposes of the Program for the benefit of the Council and the Borrowers. The Bonds shall be designated as "Florida Municipal Loan Council Revenue Bonds, Series 2006". 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 (\$_____,000). 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.

C-17

C-18

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 January 9, 2007. 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

C-19

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					
Maturity (October 1)	Amount	Interest Rate	Maturity (October 1)	Amount	Interest Rate
2007			2016		
2008			2017		
2009			2018		
2010			2019		
2011			2020		
2012			2021		
2013			2022		
2014			2023		
2015			2024		
\$ _____ Term Bonds due October 1, 20 _____ %					

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.

C-20

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 Deutsche Bank Trust Company Americas (successor to Wachovia Bank, 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.

C-21

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.

C-23

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 (i) 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.

C-22

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.

C-24

Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds.

ARTICLE III

REDEMPTION OF BONDS

SECTION 2.10. Nonpresentation 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).

C-25

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

C-27

SECTION 3.01. Optional Redemption of the Bonds.

The Bonds maturing on or before ____ 1, 2016 are not subject to optional redemption prior to their maturities. The Bonds maturing after ____ 1, 2016 are subject to redemption at the option of the Council on or after ____ 1, 2016, 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 October 1, ____, 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 October 1, ____, and on each October 1st thereafter, in the following principal amounts in the following years:

Year Principal Amount

*Maturity

The Bonds that mature on October 1, ____, 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 October 1, ____, and on each October 1st thereafter, in the following principal amounts in the following years:

Year Principal Amount

*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

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.

C-26

C-28

ARTICLE IV
REVENUES AND FUNDS

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

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

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

SECTION 4.04. Principal Fund. Upon the receipt of Loan Repayments, Liquidation Proceeds or Insurance Proceeds, the Trustee shall deposit in the 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.

C-29

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 _____, 2007 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 2006 Bonds in the sum of \$_____ shall be deposited with the Trustee as follows:

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

The Council understands that \$_____ is being transmitted directly to 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,

C-31

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 and the Project Loan 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

C-30

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

C-32

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.

C-33

**ARTICLE V
PROJECT LOANS**

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

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

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

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

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

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

C-35

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.

C-34

**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.

C-36

ARTICLE VII
INVESTMENT OF MONEYS

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

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

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

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

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

C-37

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, nonpresentation 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:

C-39

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.

(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

C-40

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.

C-41

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

C-43

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

C-42

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:

C-44

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

C-45

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

C-47

(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

C-46

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.

C-48

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

C-49

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 so removed 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, provided, that all amounts owing to the Trustee shall be paid simultaneously 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

C-51

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

C-50

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

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

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

SECTION 10.11. [Reserved]

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

C-52

(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;

C-53

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.

C-55

(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

C-54

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.

C-56

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

C-57

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.

C-59

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

C-58

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.

C-60

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

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

Council: Florida Municipal Loan Council
c/o Florida League of Cities
301 South Bronough Street, Suite 300
Tallahassee, Florida 32301

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

Trustee: Deutsche Bank Trust Company Americas
Corporate Trust & Agency Services
60 Wall Street
Mail Stop 2715
New York, New York 10005

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

SECTION 14.06. Payments Due on Saturdays, Sundays and Holidays. In any case where the date of payment of principal 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.

C-61

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: Jay R. Chernoff
Title: Chairman

ATTEST:

FLORIDA LEAGUE OF CITIES, INC.,
Program Administrator

By: _____
Name: Michael Sittig
Title: Executive Director

_____, as Trustee

By: _____
Name: _____
Title: _____

C-61

C-62

EXHIBIT A

[FORM OF CURRENT INTEREST BOND]

No. R- _____ \$

FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BOND
SERIES 2006

Maturity Date: Interest Rate: Dated Date: CUSIP:

Registered Owner: Cede & Co.

Principal Amount: _____ DOLLARS

FLORIDA MUNICIPAL LOAN COUNCIL, a legal entity duly created and existing under the Constitution and laws of the State of Florida (the "Council"), for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor as hereinafter mentioned) to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above (subject to any right of prior redemption hereinafter mentioned), the Principal Amount identified above, in lawful money of the United States of America; and to pay interest thereon in like lawful money from _____, 2007, until payment of said Principal Amount has been made or duly provided for, at the Interest Rate set forth above on _____ and on each April 1 and October 1 thereafter (an "Interest Payment Date"), unless interest on this Bond is in default, in which event it shall bear interest from the last date to which interest has been paid until payment of such Principal Amount shall be discharged as provided in the Indenture hereinafter mentioned. The principal (or redemption price) hereof is payable upon presentation hereof at the principal office of _____, as Paying Agent and Registrar (together with any successor thereto, the "Paying Agent" and the "Registrar"). Interest hereon is payable by check mailed, except as provided in the Indenture, to the person whose name appears on the bond registration books maintained by the Registrar as the Registered Owner hereof as of the close of business on the 15th day of the calendar month preceding each Interest Payment Date, at such person's address as it appears on such registration books.

This Bond is one of a duly authorized issue of bonds of the Council designated as "Florida Municipal Loan Council Revenue Bonds, Series 2006" (the "Bonds"), issued in the aggregate principal amount of _____ Dollars (\$ _____,000), pursuant to the provisions of Chapter 163, Part I, Florida Statutes, and other applicable provisions of law (collectively, the "Act"), and pursuant to a Trust Indenture, dated as of December 1, 2006, between the Council

C-63

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

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

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

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

[insert redemption provisions]

In addition, the Bonds are also subject to extraordinary mandatory redemption (as a result of acceleration pursuant to the Indenture) at any time, in whole or in part, at a redemption price of the principal amount thereof plus accrued interest to the redemption date, without premium, but only with the approval of the Bond Insurer, from all Liquidation Proceeds or Insurance Proceeds (as such terms are defined in the Indenture) received by the Trustee as a result of an acceleration of any Loan or Loans. If Bonds are to be redeemed in part by extraordinary mandatory redemption, the Bonds to be redeemed will be selected on a proportionate basis from among all of the maturities of such Bonds which correspond to the maturities of such Loan and within each maturity by lot. To the extent that all Loans are not being accelerated, Bonds are to be redeemed 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 that 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.

C-64

In the case of every redemption, the Registrar, at the direction of the Trustee, shall cause notice of such redemption to be given to the Registered Owner of any Bonds designated for redemption in whole or in part as provided in the Indenture. The failure of the Registrar to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any other Bonds. On the redemption date, the principal amount and premium, if any, of each Bond to be redeemed, together with the accrued interest thereon to such date, shall become due and payable; from and after such date of redemption (such notice having been given and moneys available solely for such redemption being on deposit with the Trustee), the Bonds or portions thereof to be redeemed shall not be deemed to be outstanding under the Indenture, and the Council shall be under no further liability in respect thereof.

In the event that the Bond Insurer shall make any payments of principal of and/or interest on any of the Bonds pursuant to the terms of the financial guaranty insurance policy, and the Bonds are accelerated or redeemed pursuant to the terms of the Indenture or Loan, the Bond Insurer may pay all or a portion of amounts due under the Bonds to the Owners thereof prior to the stated maturity dates thereof.

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

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

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

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

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

C-65

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

(SEAL) FLORIDA MUNICIPAL LOAN COUNCIL
By: _____
Chairman

Attest:

Executive Director

VALIDATION CERTIFICATE

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

By: _____
Chairman

C-66

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

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

Date of Authentication: _____
_____ as Registrar
By: _____
Authorized Signer

ASSIGNMENT

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

Dated: _____
Signature guaranteed: _____

STATEMENT OF INSURANCE

[END OF BOND FORM]

C-67

C-68

EXHIBIT B
BORROWERS

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FORM OF COVENANT LOAN AGREEMENT

LOAN AGREEMENT

By and Between

FLORIDA MUNICIPAL LOAN COUNCIL

and

Dated as of December 1, 2006

FLORIDA MUNICIPAL LOAN COUNCIL
REVENUE BONDS, SERIES 2006

This Instrument Prepared By:

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

and

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

D-1

supplements thereto (the "Indenture"), will assist in the development and maintenance of the public welfare of the residents of the State and the areas served by the Borrower, and shall serve a public purpose by improving the health and living conditions, and providing adequate governmental services, facilities and programs and will promote the most efficient and economical development of such services, facilities and programs in the State; and

WHEREAS, neither the Council, the Borrower nor the State or any political subdivision thereof (other than each Borrower to the extent of their obligations under their respective Loan Agreements only), shall in any way be obligated to pay the principal of, premium, if any, or interest on those certain revenue bonds of the Council designated "Florida Municipal Loan Council Revenue Bonds, Series 2006" (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.

D-3

This Loan Agreement (the "Loan Agreement" or the "Agreement") dated as of December 1, 2006 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 _____, FLORIDA (the "Borrower"), a duly constituted municipality under the laws of the State of Florida.

WITNESSETH:

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

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

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

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

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

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

WHEREAS, the Council and the Borrower have determined that the lending of funds by the Council to the Borrower pursuant to the terms of this Agreement and that certain Trust Indenture dated as of December 1, 2006, between the Council and the Trustee (as defined herein) relating to the Bonds (as hereinafter defined), including any amendments and

D-2

"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 ordinance to perform such act or sign such document.

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

"Board" means the governing body of the Borrower.

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

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

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

"Bond Insurance Premium" means the premiums payable to the Bond Insurer for the Bond Insurance.

"Bond Insurer" means MBIA Insurance Corporation and any successors thereto.

"Bonds" means the \$_____ Florida Municipal Loan Council Revenue Bonds, Series 2006 issued pursuant to Article II of the Indenture.

"Bond Year" means a 12-month period beginning on October 2 and ending on and including the following October 1, except for the first period which begins on January __, 2007.

"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.

D-4

"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.

D-5

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 December 1, 2006 between the Council and the Trustee, including any indentures supplemental thereto, pursuant to which (i) the Bonds are authorized to be issued and (ii) the Council's interest in the Trust Estate is pledged as security for the payment of principal of, premium, if any, and interest on the Bonds.

"Interest Payment Date" means April 1 and October 1 of each year, commencing April 1, 2007.

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

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

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

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

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

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

"Loan Repayment Date" means _____, 200__, and thereafter each March 20th and September 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.

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

D-7

"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

D-6

"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.

D-8

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

"Project Loan Fund" means the fund by that name established pursuant to Section 4.02 of the Indenture.

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

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

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

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

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

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

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

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

"State" means the State of Florida.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Council and the Trustee, supplementing, modifying or amending the

D-9

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,

D-11

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 _____, as Trustee, or any successor thereto under the Indenture.

D-10

or the existence or powers or ability of the Borrower to enter into and perform its obligations under this Agreement.

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

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

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

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

(f) Governmental Consent. The Borrower has obtained, or will obtain, all permits, approvals and findings of non-reviewability required as of the date hereof by any governmental body or officer for the acquisition and/or installation of the Project, including construction and renovation work, the financing or refinancing thereof or the reimbursement of the Borrower therefor, or the use of such Project, and, prior to the Loan, the Borrower will obtain all other such permits, approvals and findings as may be necessary for the foregoing and for such Loan and the proper application thereof; the Borrower has complied with or will comply with all applicable provisions of law requiring any notification, declaration, filing or registration with

D-12

any agency or other governmental body or officer in connection with the acquisition or installation of the Project, including construction and renovation work necessary for such installation, financing or refinancing thereof or reimbursement of the Borrower therefor; and any such action, construction, installation, financing, refinancing or reimbursement contemplated in this Loan Agreement is consistent with, and does not violate or conflict with, the terms of any such agency or other governmental consent, order or other action which is applicable thereto. No further consent, approval or authorization of, or filing, registration or qualification with, any governmental authority is required on the part of the Borrower as a condition to the execution and delivery of this Loan Agreement, or to amounts becoming outstanding hereunder.

(g) Compliance with Law. The Borrower is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject and which are material to its properties, operations, finances or status as a municipal corporation or subdivision of the State.

(h) Use of Proceeds.

(1) The Borrower will apply the proceeds of the Loan from the Council solely for the financing for the cost of the Projects as set forth in Exhibit A hereto. If any component of the Project listed in Exhibit A is not paid for out of the proceeds of the Loan at the Closing of the Loan, Borrower shall, as quickly as reasonably possible, with due diligence, and in any event prior to _____, use the remainder of the amounts listed in Exhibit A and any investment earnings thereon to pay the cost of the Project, provided that, such time limit may be extended by the written consent of the Council with notice to the Trustee, and provided further that Borrower may amend Exhibit A without the consent of the Council or the Trustee (but with notice thereto) but with a favorable opinion of Bond Counsel (to the effect that such an amendment and the completion of the revised Project will not adversely affect the validity or tax-exempt status of the Bonds) regarding the amended Exhibit A, to provide for the financing of a different or additional Project if Borrower, after the date hereof, deems it to not be in the interest of Borrower to acquire or construct any item of such Project or the cost of the Project proves to be less than the amounts listed on Exhibit A and the investment earnings thereon. Notwithstanding the foregoing all such proceeds shall be expended prior to _____, Borrower will provide the Trustee with a requisition in the form of the requisition attached hereto as Exhibit E for the expenditure of the remaining amounts of the Loan in the Project Loan Fund.

(2) Items of cost of the Project which may be financed include all reasonable or necessary direct or indirect costs of or incidental to the acquisition, construction or installation of the Project, including operational expenses during this construction period which would qualify for capitalization under generally accepted accounting principles, the incidental costs of placing the same in use and financing expenses (including the application or origination fees, if any, of the Bond Insurer and the Council and Borrower's Counsel fees), but not operating expenses.

D-13

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

D-15

(3) Borrower understands that the actual Loan proceeds received by it are less than the sum of the face amount of the Loan Agreement plus the reoffering premium in an amount equal to a discount as described in Section 3.01 hereof. Borrower will accordingly be responsible for repaying, through the Basic Payments portion of its Loan Repayments, the portion of the Bonds issued to fund only its Loan including the portion issued to fund the underwriting discount, original issue discount and other fees and costs of issuing the Bonds.

(4) The Borrower covenants that it will make no use of the proceeds of the Bonds which are in its control at any time during the term of the Bonds which would cause such Bonds to be "Arbitrage Bonds" within the meaning of Section 148 of the Code.

(5) The Borrower, by the Trustee's acceptance of the Indenture, covenants that the Borrower shall neither take any action nor fail to take any action or to the extent that it may do so, permit any other party to take any action which, if either taken or not taken, would adversely affect the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

(i) Project. All items constituting the Project are permitted to be financed with the proceeds of the Bonds and the Loan pursuant to the Act.

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

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

(a) Security for Loan Repayment. Subject to the provisions of Section 2.02(k) hereof, the Borrower covenants and agrees to appropriate in its annual budget, by amendment, if required, and to pay when due under this Loan Agreement as promptly as money becomes available directly to the Trustee for deposit into the appropriate Fund or Account created in the Indenture, amounts of Non-Ad Valorem Revenues of the Borrower sufficient to satisfy the Loan Repayment as required under this Loan Agreement. Such covenant is subject in all respects to the payment of obligations secured by a pledge of such Non-Ad Valorem Revenues heretofore or hereafter entered into. Such covenant and agreement on the part of the Borrower to budget and appropriate such amounts of Non-Ad Valorem Revenues shall be cumulative, and shall continue until such Non-Ad Valorem Revenues or other legally available funds in amounts sufficient to make all required Loan Repayments, including delinquent Loan Repayments, shall have been budgeted, appropriated and actually paid to the Trustee for deposit into the appropriate Fund or Account. The Borrower further acknowledges and agrees that the Indenture shall be deemed to be entered into for the benefit of the Holders of any of the Bonds

D-14

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

D-16

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

D-17

**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 \$_____ (_____%), including underwriter's discount, which reflects the Borrower's share of the cost of the initial issuance of the Bonds subject to the terms and conditions contained in this Loan Agreement and in the Indenture. The amounts advanced net of the cost of the initial issuance are to be used by the Borrower for the purposes of financing or refinancing the cost of, or receiving reimbursement for the equity in, the Projects in accordance with the provisions of this Loan Agreement.

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

D-19

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.

D-18

**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 ordinances of the Borrower substantially in the form of Exhibit B attached hereto;

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

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

(d) A certificate signed by the Authorized Representative of the Borrower, in form and substance satisfactory to Bond Counsel, stating (i) the estimated dates and the amounts of projected expenditures for the Project and (ii) that it is reasonably anticipated by the Borrower that the Loan proceeds will be fully advanced therefor and expended by the Borrower prior to _____, _____, and that the projected expenditures are based on the reasonable expectations of the Borrower having due regard for its capital needs and the revenues available for the repayment thereof.

D-20

(e) This executed Loan Agreement;

(f) An opinion (addressed to the Council, the Trustee, the Bond Insurer and the Borrower) of Bond Counsel to the effect that such financing, refinancing or reimbursement with Loan proceeds is permitted under the Act, the Indenture and the resolution authorizing this Loan Agreement and will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation or adversely affect the validity, due authorization for or legality of the Bonds; and

(g) Such other certificates, documents, opinions and information as the Council, the Bond Insurer, the Trustee or Bond Counsel may require, such requirement to be evidenced (in the case of parties other than the Trustee) by written notice of such party to the Trustee of such requirement.

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

D-21

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.

D-23

ARTICLE V

LOAN REPAYMENTS

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

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

On or before the fifteenth (15th) day of the month immediately preceding each Interest Payment Date, the Trustee shall give Borrower notice in writing of the total amount of the next Basic Payment due. The Basic Payments shall be due on each January 20th and July 20th, or if such day is not a Business Day, the next preceding Business Day (a "Loan Repayment Date"), commencing March 20, 2007, and extending through _____, 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

D-22

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

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

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

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

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

SECTION 5.06. Refunding Bonds. In the event the Bonds are refunded, all references in this Loan Agreement to Bonds shall be deemed to refer to the refunding bonds or, in the case of a crossover refunding, to the Bonds and the refunding bonds (but the 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.

D-24

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.

D-25

D-26

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.

D-27

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;

D-28

(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:

D-29

**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: Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
New York, New York 10005

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

Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
New York, New York 10005

Borrower: _____

Attention: _____

Any of the above parties may, by notice in writing given to the others, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Council and the Borrower and their respective successors and assigns.

SECTION 9.03. Severability. In the event any provision of the Loan Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

D-31

(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).

D-30

SECTION 9.04. Amendments, Changes and Modifications. This Loan Agreement may be amended by the Council and the Borrower as provided in the Indenture; provided, however, that no such amendment shall be effective unless it shall have been consented to in writing by the Bond Insurer.

SECTION 9.05. Execution in Counterparts. This Loan Agreement may be simultaneously executed in several counterparts, each of which, when so executed and delivered, shall be an original and all of which shall constitute but one and the same instrument.

SECTION 9.06. Applicable Law. This Loan Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

SECTION 9.07. Benefit of Bondholders; Compliance with Indenture. This Loan Agreement is executed in part to induce the purchase by others of the Bonds. Accordingly, all covenants, agreements and representations on the part of the Borrower and the Council, as set forth in this Loan Agreement, are hereby declared to be for the benefit of the holders from time to time of the Bonds. The Borrower covenants and agrees to do all things within its power in order to comply with and to enable the Council to comply with all requirements and to fulfill and to enable the Council to fulfill all covenants of the Indenture. The Borrower also acknowledges that the Council has delegated certain of its duties under the Indenture to its Program Administrator, including the direction to make investments in accordance with Article VII thereof, including but not limited to the investment of the Borrower's Project Loan Fund.

SECTION 9.08. Consents and Approvals. Whenever the written consent or approval of the Council shall be required under the provisions of this Loan Agreement, such consent or approval may be given by an Authorized Representative of the Council or such other additional persons provided by law or by rules, regulations or resolutions of the Council.

SECTION 9.09. Immunity of Officers, Employees and Members of Council and Borrower. No recourse shall be had for the payment of the principal of or premium or interest hereunder or for any claim based thereon or upon any representation, obligation, covenant or agreement in this Loan Agreement against any past, present or future official officer, member, counsel, employee, director or agent, as such, of the Council or the Borrower, either directly or through the Council or the Borrower, or respectively, any successor public or private corporation thereto under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, members, counsels, employees, directors or agents as such is hereby expressly waived and released as a condition of and consideration for the execution of this Loan Agreement.

SECTION 9.10. Captions. The captions or headings in this Loan Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions of sections of this Loan Agreement.

D-32

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]

D-33

LOAN AGREEMENT

(SEAL)

 By: _____
 Name: _____
 Title: _____

ATTESTED BY:

By: _____
 Name: _____
 Title: _____

Approved as to form and correctness
 this ____ day of _____, _____.

By: _____
 Name: _____
 Title: _____

D-35

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 the _____, Florida, 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: Jay Chernoff
 Title: Chairman

ATTEST:

By: _____
 Name: Michael Sittig
 Title: Executive Director

D-34

EXHIBIT A

_____, FLORIDA
 USE OF LOAN PROCEEDS

DESCRIPTION OF PROJECT TO BE ACQUIRED OR CONSTRUCTED

PROJECT

**TOTAL AMOUNT
 TO BE FINANCED**

\$ _____

D-36

CERTIFIED RESOLUTION[ORDINANCE] OF THE BORROWER

See Document No. _____

D-37

OPINION OF BORROWER'S COUNSEL

[Letterhead of Counsel to Borrower]

_____, _____

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

[Trustee]

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

Banc of America Securities LLC
1640 Gulf-to-Bay Boulevard
Clearwater, Florida 33755

MBIA Insurance Corporation
113 King Street
Armonk, New York 10504

Gentlemen:

We are counsel to the _____, Florida (the "Borrower"), and have been requested by the Borrower to give this opinion in connection with the loan by the Florida Municipal Loan Council (the "Council") to the Borrower of funds to finance or refinance or reimburse the Borrower for all or a portion of the cost of a certain Project (the "Project") as defined in, and as described in Exhibit A of, the Loan Agreement, dated as of December 1, 2006 (the "Loan Agreement"), between the Council and the Borrower.

In this connection, we have reviewed such records, certificates and other documents as we have considered necessary or appropriate for the purposes of this opinion, including applicable laws, and ordinances adopted by the City Commission of the Borrower, the Loan Agreement, a Trust Indenture dated as of December 1, 2006 (the "Indenture") between the Council and _____, as trustee (the "Trustee") and Resolution[Ordinance] No. _____ enacted by the Borrower on _____, _____ (the "Resolution[Ordinance]"). Based on such review, and such other considerations of law and fact as we believe to be relevant, we are of the opinion that:

D-38

(a) The Borrower is a municipality duly organized and validly existing under the Constitution and laws of the State of Florida and under the provisions of the Constitution and laws of the State of Florida. The Borrower has the legal right and all requisite power and authority to enter into the Loan Agreement, to adopt the Ordinance and to consummate the transactions contemplated thereby and otherwise to carry on its activities and own its property.

(b) The Borrower has duly authorized, executed and delivered the Ordinance, the Loan Agreement, the Bond Purchase Contract and the Continuing Disclosure Agreement, and such instruments are legal and binding obligations of the Borrower enforceable against the Borrower in accordance with its terms, except to the extent that the enforceability hereof may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity, and to the sovereign police powers of the State of Florida and the constitutional powers of the United States of America.

(c) The execution and delivery of the Ordinance, the Continuing Disclosure Agreement, the Bond Purchase Contract and the Loan Agreement, the consummation of the transactions contemplated thereby, the purchase or construction of the Project or the reimbursement for costs of the acquisition or construction thereof or the refinancing of the indebtedness to be refinanced with the proceeds of the loan and the fulfillment of or compliance with the terms and conditions of the Loan Agreement, the Bond Purchase Contract and the Continuing Disclosure Agreement does not and will not conflict with or result in a material breach of or default under any of the terms, conditions or provisions of any agreement, contract or other instrument, or law, ordinance, regulation, or judicial or other governmental order, to which the Borrower is now a party or it or its properties is otherwise subject or bound, and the Borrower is not otherwise in violation of any of the foregoing in a manner material to the transactions contemplated by the Loan Agreement.

(d) There is no litigation or legal or governmental action, proceeding, inquiry or investigation pending or, to the best of our knowledge, threatened by governmental authorities or to which the Borrower is a party or of which any property of the Borrower is subject, which has not been disclosed in writing to the Council and the Bond Insurer and which, if determined adversely to the Borrower, would individually or in the aggregate materially and adversely affect the validity or the enforceability of the Loan Agreement, the Bond Purchase Contract or the Continuing Disclosure Agreement.

(e) Any indebtedness being refinanced, directly or indirectly, with the proceeds of the Loan was initially incurred by the Borrower, and the proceeds of such indebtedness have been fully expended, to finance the cost of the Project.

D-39

We are attorneys admitted to practice law only in the State of Florida and express no opinion as to the laws of any other state and further express no opinion as to the status of interest on the Bonds under either Federal laws or the laws of the State of Florida.

Very truly yours,

D-40

EXHIBIT D
DEBT SERVICE SCHEDULE

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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*Loan repayments are actually due January 20th and July 20th of each year.

D-41

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EXHIBIT E TO LOAN AGREEMENT
FORM OF REQUISITION CERTIFICATE

TO: DEUTSCHE BANK TRUST COMPANY AMERICAS, AS TRUSTEE
 FROM: _____, FLORIDA (THE "BORROWER")
 SUBJECT: LOAN AGREEMENT DATED AS OF THE 1ST DAY OF _____, ____

This represents Requisition Certificate No. ___ in the total amount of \$_____ for payment of those Costs of the Project detailed in the schedule attached.

The undersigned does certify that:

1. All of the expenditures for which monies are requested hereby represent proper Costs of the Project, have not been included in a previous Requisition Certificate and have been properly recorded on the Borrower's books as currently due and owing.
2. The monies requested thereby are not greater than those necessary to meet obligations due and payable or to reimburse the Borrower for funds actually advanced for Costs of the Project. The monies requested do not include retention or other monies not yet due or earned under construction contracts.
3. This requisition is in compliance with Section 5.03 of the Indenture.
4. After payment of monies hereby requested, to the knowledge of the undersigned, there will remain available to the Borrower sufficient funds to complete the Project substantially in accordance with the plans.
5. The Borrower is not in default under the Loan Agreement and nothing has occurred that would prevent the performance of its obligations under the Loan Agreement.

Executed this ____ day of _____, ____.

_____, FLORIDA

By: _____
 Name:
 Title:

D-42

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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

RE: \$22,365,000 Florida Municipal Loan Council Revenue Bonds, Series 2006

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Florida Municipal Loan Council (the "Council") of its \$22,365,000 Florida Municipal Loan Council Revenue Bonds, Series 2006 (the "Bonds"), pursuant to the Constitution and laws of the State of Florida, including Chapter 166, Part II and Chapter 163, Part I, Florida Statutes, as amended, a Trust Indenture dated as of December 1, 2006, between the Council and Deutsche Bank Trust Company Americas, as Trustee (the "Indenture"), and Resolution No. 2006-02 adopted by the Council on September 28, 2006 (the "Resolution"). In such capacity, we have examined such law and certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion. Any capitalized undefined terms used herein shall have the meanings set forth in the Indenture.

The proceeds of the Bonds will be loaned to the City of Belle Isle, Florida; City of Deerfield Beach, Florida; Gadsden County, Florida; City of South Miami, Florida; City of St. Petersburg Beach, Florida; and the City of Valparaiso, Florida (collectively, the "Borrowers") for the purpose of financing, refinancing or reimbursing the cost of qualified projects of such Borrowers, and to pay certain costs of issuing the Bonds pursuant to Loan Agreements between the Council and such Borrowers to be executed simultaneously with the issuance of the Bonds.

As to questions of fact material to our opinion, we have relied upon representations of the Council contained in the Indenture and of the Borrowers contained in the Loan Agreements and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation. We have not undertaken an independent audit, examination, investigation or inspection of such matters and have relied solely on the facts, estimates and circumstances described in such proceedings and certifications. We have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

In rendering this opinion, we have examined and relied upon the opinion of even date herewith of Kraig A. Conn, Esquire, Counsel to the Council, as to the due creation and valid existence of the Council, the due adoption of the Resolution, the due execution and delivery of the Bonds and the compliance by the Council with all conditions contained in the resolutions of the Council precedent to the issuance of the Bonds. Finally, we have assumed the proper authorization, execution and delivery of the Loan Agreements by each Borrower and the validity of such Loan Agreements and in rendering this opinion are not passing upon such matters.

The Bonds do not constitute a general obligation or indebtedness of the Council or the Borrowers within the meaning of any constitutional, statutory or other limitation of indebtedness and the holders thereof shall never have the right to compel the exercise of any ad valorem taxing power of the Council or the Borrowers or taxation in any form of any real or personal property for the payment of the principal of or interest on the Bonds.

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

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

1. The Resolution constitutes a valid and binding obligation of the Council enforceable against the Council in accordance with its terms.
2. The Indenture has been duly executed by the Council and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and binding obligation of the Council enforceable upon the Council in accordance with its terms.
3. The Bonds have been duly authorized, executed and delivered by the Council and are valid and special obligations of the Council enforceable in accordance with their terms, payable solely from the sources provided therefor in the Indenture.
4. 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.

It is to be understood that the rights of the owners of the Bonds and the enforceability thereof may be subject to the exercise of judicial discretion in accordance with general principles of equity, to the valid exercise of the sovereign police powers of the State of Florida and of the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

For purposes of this opinion, we have not been engaged or undertaken to review and, therefore, express no opinion herein regarding the accuracy, completeness or adequacy of the Official Statement or any other offering material relating to the Bonds. This opinion should not be construed as offering material, an offering circular, prospectus or official statement and is not intended in any way to be a disclosure statement used in connection with the sale or delivery of the Bonds. Furthermore, we are not passing on the accuracy or sufficiency of any CUSIP numbers appearing on the Bonds. In addition, we have not been engaged to and, therefore, express no opinion as to compliance by the Council or the underwriter or underwriters with any federal or state statute, regulation or ruling with respect to the sale and distribution of the Bonds. Further, we express no opinion regarding federal income or state tax consequences arising with respect to the Bonds other than as expressly set forth herein.

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:

MBIA Insurance Corporation

Resident Licensed Agent

President

City, State

Attest:

Assistant Secretary

STD-RCS-FL-7
01/05

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APPENDIX G

Financial Information Regarding City of Belle Isle

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City of Belle Isle, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the Years Ended September 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues:			
Taxes:			
Property	\$ 966,895	\$ 1,226,058	\$ 1,605,909
Franchise and utility	188,158	288,155	370,051
Licenses and permits	10,269	12,421	23,026
Intergovernmental revenues	1,253,071	1,238,791	4,391,917
Fines and forfeitures	52,733	74,657	52,158
Investment Income	76,032	67,725	51,470
Miscellaneous	<u>9,729</u>	<u>17,665</u>	<u>33,470</u>
Total revenues	\$2,556,887	\$2,925,472	\$6,528,001
Expenditures:			
Current:			
General government	973,807	4,019,375	1,542,386
Public safety	1,204,188	1,263,807	1,354,690
Physical environment	936,836	1,125,337	908,484
Debt Service:			
Principal	19,658	100,741	202,461
Interest	22,357	55,017	68,905
Issuance Costs	<u>28,640</u>	<u>25,041</u>	<u>--</u>
Total expenditures	\$3,185,486	\$6,589,318	\$4,076,926
Excess of Revenues over Expenditures	(628,599)	(3,663,846)	2,451,075
Other Financing Sources:			
Capital lease	955,000	--	61,500
Bonds Issued	40,524	985,000	--
Premium on bonds	<u>--</u>	<u>14,150</u>	<u>--</u>
Total other financing sources	995,524	999,150	61,500
Net change in fund balance	366,925	(2,664,696)	2,512,575
Fund Balance - Beginning of Year	<u>3,134,293</u>	<u>3,501,218</u>	<u>836,522</u>
Fund Balance - End of Year	<u>\$ 3,501,218</u>	<u>\$ 836,522</u>	<u>\$ 3,349,097</u>

The obligation of the City of Belle Isle to pay the Loan Payments is limited as described in the Official Statement. Certain of the above revenues may not be legally available to make, nor are any of the above revenues pledged to, the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Commissioners
City of Belle Isle, Florida

We have audited the accompanying financial statements of the governmental activities and the major fund of the *City of Belle Isle, Florida*, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the *City of Belle Isle, Florida*, as of September 30, 2005, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2005 on our consideration of the *City of Belle Isle, Florida's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

MCDIRMIT DAVIS & COMPANY, LLC
605 E. ROBINSON STREET, SUITE 635 • ORLANDO, FLORIDA 32801
TELEPHONE 407-843-5406 • FAX 407-649-9339 • EMAIL: INFO@MCDIRMITDAVIS.COM

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental 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 financial statements that collectively comprise the City of Belle Isle's basic financial statements. The introductory section, schedule, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McDirmit Davis & Company, LLC

MCDIRMIT DAVIS & COMPANY, LLC

November 3, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Belle Isle, Florida we offer readers of the City of Belle Isle's financial statements this narrative overview and analysis of the financial activities of the City of Belle Isle for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the City of Belle Isle exceeded its liabilities at the close of the most recent fiscal year by \$3,814,938 (net assets). Of this amount, \$1,713,140 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$70,049.
- As of the close of the current fiscal year, the City of Belle Isle's governmental funds reported combined ending fund balances of \$3,349,097, an increase of \$2,512,575 in comparison with the prior year. Approximately seventy-four percent (74%) of this total amount, \$2,477,265, is available for spending at the government's discretion (unreserved fund balance).
- The City of Belle Isle's total debt decreased by \$122,456 during the current fiscal year.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Belle Isle's finances, in a manner similar to a private-sector business.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Since the City of Belle Isle has no business-type activities such as water and sewer systems, the government-wide financial statements include only governmental activities. The governmental activities of the City of Belle Isle include general government, public safety and physical environment.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Belle Isle, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City of Belle Isle has only one governmental fund - the General Fund.

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

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

The City of Belle Isle adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11-15 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Government-Wide Financial Analysis

Statement of Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Belle Isle, assets exceeded liabilities by \$3,798,130 at the close of the most recent fiscal year.

	City of Belle Isle Statement of Net Assets	
	Governmental Activities 2005	2004
Current and other assets	\$3,600,553	\$6,776,526
Capital assets	<u>2,178,006</u>	<u>1,966,591</u>
Total assets	<u>5,778,559</u>	<u>8,743,117</u>
Long-term liabilities outstanding	1,850,488	1,781,067
Other liabilities	<u>113,133</u>	<u>3,217,161</u>
Total liabilities	<u>1,963,621</u>	<u>4,998,228</u>
Net assets:		
Invested in capital assets, net of related debt	1,246,774	1,021,602
Restricted	855,024	982,228
Unrestricted	<u>1,713,140</u>	<u>1,741,059</u>
Total net assets	<u>\$3,814,938</u>	<u>\$3,744,889</u>

Thirty-three percent (33%) of the City's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net assets (\$1,713,140) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Belle Isle is able to report positive balances in all categories of net assets.

The City's net assets increased by \$70,049 during the current fiscal year. This increase was primarily due to a decrease in expenses, as detailed below.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Statement of Activities

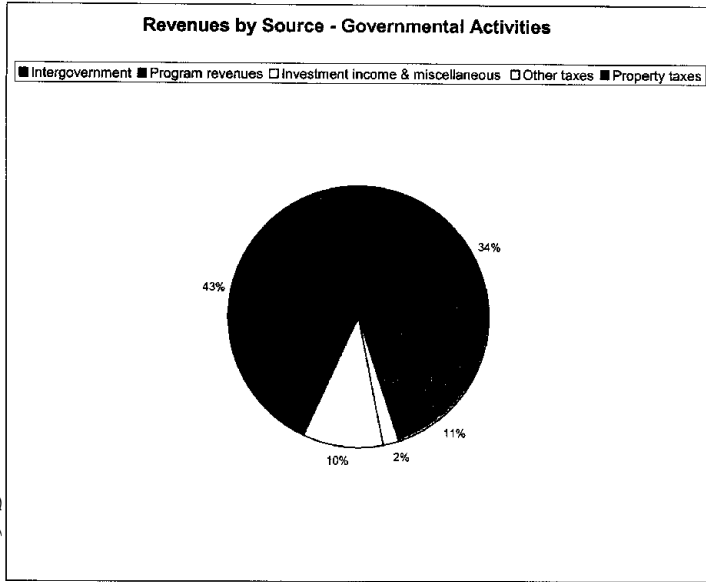
Governmental activities increased the City of Belle Isle's net assets by \$70,049. Key elements of this increase are as follows:

	City of Belle Isle Changes in Net Assets	
	Governmental Activities 2005	2004
Revenues:		
Program revenues-		
Charges for services	\$ 75,184	\$ 87,078
Operating grants and contributions	349,379	3,128,358
Capital grants and contributions	<u>-</u>	<u>19,795</u>
	<u>424,563</u>	<u>3,235,231</u>
General revenues-		
Property taxes	1,605,909	1,226,058
Franchise and utility taxes	370,050	288,155
Intergovernmental	1,269,879	983,299
Investment income and miscellaneous	<u>84,940</u>	<u>85,390</u>
	<u>3,330,778</u>	<u>2,582,902</u>
Total revenues	<u>3,755,341</u>	<u>5,818,133</u>
Expenses:		
General government	1,583,138	3,854,684
Public safety	1,354,690	1,263,807
Physical environment	685,656	759,429
Interest on long-term debt	<u>61,809</u>	<u>58,493</u>
Total expenses	<u>3,685,293</u>	<u>5,936,413</u>
Increase (Decrease) in Net Assets	70,049	(118,280)
Net Assets - Beginning	<u>3,744,889</u>	<u>3,863,169</u>
Net Assets - Ending	<u>\$3,814,938</u>	<u>\$3,744,889</u>

Property taxes increased by \$379,851 (31%) during the year. Franchise and utility taxes also increased by 28% because of increase in telecommunications services tax.

Program revenues decreased significantly because of revenue recorded from FEMA and FDOT for reimbursement of hurricane expenses in 2004. The significant decrease in general government expenses is also due to the hurricanes that occurred in the summer of 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED



G-6

Financial Analysis of the Government's Funds

As noted earlier, the City of Belle Isle used fund accounting to ensure and demonstrate compliance with finance-related requirements.

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

The general fund is the only fund of the City of Belle Isle, Florida. At September 30, 2005, the unreserved fund balance of the general fund was \$2,477,265. The fund balance of the general fund increased by \$2,512,575 because of hurricane reimbursement from FEMA and FDOT.

General Fund Budgetary Highlights

During the fiscal 2005 year, actual revenues were more than the budgeted revenues primarily because amounts received from FEMA for hurricane expenditures incurred in 2004 were more than expected. Also, expenditures in 2005 were less than budget since most of the hurricane expenditures were incurred in 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Capital Asset and Debt Administration

Capital Assets - The City of Belle Isle's investment in capital assets for its governmental activities as of September 30, 2005, amounts to \$2,178,006 (net of accumulated depreciation), as detailed below. The total increase in the City's investment in capital assets for the current fiscal year was 11%. This increase was due to acquisition of machinery and equipment, various infrastructure projects, and construction in progress.

	City of Belle Isle Capital Assets (Net of Depreciation)	
	Governmental Activities	
	2005	2004
Land	\$ 165,823	\$ 165,823
Buildings	436,876	451,609
Improvements other than buildings	73,014	82,372
Machinery and equipment	278,810	282,188
Infrastructure	1,043,574	713,036
Construction in progress	179,909	271,563
Total	\$2,178,006	\$1,966,591

Additional information on the City of Belle Isle's capital assets can be found in Note 7 of this report.

Long-Term Debt - At the end of the current fiscal year, the City of Belle Isle had total debt outstanding of \$1,786,256. This debt includes leases on the acquisition of equipment and bonds payable to the Florida Municipal Loan Council. Additional information on long-term debt can be found in Note 9 of this report.

	City of Belle Isle Long-Term Debt	
	Governmental Activities	
	2005	2004
Capital lease payable	\$ 96,256	\$ 67,216
Bonds payable	1,690,000	1,860,000
	<u>\$1,786,256</u>	<u>\$1,927,216</u>

Next Year's Budget and Rates

During the current fiscal year, the unreserved fund balance in the general fund increased to \$3,349,097, which is almost as much as the pre-hurricane level. Management does not plan to appropriate any of this for spending in 2006.

Requests for Information

This financial report is designed to provide a general overview of the City of Belle Isle's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the office of the Finance Director, City of Belle Isle, 1600 Nela Avenue, Belle Isle, FL 32859.

BASIC FINANCIAL STATEMENTS

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CITY OF BELLE ISLE, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2005

	Governmental Activities
Assets:	
Cash	\$ 2,457,516
Due from other governments	247,276
Bond issuance costs	40,737
Restricted assets:	
Investments	855,024
Capital assets:	
Non-depreciable	345,732
Depreciable, net	1,832,274
Total assets	<u>5,778,559</u>
Liabilities:	
Accounts payable	65,438
Accrued liabilities	13,519
Accrued interest payable	22,416
Deposits	11,760
Noncurrent liabilities:	
Due within one year	209,873
Due in more than one year	1,640,615
Total liabilities	<u>1,963,621</u>
Net Assets:	
Invested in capital assets, net of related debt	1,246,774
Restricted for capital projects	855,024
Unrestricted	1,713,140
Total net assets	<u>\$ 3,814,938</u>

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G-8

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF BELLE ISLE, FLORIDA

STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ 1,583,138	\$ -	\$ 105,613	\$ -	\$ (1,477,525)
Public safety	1,354,690	52,158	-	-	(1,302,532)
Physical environment	685,656	23,026	243,766	-	(418,864)
Interest on long-term debt	61,809	-	-	-	(61,809)
Total governmental activities	<u>\$ 3,685,293</u>	<u>\$ 75,184</u>	<u>\$ 349,379</u>	<u>\$ -</u>	<u>(3,260,730)</u>
General revenues:					
Property taxes					1,605,909
Franchise and utility taxes					370,051
Intergovernmental-unrestricted					1,269,879
Investment income and miscellaneous					84,940
Total general revenues					<u>3,330,779</u>
Change in net assets					70,049
Net assets, beginning					3,744,889
Net assets, ending					<u>\$ 3,814,938</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

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CITY OF BELLE ISLE, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUND

September 30, 2005

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G-10

	General Fund
Assets:	
Cash	\$ 2,457,516
Due from other governments	247,276
Investments - restricted	855,024
Total assets	<u>\$ 3,559,816</u>
Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$ 65,438
Accrued liabilities	13,519
Deferred revenues	120,002
Deposits	11,760
Total liabilities	<u>210,719</u>
Fund balances:	
Reserved for:	
Capital projects	855,024
Disaster relief	16,808
Unreserved	<u>2,477,265</u>
Total fund balances	3,349,097
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	2,178,006
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	120,002
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(1,832,167)</u>
Net Assets of Governmental Activities	<u>\$ 3,814,938</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF BELLE ISLE, FLORIDA

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

For The Year Ended September 30, 2005

	<u>General Fund</u>
Revenues:	
Taxes:	
Property	\$ 1,605,909
Franchise and utility	370,051
Licenses and permits	23,026
Intergovernmental revenues	4,391,917
Fines and forfeitures	52,158
Investment Income	51,470
Miscellaneous	33,470
Total revenues	<u>6,528,001</u>
Expenditures:	
Current:	
General government	1,542,386
Public safety	1,354,690
Physical environment	908,484
Debt Service:	
Principal	202,461
Interest	68,905
Total expenditures	<u>4,076,926</u>
Excess of Revenues Over Expenditures	2,451,075
Other Financing Sources:	
Capital lease	61,500
Total other financing sources	<u>61,500</u>
Net change in fund balance	2,512,575
Fund Balance - Beginning of Year	836,522
Fund Balance - End of Year	<u>\$ 3,349,097</u>

G-11

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF BELLE ISLE, FLORIDA

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

For The Year Ended September 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net Changes in Fund Balances - Total Governmental Funds	\$ 2,512,575
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful estimated lives and reported as depreciation expense.	
Expenditures for capital assets	353,060
Less current year depreciation	<u>(141,644)</u>
	211,416
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal 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.	
	140,961
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.	
	(22,244)
Revenues in the statement of activities do not provide current financial resources are not reported as revenues in the funds.	
	120,002
FEMA revenue reported in the funds in the current year must be eliminated from the statement of activities since revenue was recognized in the prior year.	
	<u>(2,892,661)</u>
Change in Net Assets of Governmental Activities	\$ 70,049

The accompanying Notes to Financial Statements are an integral part of this statement.

CITY OF BELLE ISLE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

For The Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
	Revenues:			
Taxes:				
Property	\$ 1,513,183	\$ 1,513,183	\$ 1,605,909	\$ 92,726
Franchise fees and utility taxes	329,613	329,613	370,051	40,438
Licenses and permits	12,200	12,200	23,026	10,826
Intergovernmental	3,643,692	3,643,692	4,391,917	748,225
Fines and forfeitures	54,000	54,000	52,158	(1,842)
Investment income	61,000	61,000	51,470	(9,530)
Miscellaneous	11,600	11,600	33,470	21,870
Total revenues	<u>5,625,288</u>	<u>5,625,288</u>	<u>6,528,001</u>	<u>902,713</u>
Expenditures:				
Current:				
General government:				
Legislative	45,100	45,100	29,757	15,343
Executive	8,950	8,950	5,862	3,088
Finance and administrative	479,388	965,910	349,568	616,342
Other general government	3,924,805	3,924,805	1,157,199	2,767,606
	<u>4,458,243</u>	<u>4,944,765</u>	<u>1,542,386</u>	<u>3,402,379</u>
Public safety:				
Law enforcement	373,855	373,855	336,161	37,694
Fire control	1,022,071	1,022,071	1,018,529	3,542
	<u>1,395,926</u>	<u>1,395,926</u>	<u>1,354,690</u>	<u>41,236</u>
Physical environment:				
Roads and streets	465,274	465,274	486,911	(21,637)
Solid waste disposal	399,500	399,500	360,073	39,427
	<u>864,774</u>	<u>864,774</u>	<u>846,984</u>	<u>17,790</u>
Debt service:				
Principal	253,189	191,780	202,461	(10,681)
Interest	3,156	64,565	68,905	(4,340)
	<u>256,345</u>	<u>256,345</u>	<u>271,366</u>	<u>(15,021)</u>
Total expenditures	<u>6,975,288</u>	<u>7,461,810</u>	<u>4,015,426</u>	<u>3,446,384</u>

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
	Excess (Deficit) of Revenues Over Expenditures	<u>(1,350,000)</u>		
Other Financing Sources:				
Bonds issued	1,000,000	1,000,000	-	(1,000,000)
Total other financing sources	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>	<u>(1,000,000)</u>
Net Change in Fund Balance	<u>(350,000)</u>	<u>(836,522)</u>	<u>2,512,575</u>	<u>3,349,097</u>
Fund Balance - Beginning of Year	<u>350,000</u>	<u>836,522</u>	<u>836,522</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,349,097</u>	<u>\$ 3,349,097</u>

G-12

The accompanying Notes to Financial Statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2005

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G-14

Note 1 - Summary of Significant Accounting Policies:

Reporting Entity - The *City of Belle Isle, Florida* (the City) was incorporated April 25, 1924 under the laws of the State of Florida. The City operates under a Mayor-Commissioner form of government and provides the following services as authorized by its charter: public safety (fire and supplemental law enforcement), highways and streets, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services. The accompanying financial statements include all those separately administered departments and funds for which the City has financial accountability. There are no potential component units or related organizations of the City.

Government-Wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statements of changes on net assets) report information on all of the nonfiduciary activities of the City. Since the City has no business-type activities, only governmental activities are reported on the government-wide financial statements.

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.

The City has no fiduciary funds, which would be excluded from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue 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 government reports the following major governmental fund:

The general fund is the government's only operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, as well as fines. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Deposits and Investments - The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value. The State Board of Administration Local Government Investment Pool is administered by the State of Florida and operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables - Receivables consist primarily of amounts due from other governments. All receivables are deemed collectible, and no allowance for uncollectible accounts is considered necessary.

Restricted Assets - Proceeds of the revenue bonds are classified as restricted assets on the balance sheet because they are maintained in a separate bank account and their use is limited by applicable bond covenants.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued):

Capital assets - Capital assets, which include property, plant equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Infrastructure assets acquired prior to October 1, 2000 have not been recorded since GASB 34 does not require a city the size of Belle Isle to retroactively record infrastructure. Capital assets are defined by the government as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	5-15
Infrastructure	25-40
Equipment & machinery	5-15

Compensated Absences - Employees may accumulate vacation and sick leave with certain limitations as to the number of hours of accumulation. Employees are paid 100% of their accumulated vacation pay when they terminate for any reason. Accumulated sick leave is paid only upon retirement or termination because of disability, and is based on 25% of accumulated sick leave. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the general fund only if they have matured, for example, as a result of employee retirements.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

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 \$1,832,166 difference are as follows:

Bonds payable	\$1,690,000
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(40,737)
Add: Issuance premium (to be amortized over life of debt)	40,260
Accrued interest payable	22,416
Capital lease payable	96,256
Compensated absences	<u>23,972</u>
	<u>\$1,832,167</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 a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation includes the net effect of differences in the treatment of long-term debt and related items. The details of this \$140,961 difference are as follows:

Debt issued:	
Capital lease	\$ (61,500)
Principal payments	<u>202,461</u>
	<u>\$ 140,961</u>

Another element of the reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$22,244 difference are as follows:

Compensated absences	\$(23,972)
Accrued interest	1,629
Amortization of issuance costs	(5,368)
Amortization of premium	<u>5,467</u>
	<u>\$(22,244)</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 3 - Stewardship, Compliance and Accountability:

Excess of Expenditures Over Appropriations - For the year ended, September, 30, 2005, expenditures exceeded appropriations for debt service, as well as roads and streets department.

Budgetary Information - The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first Commission meeting in August, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the City's general fund.
2. Public hearings are conducted at the City Hall to obtain taxpayer comments. Prior to September 30, the budget is legally enacted through passage of a resolution.
3. The City cannot legally exceed the budget; however, the City Manager is authorized to transfer budgeted amounts within a department. Any revisions that change the total expenditures of any department must be approved by the City Commission. The legal level of budgetary control is the department level.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. Budgeted amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budget during the year. Encumbrance accounting is not employed. Unexpended and unencumbered appropriations lapse at the end of the fiscal year and are reappropriated in the ensuing year.

The General Fund budget is prepared on a budgetary basis, whereby the City includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as a budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior periods' excess of revenues over expenditures. Also, the Town does not budget for capital outlay expenditures and other financing sources related to the acquisition of assets through capital leases.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 3 - Stewardship, Compliance and Accountability (Continued):

For the 2005 fiscal year, the following adjustments were necessary to convert General Fund expenditures on the GAAP basis to the budgetary basis:

	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
GAAP basis	\$4,076,926	\$ 61,500
Non budgeted capital lease transactions	(61,500)	(61,500)
Budgetary basis	<u>\$4,015,426</u>	<u>\$ -</u>

Note 4 - Cash and Investments:

Following are the components of the City's cash and investments at September 30, 2005:

Cash	\$2,457,516
Restricted investments	855,024
	<u>\$3,312,540</u>

Deposits - At year-end, the carrying amount of the City's deposits was \$1,365,497 and the bank balance was \$1,393,889. All bank deposits were fully covered by federal depository insurance or by collateral held in banks that are members of the State of Florida's Collateral Pool as specified under Florida law. Florida Statutes provide for collateral pooling by banks and savings and loans. This limits local government deposits to "authorized depositories".

Investments - The City's investment policies are governed by State Statutes and City ordinances. City ordinance allows investments in any financial institution that is a qualified public depository of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the Florida Statutes. Authorized investments are:

1. The State Board of Administration Local Government Investment Pool (SBA);
2. Securities and Exchange Commission Registered Money Market Funds;
3. Savings accounts and certificates of deposit in state-certified qualified public depositories;
4. The Florida Municipal Investment Trust, administered by the Florida League of Cities, Inc.
5. U.S. Government Agency Securities and U.S. Treasury Bills, Notes and Bonds;
6. Overnight bank sweep accounts.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 4 - Cash and Investments (Continued):

The SBA is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund. Therefore, the pool account balance can be used as fair value for financial reporting.

The Florida Municipal Investment Trust (FMIT) consists of corporate bonds and stocks and cash equivalents. The fund is stated at fair value, and investment earnings are allocated to participants in the fund based on their equity participation.

Investments made by the City of Belle Isle at September 30, 2005 are summarized below. In accordance with GASB 31, investments are reported at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Florida Municipal Investment Trust	\$ 855,024	Unrated
State Board of Administration	1,003,116	Unrated
Repurchase agreements	<u>88,903</u>	Unrated
	<u>\$1,947,043</u>	

Credit Risk:

The City's investment policy limits credit risk by restricting authorized investments to those described above.

Custodial Credit Risk:

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2005, all of the city's bank deposits were in qualified public depositories.

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2005, none of the investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 4 - Cash and Investments (Continued):

Concentration of Credit Risk:

The City's investment policy requires diversification, but does not specify limits on types of investments.

Interest Rate Risk:

The City's investment policy does not specifically address interest rate risk, however the general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The City manages its exposure to declines in fair values by investing primarily in pooled investments that have a weighted average maturity of less than three months.

Note 5 - Property Tax:

G-18

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable by March 31. The County bills and collects property taxes. Collections of the property taxes by the county and remittance of them to the City are accounted for in the general fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

The City is permitted by the Municipal Finance Law of the State to levy taxes up to \$10 per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services for the year ended September 30, 2005, was 3.6655 per \$1,000 which means the City has a tax margin of 6.3345 per \$1,000 and could raise up to \$2,743,237 before discount, additional a year from the present assessed valuation of \$433,062,832 before the limit is reached.

Note 6 - Due from Other Governments:

Due from other governments consists of the following at September 30, 2005:

	General Fund
Half-cent sales tax	\$ 67,511
Local option gas tax	21,617
Telecommunications	24,659
FDOT	120,002
Other	13,487
Total	<u>\$247,276</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 7 - Capital Assets:

Capital asset activity for the year ended September 30, 2005 was as follows:

	Balance October 1, 2004	Increases	Decreases	Balance Sept. 30, 2005
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 165,823	\$ -	\$ -	\$ 165,823
Construction in progress	<u>271,563</u>	<u>264,577</u>	<u>(356,231)</u>	<u>179,909</u>
Total capital assets, not being depreciated	<u>437,386</u>	<u>264,577</u>	<u>(356,231)</u>	<u>345,732</u>
Capital assets, being depreciated:				
Buildings	590,306	-	-	590,306
Improvements	98,271	-	-	98,271
Equipment & machinery	654,804	62,742	-	717,546
Infrastructure	<u>757,725</u>	<u>381,971</u>	<u>-</u>	<u>1,139,696</u>
Total capital assets being depreciated	<u>2,101,106</u>	<u>444,713</u>	<u>-</u>	<u>2,545,819</u>
Less accumulated depreciated for:				
Buildings	(138,697)	(14,733)	-	(153,430)
Improvements	(15,899)	(9,358)	-	(25,257)
Equipment & machinery	(372,616)	(66,120)	-	(438,736)
Infrastructure	<u>(44,689)</u>	<u>(51,433)</u>	<u>-</u>	<u>(96,122)</u>
Total accumulated depreciation	<u>(571,901)</u>	<u>(141,644)</u>	<u>-</u>	<u>(713,545)</u>
Total capital assets being depreciated, net	<u>1,529,205</u>	<u>303,069</u>	<u>-</u>	<u>1,832,274</u>
Governmental activities capital assets, net	<u>\$1,966,591</u>	<u>\$ 567,646</u>	<u>\$(356,231)</u>	<u>\$2,178,006</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 7 - Capital Assets (Continued):

The source of governmental funds capital assets is the general fund.

Depreciation expenses was charged to functions/programs of the City as follows:

Governmental activities -	\$ 17,827
General government	<u>123,817</u>
Physical environment	<u>\$141,644</u>

Note 8 - Retirement Plans:

Employees Defined Contribution Plan - The City is the administrator of a single employer defined contribution money purchase pension plan. All full-time employees are eligible to participate in the plan after six months of service. As soon as an employee is eligible to participate in the plan, contributions made by the City are retroactive to date of hire. Under this plan, the City contributes 6% of the employees eligible wages. The contribution rate is established by the City Commission. Employees do not participate in the plan funding. Employees are 100% vested upon completion of five years of service. No fixed benefits are paid or payable upon retirement.

During the year ended September 30, 2005, the City's total payroll was \$622,739 and the current year's covered payroll for retirement plan purposes was approximately \$340,000. The City contributed \$20,912 to the plan. Total contributed is approximately 6% of the current year's covered payroll. The City has no unfunded liability under this plan.

Deferred Compensation Plan - The City also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the 457 Plan). The 457 Plan, available to all full-time employees immediately upon employment, permits them to defer a portion of their current salary until future years.

The City will match 50% of the employee's contribution to the 457 Plan up to 2% of compensation beginning after an employee has completed their six-month probationary period. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

In accordance with changes in federal law brought about by the Small Business Job Protection Act of 1996, eligible deferred compensation plans established and maintained by governmental employers must be amended to provide that all assets of the plan be held in trust for the exclusive benefit of plan participants and their beneficiaries. The City has executed amended plans with its third party administrators, which conform to the new provisions of the law. Accordingly, assets of these plans are no longer accounted for in the City's financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 9 - Long-Term Debt:

Long-term debt activity for the year ended September 30, 2005 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Capital Lease	\$ 67,217	\$ 61,500	\$ (32,461)	\$ 96,256	\$ 34,873
Revenue Bonds	1,860,000	-	(170,000)	1,690,000	175,000
Unamortized Premium	45,727	-	(5,467)	40,260	-
Compensated absences	-	<u>23,972</u>	-	<u>23,972</u>	-
	<u>\$1,972,944</u>	<u>\$ 85,472</u>	<u>\$(267,928)</u>	<u>\$1,850,488</u>	<u>\$209,873</u>

Capital Lease - The City has entered into lease agreements as lessee for financing the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes, and therefore have been recorded at the present value of the minimum lease payments of the inception date. A summary of equipment acquired through capital lease is as follows:

	Governmental <u>Activities</u>
Equipment	\$169,619
Less: Accumulated depreciation	<u>(75,431)</u>
	<u>\$ 94,188</u>

The future minimum lease obligations of the minimum lease payments at September 30, 2005 are as follows:

Year Ending <u>September 30,</u>	Governmental <u>Activities</u>
2006	\$ 38,375
2007	36,234
2008	13,377
2009	13,377
2010	<u>1,115</u>
Total minimum lease payments	102,478
Less: amount representing interest	<u>(6,222)</u>
Present value of minimum Lease payments	<u>\$ 96,256</u>

Revenue Bonds - The city has entered into two loan agreements with the Florida Municipal Loan Council (FMLC), whereby the FMLC issued Revenue Bonds and made loans to several cities including Belle Isle. The 2002C loan is secured by pledged half-cent sales tax revenue and the 2003B loan is secured by pledged communication services tax revenue.

CITY OF BELLE ISLE, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2005

Note 9 - Long-Term Debt (Continued):

Revenue bonds outstanding at year end are as follows:

<u>Governmental Activities</u>	<u>Interest Rates and Dates</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Balance September 30, 2005</u>
Florida Municipal Loan Council- Series 2002C	3.6486% (5/1 & 11/1)	11/1/12	<u>\$955,000</u>	\$ 790,000
Florida Municipal Loan Council- Series 2003B	3.4175% (6/1 & 12/1)	12/1/13	<u>\$985,000</u>	<u>900,000</u>
Total				<u>\$1,690,000</u>

Annual debt service requirements to maturity are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 175,000	\$ 57,002
2007	185,000	52,309
2008	185,000	47,051
2009	190,000	41,357
2010	200,000	34,606
2011-2014	<u>755,000</u>	<u>58,359</u>
	<u>\$1,690,000</u>	<u>\$290,683</u>

STATISTICAL SECTION

The statistical schedules differ from other financial statement presentations because they generally disclose more than one fiscal year and may present non-accounting data, such as social and economic data and financial trends of the City.

Note 10 - Risk Management:

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters. Risk of loss from the above is transferred by the City to various commercial insurers through the purchase of insurance. There has been no significant reduction in insurance coverage from the previous year. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

Note 11 - Contingencies:

During the ordinary course of its operations, the City is a party to various claims, legal actions, and complaints. In addition, although the outcome of these lawsuits is not presently determinable, in the opinion of the City's management and legal counsel, these matters are not anticipated to have a material financial impact on the City.

G-20

CITY OF BELLE ISLE, FLORIDA

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Physical Environment</u>	<u>Parks and Recreation (2)</u>	<u>Debt Service (3)</u>	<u>Total</u>
1996	276,816	730,620	667,241	56,118	-	1,730,795
1997	299,108	762,636	553,100	46,402	-	1,661,246
1998	280,000	895,645	937,639	45,562	-	2,158,846
1999	596,200	943,256	521,421	-	-	2,060,877
2000	774,433	980,394	666,629	-	-	2,421,456
2001	725,708	1,012,536	743,606	-	-	2,481,850
2002	603,549	1,102,273	882,515	-	2,078	2,590,415
2003	973,807	1,204,188	936,836	-	70,655	3,185,486
2004	4,019,375	1,263,807	1,125,337	-	180,799	6,589,318
2005	1,542,386	1,354,690	908,484	-	271,366	4,076,926

(1) Includes General Fund only.
 (2) Starting in 1999, parks and recreation is not budgeted as a separate function, but is included in general government.
 (3) There was no debt service in years prior to 2002.

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CITY OF BELLE ISLE, FLORIDA

GENERAL GOVERNMENTAL REVENUES BY SOURCE (1)

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-governmental Revenues</u>	<u>Fines and Forfeitures</u>	<u>Miscellaneous (2)</u>	<u>Total</u>
1996	894,955	3,347	927,566	26,326	139,968	1,992,162
1997	890,636	3,895	970,249	22,578	156,229	2,043,587
1998	917,657	3,952	1,084,574	24,248	191,544	2,221,975
1999	969,995	5,638	1,111,423	22,935	143,015	2,253,006
2000	975,991	7,053	1,190,895	19,126	207,196	2,400,261
2001	1,023,827	7,538	1,248,728	22,711	234,705	2,537,509
2002	1,165,267	9,209	1,105,704	15,575	132,260	2,428,015
2003	1,155,053	10,269	1,253,071	52,733	85,761	2,556,887
2004	1,514,213	12,421	1,238,791	74,857	85,390	2,925,472
2005	1,975,960	23,026	4,391,917	52,158	84,940	6,528,001

(1) Includes General Fund only.

(2) Includes Investment Income

CITY OF BELLE ISLE, FLORIDA

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy(1)</u>	<u>Total Tax Collections</u>	<u>Percentage of Total Collections To Tax Levy</u>
1996	789,788	764,343	96.8%
1997	782,872	764,270	97.6%
1998	800,138	774,023	96.7%
1999	847,017	821,493	97.0%
2000	857,833	823,937	96.0%
2001	879,006	849,832	96.7%
2002	983,997	923,947	93.9%
2003	1,027,578	966,895	94.1%
2004	1,283,473	1,226,058	95.5%
2005	1,587,392	1,605,909	101.2%

(1) Gross taxes before discounts of 1% - 4%, depending on month paid

G-22

CITY OF BELLE ISLE, FLORIDA

ASSESSED AND ESTIMATED VALUE OF TAXABLE PROPERTY (1)

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
1996	239,408,417	7,408,182	246,816,599
1997	243,942,166	8,817,188	252,759,354
1998	257,720,436	8,992,310	266,712,746
1999	273,812,875	8,526,264	282,339,139
2000	288,534,515	7,678,542	296,213,057
2001	304,274,080	7,209,170	311,483,250
2002	359,891,587	9,268,805	369,160,392
2003	377,489,304	8,093,638	385,582,942
2004	398,414,867	7,041,684	405,456,551
2005	425,763,108	7,299,724	433,062,832

(1) Florida State Law requires all property to be assessed at estimated fair market value

Source:
Orange County Property Appraiser

CITY OF BELLE ISLE, FLORIDA

**PROPERTY TAX RATES -
DIRECT AND OVERLAPPING GOVERNMENTS**

Last Ten Fiscal Years

<u>Millage Rates (\$1 per \$1,000 of taxable value)</u>				
<u>Fiscal Year</u>	<u>City of Belle Isle</u>	<u>Orange County</u>	<u>School Board</u>	<u>Total (a)</u>
1996	3.1999	5.2889	9.3750	17.8638
1997	3.0973	5.2889	9.1770	17.5632
1998	3.0000	5.2889	9.0770	17.3659
1999	3.0000	5.2889	9.0420	17.3309
2000	2.8960	5.2264	8.6120	16.7344
2001	2.8220	5.1639	8.5770	16.5629
2002	2.6655	5.1639	8.4320	16.2614
2003	2.6655	5.1639	7.8880	15.7174
2004	3.1655	5.1639	7.5400	15.8694
2005	3.6655	5.1639	7.7610	16.5904

CITY OF BELLE ISLE, FLORIDA

SPECIAL ASSESSMENT COLLECTIONS

Last Ten Fiscal Years

The *City of Belle Isle, Florida* did not have any material special assessment collections in the last ten fiscal years.

CITY OF BELLE ISLE, FLORIDA

COMPUTATION OF LEGAL DEBT MARGIN

September 30, 2005

There are no limitations placed upon the amount of debt the City may issue by the City's charter, code or ordinances, or by the Florida Statutes.

G-24

CITY OF BELLE ISLE, FLORIDA

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA**

Last Ten Fiscal Years

The *City of Belle Isle, Florida* has not had any General Bonded Debt being repaid from general property taxes in the last ten fiscal years.

CITY OF BELLE ISLE, FLORIDA

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL BONDED DEBT TO TOTAL
GENERAL GOVERNMENTAL EXPENDITURES**

Last Ten Fiscal Years

The *City of Belle Isle, Florida* has not had any General Bonded Debt in the last ten fiscal years.

CITY OF BELLE ISLE, FLORIDA
COMPUTATION OF DIRECT AND OVERLAPPING
GENERAL OBLIGATION DEBT

September 30, 2005

<u>Government Unit</u>	<u>Bonds Outstanding</u>	<u>Applicable to City of Belle Isle Percent (1)</u>	<u>Amount</u>
Library District Refunding Bonds-Series 1993	\$1,200,000	.72%	<u>\$8,640</u>
Total Overlapping Debt			8,640
Total Direct Debt (2)			-
Total Direct and Overlapping Debt			<u>\$8,640</u>

(1) Ratio of assessed valuation of taxable property in overlapping unit to that within the City of Belle Isle.

(2) The City of Belle Isle does not currently have any general obligation debt which is being repaid through general property taxes.

G-26

CITY OF BELLE ISLE, FLORIDA
REVENUE BOND COVERAGE

Last Ten Fiscal Years

The *City of Belle Isle, Florida* has not had any Revenue Bond Debt in the last ten fiscal years.

CITY OF BELLE ISLE, FLORIDA

DEMOGRAPHIC STATISTICS

Year	Population			
	City of Belle Isle		Orange County	
	Population	% Increase	Population	% Increase
1996	5,813	1.1	777,556	2.4
1997	5,860	.8	803,614	3.3
1998	5,933	1.2	824,095	2.5
1999	6,026	1.6	839,095	1.8
2000	6,148	2.0	896,333	6.8
2001	6,446	5.4	930,034	3.8
2002	6,015	(6.7)	955,500	2.7
2003	6,087	1.2	983,165	2.9
2004	6,087	-	1,013,937	3.1
2005	6,087	-	1,048,988	3.5

**Population
Distribution
By Age**

Year	Orange County
0-14	22%
15-24	15%
25-44	31%
45-64	22%
65 and over	10%

Source: University of Florida, Bureau of Economic and Business Research, East Central Florida Planning Council, Council Quarterly, Florida Statistical Abstract, Orange County Planning Dept. and Belle Isle Administrative Dept.

CITY OF BELLE ISLE, FLORIDA

PROPERTY VALUES AND CONSTRUCTION PERMITS

Last Ten Fiscal Years

Fiscal Year	Taxable Real Property Values ⁽¹⁾	Value of Construction Permits Issued ⁽²⁾
1996	239,408,417	2,686,000
1997	243,942,166	2,875,000
1998	257,720,436	5,803,000
1999	273,812,875	3,462,000
2000	288,534,515	6,072,000
2001	304,274,080	5,926,034
2002	359,891,587	19,218,903
2003	377,489,304	12,381,072
2004	398,414,867	8,049,307
2005	425,763,108	18,206,632

Sources:

- (1) Orange County Property Appraiser's Office
- (2) City of Belle Isle Building Department

G-27

CITY OF BELLE ISLE, FLORIDA

SCHEDULE OF PRINCIPAL TAXPAYERS

September 30, 2005

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Assessed Valuation As of 2004 Tax Roll (1)</u>	<u>Percentage</u>
1. C & P Global Enterprise, Inc.	Hotel	4,673,117	1.0%
2. Kuck, Paul	Residential	3,475,614	.8%
3. Efesos Properties	Commercial	3,155,291	.8%
4. McCoy Federal Credit Union	Commercial	3,129,103	.8%
5. Daryl M. Carter, Jr.	Commercial	3,079,069	.8%
6. Tandiono, Ferry Jr.	Residential	2,885,960	.6%
7. E-Z Rent A Car, Inc.	Car Rental	2,610,941	.6%
8. McCoy Condominium Investments UC	Commercial	2,513,548	.5%
9. Eck 36 Hoffner LLC	Commercial	2,366,252	.5%
10. LaSalle Bank NATR	Commercial	<u>2,327,689</u>	<u>.5%</u>
Total taxable assessed value of 10 largest Taxpayers		30,216,584	6.9%
Total taxable assessed value of other Taxpayers		<u>402,846,248</u>	<u>93.1%</u>
Total taxable assessed value of all Taxpayers		<u>\$433,062,832</u>	<u>100.00%</u>

Note:

⁽¹⁾ The tax levy for the fiscal year ended September 30, 2005 is based on the 2004 taxable value.

CITY OF BELLE ISLE, FLORIDA

MISCELLANEOUS STATISTICAL DATA

September 30, 2005

Date of Incorporation	April 25, 1924
City Charter Adopted	September 17, 1974
Commission Composed of:	1 Mayor, 7 Commissioners
Terms of Office:	
Mayor	3 Years
Commissioners	3 Years
City Manager	Appointed
Areas of City	5.1 Square Miles
Municipal Employees (Including Part-Time)	10
Elections:	
Registered voters	3,900
Votes cast in last municipal elections (2004)	1,464
Miles of Streets, Sidewalks and Bike Paths:	
Streets - unpaved (in miles)	0.3
Streets - paved (in miles)	23.3
Streets - brick	0
Sidewalks	25
Bike paths	0
Fire Protection:	
(by Contract with Orange County)	
Police Protection:	
(Protected by Orange County Sheriff's Department)	
Recreation:	
Multi-purpose recreation center	0
Community Center	0
Athletic fields	0
Tennis courts	0
Racquetball courts	0
Shuffleboard courts	0
Passive parks	6
Parks and recreation developed areas	2
Water System:	N/A

APPENDIX H

Financial Information Regarding City of Deerfield Beach

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues:			
Property Taxes	\$24,066,752	\$26,970,581	\$30,962,884
Sales taxes	3,774,962	3,786,457	3,970,596
Fire Assessment Fees	2,956,946	2,862,874	3,432,997
Franchise Fees	6,987,928	7,936,735	8,557,013
Licenses and permits	1,567,473	1,619,185	1,420,371
Intergovernmental	2,813,054	3,693,398	3,531,562
Charges for services	4,271,240	4,392,517	5,738,349
Fines and forfeitures	1,168,292	1,439,242	1,417,522
Miscellaneous:			
Investment earnings	128,619	115,055	318,524
Insurance proceeds	16,787	7,022	20,786
Donations/Contributions	1,391,790	1,440,988	1,695,628
Administrative fees	2,175,850	2,464,748	2,866,754
Other	<u>224,082</u>	<u>339,666</u>	<u>298,017</u>
Total revenues	51,543,775	57,068,468	64,231,003
Expenditures:			
Current:			
General government	13,673,590	16,174,616	14,800,858
Public safety	25,865,728	29,925,936	33,403,359
Economic environment	20,200	21,250	13,750
Human services	2,135,110	2,146,516	2,140,622
Physical environment	2,925,762	3,431,002	4,191,882
Transportation	248,974	104,261	91,897
Culture and recreation	2,675,202	2,929,758	3,754,866
Debt Service:			
Principal	632,702	632,349	688,042
Interest and Fiscal charges	74,606	84,354	50,506
Total expenditures	48,251,874	55,450,042	59,135,782
Excess (Deficiency) of revenues over (under) expenditures	3,291,901	1,618,426	5,095,221
Other financing sources (uses):			
Capital lease proceeds	352,860	1,371,098	1,392,229
Operating transfers in	762,781	1,755,736	854,097
Operating transfers out	(1,945,460)	(2,877,842)	(3,546,462)
Total other financing sources (uses)	(829,819)	248,992	(1,300,136)
Net change in fund balances	2,462,082	1,867,418	3,795,085
Fund balances - beginning	<u>3,407,779</u>	<u>5,869,861</u>	<u>7,737,279</u>
Fund balances - ending	<u>\$ 5,869,861</u>	<u>\$ 7,737,279</u>	<u>\$ 11,532,364</u>

The obligation of the City of Deerfield Beach to pay the Loan Payments is limited as described in the Official Statement. Certain of the above revenues may not be legally available to make, nor are any of the above revenues pledged to, the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and Members of the
City Commission
City of Deerfield Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Deerfield Beach, Florida (the "City"), as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Deerfield Beach Municipal Firemen's Pension Trust Fund and the City of Deerfield Beach Municipal Police Officer's Retirement Plan, which statements represent 63% of the total assets and 51% of total revenue of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Deerfield Beach Municipal Firemen's Pension Trust Fund and the City of Deerfield Beach Municipal Police Officer's Retirement Plan is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Deerfield Beach, Florida as of September 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 17, 2006 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis, the budgetary comparison information and the pension fund schedule of funding progress and employer contributions on pages 3 through 13, page 54 and page 55, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, 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 by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, 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. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Fort Lauderdale, Florida
March 17, 2006

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

The management of the City of Deerfield Beach (City) presents this narrative overview and analysis to facilitate both a short and long term analysis of the financial activities of the City of Deerfield Beach for the fiscal year ended September 30, 2005. This Management's Discussion and Analysis is based on currently known facts, decisions and conditions that existed as of the date of the independent auditor's report. The information presented is in accordance with Governmental Accounting Standards Board Statement Number 34 (GASB 34). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - v of this report.

Financial Highlights

- The total assets of the City of Deerfield Beach at September 30, 2005 increased \$5.1 million from \$180.3 million to \$185.4 million, or 2.8% from the prior year. The most significant components of this increase included an increase in capital assets of \$9.4 million, a decrease in cash and investments of \$3.8 million to pay for these capital additions, an increase in receivables of \$1.1 million due primarily to increased EMS revenues and a decrease in the amounts due from other governments of \$1.5 million as a result of receipt of monies from FEMA and other agencies for past hurricane related expenditures.
- The City's total liabilities decreased \$1.3 million from \$85.3 million to \$84.0 million from the prior year. The majority of this decrease resulted from normal debt retirement.
- The assets of the City of Deerfield Beach exceeded its liabilities at the close of the most recent fiscal year by \$101.4 million (net assets). Of this amount, \$43.8 million was from governmental funds and \$57.6 million was from business-type activities. A sizable portion of this increase can be found in the addition of capital assets during the fiscal year.
- As of the close of the current fiscal year, the City of Deerfield Beach's governmental funds reported combined ending fund balances of \$37.5 million. Slightly more than 88 percent of this total amount, \$33.1 million, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$9.3 million, or 15.8 percent of total general fund expenditures. This increase of \$3.8 million is indicative of the City's strengthening financial position from the prior year.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Deerfield Beach's finances, in a manner similar to a private-sector business and include both long term and short term information about the City's financial status.

The statement of net assets presents information on all of the City of Deerfield Beach's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases

in net assets may serve as a useful indicator of whether the financial position of the City of Deerfield Beach is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in a future fiscal period. Examples of such items include earned but uncollected ad valorem taxes and earned, but unused compensated absences.

Both of the government-wide financial statements distinguish functions of the City of Deerfield Beach that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, economic environment, public safety, human services, physical environment, transportation, and culture and recreation. The business-type activities of the City of Deerfield Beach include water and sewer activity and solid waste services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Community Redevelopment Agency (CRA) for which the City is financially accountable. Although legally separate, the CRA's governing body is identical to the City Commission, and because the services of the CRA are exclusively for the benefit of the City and its residents, it is included as an integral part of the primary government.

The government-wide financial statements can be found on pages 14 - 16 of this report.

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

Governmental funds. Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net income determination. Therefore, unlike the government-wide financial statements, governmental fund financial statements focus on the acquisition and use of current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Deerfield Beach maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for those funds that are considered significant (major) to the City as a whole. These financial statements report two major funds: general fund and general construction fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements that are found on pages 59 - 66 of this report.

H-4

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

The City of Deerfield Beach adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17 and 19 of this report.

Proprietary funds. Proprietary funds are used to account for activities where the emphasis is placed on net income determination. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements with greater detail. The City of Deerfield Beach uses enterprise funds to account for its water and sewer operations as well as its solid waste activities. The enterprise funds, both of which are considered to be major funds of the City, are reported separately as proprietary fund financial statements in the basic financial statements.

The basic proprietary fund financial statements can be found on pages 21 - 25 of this report.

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

The basic fiduciary fund financial statements can be found on pages 26 - 27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 - 53 of this report and should be read in conjunction with the City's financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI) concerning the City of Deerfield Beach's progress in funding its obligation to provide pension benefits to its employees, budgetary comparisons for the general fund and the budget to accounting principles generally accepted in the United States of America reconciliation schedule. RSI can be found on page 54 - 56 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the RSI on pensions. Combining and individual fund statements and schedules can be found on pages 59 - 74 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Deerfield Beach, assets exceeded liabilities by \$101.4 million at the close of fiscal year 2005.

The largest portion of the City of Deerfield Beach's net assets (76.7%) reflects its investment in capital assets (e.g., land, buildings, equipment, improvements, utility plants and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Deerfield Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Deerfield Beach's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Deerfield Beach's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$47,714,443	\$49,655,276	\$17,117,260	\$19,417,439	\$64,831,703	\$69,072,715
Capital assets	<u>57,021,745</u>	<u>48,489,532</u>	<u>63,572,920</u>	<u>62,723,660</u>	<u>120,594,665</u>	<u>111,213,192</u>
Total assets	<u>104,736,188</u>	<u>98,144,808</u>	<u>80,690,180</u>	<u>82,141,099</u>	<u>185,426,368</u>	<u>180,285,907</u>
Current liabilities	5,821,643	5,973,769	2,628,630	3,564,389	8,450,273	9,538,158
Long-term liabilities	<u>55,153,631</u>	<u>53,847,765</u>	<u>20,434,891</u>	<u>21,913,969</u>	<u>75,588,522</u>	<u>75,761,734</u>
Total liabilities	<u>60,975,274</u>	<u>59,821,534</u>	<u>23,063,521</u>	<u>25,478,358</u>	<u>84,038,795</u>	<u>85,299,892</u>
Net assets:						
Invested in capital assets, net of related debt	33,334,631	28,352,211	44,493,424	40,412,891	77,828,055	68,765,102
Restricted	5,166,154	7,240,711	4,404,024	8,843,666	9,570,178	16,084,377
Unrestricted	<u>5,260,129</u>	<u>2,730,352</u>	<u>8,729,211</u>	<u>7,406,184</u>	<u>13,989,340</u>	<u>10,136,536</u>
Total net assets	<u>\$43,760,914</u>	<u>\$38,323,274</u>	<u>\$57,626,659</u>	<u>\$56,662,741</u>	<u>\$101,387,573</u>	<u>\$94,986,015</u>

An additional portion of the City of Deerfield Beach's net assets (9.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$14.0 million) may be used to meet the government's ongoing obligations to citizens and creditors.

The net assets of business-type activities increased \$0.9 million to \$57.6 million in 2005. The City generally can only use these net assets to finance the continuing operations of the specific enterprise activity that it relates to.

The City's current and other assets decreased by \$4.3 million from \$69.1 million to \$64.8 million. This decrease is primarily due to the use of cash and investments for the addition of capital assets throughout the fiscal year.

Capital assets increased \$9.4 million from \$111.2 million to \$120.6 million, or 8.5% from the prior year. This increase is mainly due to the completion of the Middle School athletic center and aquatic complex, commencement of construction of the public works facility as well as the mitigation operations center and the Ocean Way beach revitalization.

The City's total noncurrent liabilities decreased \$0.2 million from \$75.8 million to \$75.6 million, or less than one percent from the prior year. This was due to various changes in amounts due for compensated absences, insurance claims payable and bonds, loans and leases payable.

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

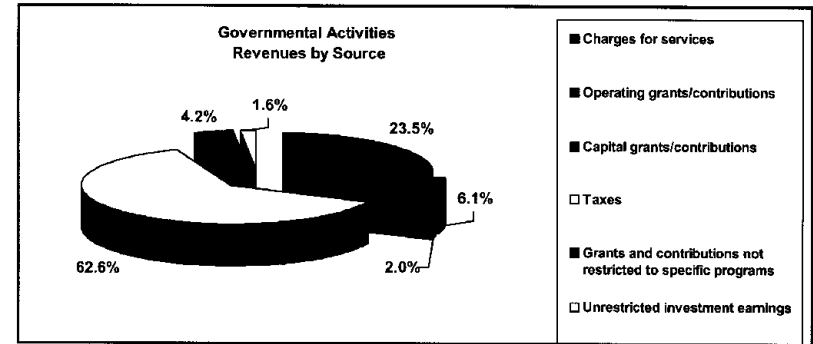
City of Deerfield Beach's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 17,274,521	\$ 13,833,726	\$ 33,170,886	\$ 31,803,347	\$ 50,445,407	\$ 45,637,073
Operating grants/contributions	4,458,951	5,229,862	-	-	4,458,951	5,229,862
Capital grants/contributions	1,521,244	2,470,520	111,760	213,360	1,633,004	2,683,880
General revenues:						
Taxes	46,072,064	41,201,384	-	-	46,072,064	41,201,384
Grants and contributions not restricted to specific programs and miscellaneous	3,112,942	2,348,895	-	-	3,112,942	2,348,895
Unrestricted investment earnings	1,183,078	497,863	377,479	146,225	1,560,557	644,088
Total revenues	73,623,800	65,582,250	33,660,125	32,162,932	107,283,925	97,745,182
Expenses:						
General government	16,465,472	13,173,248	-	-	16,465,472	13,173,248
Economic environment	1,104,229	1,209,660	-	-	1,104,229	1,209,660
Public safety	34,156,399	29,863,193	-	-	34,156,399	29,863,193
Human services	2,489,242	2,338,711	-	-	2,489,242	2,338,711
Physical environment	4,640,670	3,642,515	-	-	4,640,670	3,642,515
Transportation	2,839,192	2,476,519	-	-	2,839,192	2,476,519
Culture and recreation	4,777,558	3,781,281	-	-	4,777,558	3,781,281
Interest on long term debt	1,713,398	1,512,795	-	-	1,713,398	1,512,795
Water and sewer	-	-	18,577,991	15,564,964	18,577,991	15,564,964
Solid waste	-	-	14,118,216	11,821,977	14,118,216	11,821,977
Total expenses	68,186,160	57,997,922	32,696,207	27,186,941	100,882,367	117,881,070
Increase in net assets before transfers	5,437,640	7,584,328	963,918	4,975,991	6,401,558	12,560,319
Transfers	-	960,000	-	(960,000)	-	-
Increase in net assets	5,437,640	8,544,328	963,918	4,015,991	6,401,558	12,560,319
Net assets, October 1	38,323,274	29,778,946	56,662,741	52,646,750	94,986,015	82,425,696
Net assets, September 30	\$ 43,760,914	\$ 38,323,274	\$ 57,626,659	\$ 56,662,741	\$ 101,387,573	\$ 94,986,015

The City's expenses cover a broad range of services, with approximately 50.09% of governmental activity expenses related to public safety (fire/rescue and police protection). The City's total revenues exceeded its expenses for governmental activities by a 5.8% margin while business-type activities had 6.2% more revenues than expenses.

The next chart compares program revenues and expenses for the individual governmental activities for the current year. As the chart reflects, all governmental activities relied on general revenues to support the function.

The next chart shows the percent of the total for each source of revenue supporting governmental activities.

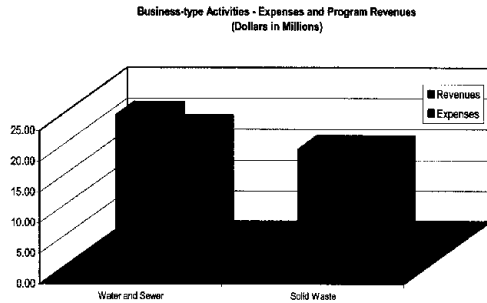


Business-type activities. Business-type activities increased the City's net assets by \$1.0 million after transfers, thereby accounting for 15.0% of the total growth in net assets.

The following chart compares program revenues to expenses by individual business-type activity for the current year. These business-type activities recover more costs through program revenues than governmental activities and both the water and sewer and solid waste funds generated sufficient revenues to cover current expenses.

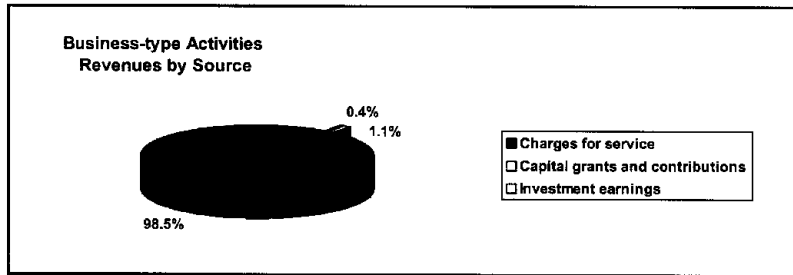
Governmental activities. Governmental activities increased the City's net assets by \$5.4 million after transfers, thereby accounting for 85.0% of the total growth in total net assets. The City's total revenues totaled \$73.6 million in governmental activities. Of revenues, 62.6% is generated from taxes, 23.5% is from charges for services, operating grants/contributions comprise 6.1%, capital grants/contributions make up 2.0%, grants and contributions not restricted to specific programs and miscellaneous revenues equals 4.2%, and unrestricted investment earnings generates 1.6%.

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005



The following chart shows that over 98% of revenues from business-type activities are generated by charges for services.

H-7



Financial Analysis of the City's Funds

The City of Deerfield Beach uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

As of the end of the current fiscal year, the City of Deerfield Beach's governmental funds reported combined ending fund balances of \$37.5 million, a decrease of \$2.6 million from the prior year's ending balances of \$40.1 million. Approximately 88.4% of this total amount (\$33.1 million) constitutes unreserved fund balance, which is available for spending at the government's discretion, subject to reporting fund-type limitations. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$1.8 million), 2) to pay debt service (\$131,205), 3) to generate income to pay for the perpetual care of the municipal cemetery (\$1.7 million), or 4) for a variety of other restricted purposes (\$0.7 million).

The general fund is the chief operating fund of the City of Deerfield Beach. At the end of the current fiscal year, unreserved fund balance of the general fund was \$9.3 million, while total fund balance reached \$11.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 15.8% of total general fund expenditures, while total fund balance represents approximately 19.5% of that same amount.

The unreserved fund balance of the City of Deerfield Beach's general fund increased by \$3.8 million during the current fiscal year. Key factors in this growth are as follows:

- Ad valorem revenues increased by \$4.0 million due to increased assessed values on property transactions and new construction in Deerfield Beach.
- Charges for service increased by \$1.3 million in fiscal year 2005 primarily as a result of increased ambulance transport fees.
- Public safety expenditures increased by \$3.5 million, or 11.7% due to increased personnel costs as per labor agreements, increased costs of funding the City's pension for uniformed personnel and additional contractual costs for police services with Broward Sheriff's Office.
- Culture and recreation costs increased by \$0.8 million as the city began staffing the new aquatic center and took over the operation of the international municipal pier as of January 1, 2005. The increased costs associated with the pier also provided a revenue stream of over \$0.3 million through charges for services for pier admittance as well as parking fees in the municipal lot adjacent to the pier.

The general construction fund balance decreased by \$6.5 million primarily due to the completion of some sizable capital projects within the city. The athletic complex and aquatic center built on the campus of Deerfield Beach Middle School in partnership with the School Board of Broward County was completed in fiscal 2005. This facility houses a competition size swimming pool with state of the art geothermal cooling and heating systems. Also completed in fiscal year 2005 were improvements to Ocean Way. This \$2.8 million project included infrastructure improvements, enhanced lighting, drainage and brick pavers.

Proprietary funds. The City of Deerfield Beach's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Restricted net assets in the water and sewer fund totaled \$4.4 million at the end of fiscal year 2005. Unrestricted net assets of the water and sewer fund at the end of the year amounted to \$7.8 million, and those for the solid waste fund amounted to \$0.9 million. Factors concerning the finances of these two funds have already been addressed in the discussion of the City of Deerfield Beach's business-type activities.

General Fund Budgetary Highlights

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

The difference between the original budget and the final amended budget was an increase of \$4,808,309. The increases were allocated as follows: \$155,000 to city attorney, \$100,000 to public works and \$4,553,309 to other-unclassified. Miscellaneous increases in revenues funded these additional expenditures in addition to a cash carryover of \$4,808,309 from the prior year.

During the year, actual revenues exceeded budgetary estimates and actual expenditures were less than budgetary appropriations. The net change in fund balance during the year was an increase of \$8.0 million, thus eliminating the need to draw upon existing fund balance.

Capital Asset and Debt Administration

Capital assets. The City of Deerfield Beach's capital assets for its governmental and business type activities as of September 30, 2005, amounts to \$120.6 million (net of accumulated depreciation). These capital assets include land, buildings, improvements other than building (such as park improvements), equipment, utility plants in service and infrastructure (roads, highways, bridges). The total increase in the City's capital assets for the current fiscal year was 8.4% (17.5% for governmental activities and 1.4% for business type activities). The following table summarizes the City's capital assets.

City of Deerfield Beach's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 9,185,192	\$ 8,755,876	\$ 50,531	\$ 50,531	\$ 9,235,723	\$ 8,806,407
Buildings	5,675,128	5,940,684	1,010,468	1,070,211	6,685,596	7,010,895
Improvements other than buildings	2,542,130	1,309,951	30,023,088	31,153,604	32,565,218	32,463,555
Equipment	3,147,131	3,405,269	3,841,917	3,142,639	6,989,048	6,547,908
Utility plants in service	-	-	27,511,869	26,534,330	27,511,869	26,534,330
Infrastructure	26,709,705	17,366,389	-	-	26,709,705	17,366,389
Construction in progress	<u>9,762,459</u>	<u>11,711,383</u>	<u>1,135,047</u>	<u>772,345</u>	<u>10,897,506</u>	<u>12,483,708</u>
Total	<u>\$ 57,021,745</u>	<u>\$ 48,489,532</u>	<u>\$ 63,672,920</u>	<u>\$ 62,723,660</u>	<u>\$ 120,594,665</u>	<u>\$ 111,213,192</u>

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

- Completion of the new Middle School athletic complex and aquatic center.
- Construction of Ocean Way enhancements.
- Construction in progress for the public works facility.
- Construction in progress for the mitigation operations center.
- Construction in progress for the S-Curve Improvements

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

- Various water treatment improvements.

Additional information on the City of Deerfield Beach's capital assets can be found in Note III (C) on pages 39 - 40 of this report.

Long term debt. At year-end, the City of Deerfield Beach had \$32.3 million in general obligation bonds and \$0.9 million in revenue bonds outstanding. New debt resulted mainly from the issuance of capital leases in the amount of \$2.6 million. This funding is for various equipment utilized for essential city functions.

The City continues to maintain high investment grade ratings from the three major rating agencies. Ratings of A from Fitch Ratings, AA- from Standard and Poor's Corporation and Aa3 from Moody's Investor Service, Inc. remain unchanged from the prior fiscal year.

City of Deerfield Beach's Outstanding Debt
(Bonds, Loans and Leases Payable)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds (backed by the City)	\$ 32,281,189	\$ 33,492,219	\$ -	\$ -	\$ 32,281,189	\$ 33,492,219
Revenue bonds	500,000	970,000	420,000	3,385,000	920,000	4,355,000
Covenant bonds	9,245,000	9,305,000	-	-	9,245,000	9,305,000
Add/(subtract) premiums/(discount)	1,017,998	1,080,648	(465)	(2,620)	1,017,533	1,078,028
Capital leases	2,653,604	1,934,053	2,118,674	1,641,904	4,782,278	3,575,957
Loan payable	-	-	<u>16,941,287</u>	<u>17,182,818</u>	<u>16,941,287</u>	<u>17,182,818</u>
Total bonds, loans and leases payable	<u>\$ 45,707,791</u>	<u>\$ 46,771,920</u>	<u>\$ 19,079,496</u>	<u>\$ 22,207,102</u>	<u>\$ 64,787,287</u>	<u>\$ 68,979,022</u>

The City's general obligation debt per capita, excluding enterprise fund debt, was \$419 at the end of fiscal year 2005. The City's outstanding net general obligation debt was .44% of the City's assessed property value. The legal debt limit as per City Charter is 15% of assessed property value and the City has reached approximately 3.04% of this limit.

Additional information on the City of Deerfield Beach's long-term debt can be found in Note III (H) on pages 42 - 45 of this report.

Economic Factors and Next Year's Budgets and Rates

During the preparation of the budget for the ensuing fiscal year, the City evaluated the long-term impacts of the national and local economies in conjunction with business decisions made. The following are the major assumptions used in formulating the fiscal 2006 budget:

The nation's economy will continue to grow at a modest rate. Florida will experience employment growth that slightly exceeds that of the country. The City's population will grow as Broward County continues to experience a demand for housing and employment. The property tax base will increase by approximately 10%.

City of Deerfield Beach, Florida
Management's Discussion and Analysis
For the Year Ended September 30, 2005

Salaries will increase by 3%.

Health benefit costs will increase by 18%.

Water, wastewater and residential solid waste rates will remain at the same level as the previous fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$9.3 million. The City does not plan to appropriate any of this amount for spending in the 2006 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Deerfield Beach's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Management and Budget, City of Deerfield Beach, 150 N.E. 2nd Avenue, Deerfield Beach, Florida 33441.

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CITY OF DEERFIELD BEACH, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005



	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,277,325	\$ 1,020,776	\$ 4,298,101
Investments	39,335,410	10,997,465	50,332,875
Receivables (net of allowances)	685,508	4,421,163	5,106,671
Internal balances	(127,662)	127,662	-
Due from other governments	3,274,259	221,165	3,495,424
Inventories	283,962	326,281	610,243
Prepays	461,188	1,315	462,503
Deferred charges	524,453	1,433	525,886
Capital assets:			
Non-depreciable	18,947,651	1,185,578	20,133,229
Depreciable (net)	<u>38,074,094</u>	<u>62,387,342</u>	<u>100,461,436</u>
Total assets	<u>104,736,188</u>	<u>80,690,180</u>	<u>185,426,368</u>
LIABILITIES			
Accounts payable	917,999	1,687,505	2,605,504
Accrued liabilities	627,712	297,395	925,107
Accrued interest payable	653,307	191,622	844,929
Unearned revenue	2,024,633	10,000	2,034,633
Payable from restricted assets:			
Accounts payable	1,564,460	-	1,564,460
Accrued liabilities	33,532	-	33,532
Customer deposits	-	442,108	442,108
Non-current liabilities:			
Due within one year:			
Compensated absences	1,597,988	620,103	2,218,091
Insurance claims payable	2,832,460	-	2,832,460
Bonds, loans and leases payable	2,881,166	1,551,082	4,432,248
Due in more than one year:			
Compensated absences	1,720,832	735,292	2,456,124
Insurance claims payable	3,294,560	-	3,294,560
Bonds, loans and leases payable	<u>42,826,625</u>	<u>17,528,414</u>	<u>60,355,039</u>
Total liabilities	<u>60,975,274</u>	<u>23,063,521</u>	<u>84,038,795</u>
NET ASSETS			
Invested in capital assets, net of related debt	33,334,631	44,493,424	77,828,055
Restricted for:			
Debt service	169,113	704,024	873,137
Perpetual care	1,699,755	-	1,699,755
Rate stabilization	-	3,600,000	3,600,000
Renewal and replacement	-	100,000	100,000
Transportation	2,298,523	-	2,298,523
Other purposes	998,763	-	998,763
Unrestricted	<u>5,260,129</u>	<u>8,729,211</u>	<u>13,989,340</u>
Total net assets	<u>\$ 43,760,914</u>	<u>\$ 57,626,659</u>	<u>\$ 101,387,573</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DEERFIELD BEACH, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 16,465,472	\$ 4,522,561	\$ -	\$ -	\$ (11,942,911)	\$ -	\$ (11,942,911)
Economic environment	1,104,229	-	836,039	-	(268,190)	-	(268,190)
Public safety	34,156,399	9,730,171	488,879	-	(23,937,349)	-	(23,937,349)
Human services	2,489,242	590,202	1,502,191	-	(396,849)	-	(396,849)
Physical environment	4,640,670	236,985	114,311	-	(4,289,374)	-	(4,289,374)
Transportation	2,839,192	1,213,092	1,231,792	-	(394,308)	-	(394,308)
Culture and recreation	4,777,558	981,510	286,739	1,521,244	(1,988,065)	-	(1,988,065)
Interest and fiscal charges	1,713,398	-	-	-	(1,713,398)	-	(1,713,398)
Total governmental activities	<u>68,186,160</u>	<u>17,274,521</u>	<u>4,459,951</u>	<u>1,521,244</u>	<u>(44,930,444)</u>	<u>-</u>	<u>(44,930,444)</u>
Business-type activities:							
Water and sewer	18,577,991	19,001,300	-	111,760	-	535,069	535,069
Solid waste	14,118,216	14,169,586	-	-	-	51,370	51,370
Total business-type activities	<u>32,696,207</u>	<u>33,170,886</u>	<u>-</u>	<u>111,760</u>	<u>-</u>	<u>586,439</u>	<u>586,439</u>
Total	<u>\$ 100,882,367</u>	<u>\$ 50,445,407</u>	<u>\$ 4,459,951</u>	<u>\$ 1,633,004</u>	<u>(44,930,444)</u>	<u>586,439</u>	<u>(44,344,005)</u>
General revenues:							
Property taxes					30,962,884	-	30,962,884
Incremental property taxes					816,523	-	816,523
Sales taxes					3,970,596	-	3,970,596
Franchise taxes					9,082,753	-	9,082,753
Motor fuel taxes					1,239,308	-	1,239,308
Alcoholic beverage/mobile home license taxes					54,143	-	54,143
Grants and contributions not restricted to specific programs					2,779,545	-	2,779,545
Unrestricted investment earnings					1,183,078	377,479	1,560,557
Miscellaneous					279,254	-	279,254
Total general revenues and transfers					<u>50,368,084</u>	<u>377,479</u>	<u>50,745,563</u>
Change in net assets					5,437,640	963,918	6,401,558
Net assets - beginning					38,323,274	56,662,741	94,986,015
Net assets - ending					<u>\$ 43,760,914</u>	<u>\$ 57,626,659</u>	<u>\$ 101,387,573</u>

H-11

The notes to the financial statements are an integral part of this statement.

CITY OF DEERFIELD BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

CITY OF DEERFIELD BEACH, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	General	General Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 721,195	\$ 261,261	\$ 2,294,869	\$ 3,277,325
Investments	10,020,349	24,836,918	4,478,143	39,335,410
Receivables (net):				
Accounts	588,918	-	254	589,172
Assessments	1,707	-	-	1,707
Interest	14,483	71,802	8,344	94,629
Due from other funds	3,339,845	-	43,115	3,382,960
Due from other governments	1,489,363	-	1,784,896	3,274,259
Inventories	283,962	-	-	283,962
Prepaid items	461,188	-	-	461,188
Total assets	<u>\$ 16,921,010</u>	<u>\$ 25,169,981</u>	<u>\$ 8,609,621</u>	<u>\$ 50,700,612</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	917,999	1,432,272	132,188	2,482,459
Accrued liabilities	3,490,172	-	33,532	3,493,704
Due to other funds	127,662	1,717,031	1,665,929	3,510,622
Unearned revenue	882,813	-	2,856,931	3,741,744
Total liabilities	<u>5,388,646</u>	<u>3,149,303</u>	<u>4,690,580</u>	<u>13,228,529</u>
Fund balances:				
Reserved for:				
Encumbrances	1,433,063	317,507	2,100	1,752,670
Prepaid items	461,188	-	-	461,188
Inventories	283,962	-	-	283,962
Debt service	-	-	131,205	131,205
Perpetual care	-	-	1,699,755	1,699,755
Unreserved, reported in:				
General fund	9,354,151	-	-	9,354,151
Special revenue funds	-	-	3,295,186	3,295,186
Debt service funds	-	-	166,762	166,762
Capital projects funds	-	21,703,171	(1,375,967)	20,327,204
Total fund balances	<u>11,532,364</u>	<u>22,020,678</u>	<u>3,919,041</u>	<u>37,472,083</u>
Total liabilities and fund balances	<u>\$ 16,921,010</u>	<u>\$ 25,169,981</u>	<u>\$ 8,609,621</u>	<u>\$ 50,700,612</u>

The notes to the financial statements are an integral part of this statement.

Fund balances, total governmental funds:	\$ 37,472,083
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.	
Governmental capital assets	96,522,822
Less: accumulated depreciation	(39,501,077)
Net capital assets	57,021,745
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Accrued interest payable on long-term bonds	(653,307)
Bonds and notes payable	(42,026,189)
Capital leases payable	(2,663,606)
Insurance claims payable	(3,294,580)
Compensated absences	(3,318,820)
Total	(51,956,482)
Unearned revenue in the funds is susceptible to full accrual.	
Revenues previously deferred increases net assets.	1,717,111
Bond premiums, discounts, gains and losses related to the issuance of long-term debt are charged to "Other Financing Sources and Uses" when debt is issued in the governmental funds. These items, however, must be capitalized and amortized over the life of the bonds in the government-wide financial statements.	
Bond premium, beginning	(1,080,648)
Amortization	62,652
Unamortized premium, September 30, 2005	(1,017,996)
Financing costs related to the issuance of long-term debt are expensed by governmental funds in the fund financial statements; under full accrual accounting, these amounts are treated as an asset and are amortized over the life of the debt in the government-wide financial statements.	
Bond issuance costs, beginning	553,798
Amortization	(29,345)
Unamortized deferred charges, September 30, 2005	524,453
Net assets of governmental activities	<u>\$ 43,760,914</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DEERFIELD BEACH, FLORIDA
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	General	General Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 30,962,884	\$ -	\$ 816,523	\$ 31,779,407
Sales taxes	3,970,596	-	-	3,970,596
Fire assessment fees	3,432,997	-	-	3,432,997
Franchise fees	8,557,013	-	525,740	9,082,753
Local option gas tax	-	-	1,239,308	1,239,308
Licenses and permits	1,420,371	-	-	1,420,371
Intergovernmental	3,531,562	1,007,839	3,611,924	8,151,325
Charges for services	5,738,349	-	558,292	6,296,641
Fines and forfeitures	1,417,522	-	45,648	1,463,170
Investment earnings	318,524	804,843	139,037	1,262,404
Miscellaneous:				
Parking deviation fees	-	-	12,000	12,000
Cemetery plot sales	-	-	124,695	124,695
Insurance proceeds	20,786	-	-	20,786
Donations/contributions	1,605,628	-	83,530	1,779,158
Administrative fees	2,866,754	-	220,369	3,087,123
Other	298,017	-	16,420	314,437
Total revenues	<u>64,231,003</u>	<u>1,812,682</u>	<u>7,391,486</u>	<u>73,435,171</u>
EXPENDITURES				
Current:				
General government	14,800,858	-	-	14,800,858
Economic environment	13,750	-	1,089,831	1,103,581
Public safety	33,403,359	-	415,575	33,818,934
Human services	2,140,622	-	243,626	2,384,248
Physical environment	4,191,882	-	107,499	4,299,381
Transportation	91,897	-	1,821,677	1,913,574
Culture and recreation	3,754,866	-	749,367	4,504,233
Capital outlay	-	8,802,597	1,771,116	10,573,713
Debt service:				
Principal	688,042	-	1,864,873	2,552,915
Interest and fiscal charges	50,506	-	1,626,834	1,677,340
Bond issuance costs	-	-	-	-
Total expenditures	<u>59,135,782</u>	<u>8,802,597</u>	<u>9,680,398</u>	<u>77,628,777</u>
Excess (deficiency) of revenues over expenditures	<u>5,095,221</u>	<u>(6,989,915)</u>	<u>(2,298,912)</u>	<u>(4,193,606)</u>
OTHER FINANCING SOURCES (USES)				
Capital lease proceeds	1,392,229	-	159,208	1,551,437
Transfers in	854,097	830,534	3,874,509	5,559,140
Transfers out	(3,546,462)	(351,482)	(1,681,196)	(5,559,140)
Total other financing sources(uses)	<u>(1,300,136)</u>	<u>479,052</u>	<u>2,372,521</u>	<u>1,551,437</u>
Net change in fund balances	3,795,085	(6,510,863)	73,609	(2,642,169)
Fund balances - beginning	7,737,279	28,531,541	3,845,432	40,114,252
Fund balances - ending	<u>\$ 11,532,364</u>	<u>\$ 22,020,678</u>	<u>\$ 3,919,041</u>	<u>\$ 37,472,083</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DEERFIELD BEACH, FLORIDA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances-total governmental funds \$ (2,642,169)

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.

Expenditures for capital assets	11,411,047	
Less: current year's depreciation	<u>(2,878,835)</u>	8,532,212

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,849,411

Revenues in the statement of activities for the previous year provided current financial resources and, as such, were reported as revenues in the funds for the current year. (1,660,782)

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported in the funds: increase in long-term portion of insurance claims payable (1,540,200)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. (1,551,437)

In the statement of activities, certain operating expenses - compensated absences (sick and vacation pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amounts actually used (paid). During the fiscal year, compensated absences earned, \$1,706,633, exceeded the amount used, \$1,640,381. (66,252)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt retired: Principal repayments 2,552,915

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds, leases and notes payable. (36,058)

Change in net assets of governmental activities \$ 5,437,640

The notes to the financial statements are an integral part of this statement.

CITY OF DEERFIELD BEACH, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

CITY OF DEERFIELD BEACH, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005
 (continued)

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 188,133	\$ 28,619	\$ 216,752
Investments	6,811,680	143,677	6,955,357
Restricted investments	1,484,825	48,163	1,532,988
Receivables (net):			
Accounts	2,433,711	1,689,786	4,123,497
Delinquent assessments	65,077	-	65,077
Interest	232,589	-	232,589
Due from other funds	120,564	7,098	127,662
Due from other governments	-	221,165	221,165
Inventories	326,281	-	326,281
Prepaid items	1,157	158	1,315
Total current assets	11,664,017	2,138,666	13,802,683
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	804,024	-	804,024
Investments	2,509,120	-	2,509,120
Deferred charges	1,433	-	1,433
Capital assets:			
Land	50,531	-	50,531
Buildings	1,798,520	-	1,798,520
Utility plants in service	35,059,135	-	35,059,135
Improvements other than buildings	51,153,160	44,700	51,197,860
Equipment	5,065,093	9,145,307	14,210,400
Construction in progress	1,135,047	-	1,135,047
Less accumulated depreciation	<u>(34,035,235)</u>	<u>(5,843,338)</u>	<u>(39,878,573)</u>
Total capital assets (net of accumulated depreciation)	<u>60,226,251</u>	<u>3,346,669</u>	<u>63,572,920</u>
Total noncurrent assets	63,540,828	3,346,669	66,887,497
Total assets	75,204,845	5,485,335	80,690,180

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,189,951	497,554	1,687,505
Accrued liabilities	172,133	125,262	297,395
Compensated absences	373,717	246,386	620,103
Unearned revenue	10,000	-	10,000
Capital leases payable - current	-	651,824	651,824
Total current liabilities	1,745,801	1,521,026	3,266,827
Current liabilities payable from restricted assets:			
Customer deposits payable	393,945	48,163	442,108
Loan payable, current	899,258	-	899,258
Accrued interest payable	191,622	-	191,622
Total current liabilities payable from restricted assets	1,484,825	48,163	1,532,988
Noncurrent liabilities:			
Revenue bonds payable (net of unamortized discounts)	419,535	-	419,535
Compensated absences	454,834	280,458	735,292
Capital leases payable	-	1,466,850	1,466,850
Loan payable	15,642,029	-	15,642,029
Total noncurrent liabilities	16,516,398	1,747,308	18,263,706
Total liabilities	19,747,024	3,316,497	23,063,521
NET ASSETS			
Invested in capital assets, net of related debt	43,265,429	1,227,995	44,493,424
Restricted for:			
Debt service	704,024	-	704,024
Renewal and replacement	100,000	-	100,000
Rate stabilization	3,600,000	-	3,600,000
Unrestricted	7,788,368	940,843	8,729,211
Total net assets	\$ 55,457,821	\$ 2,168,838	\$ 57,626,659

The notes to the financial statements are an integral part of this statement.

H-14

CITY OF DEERFIELD BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CITY OF DEERFIELD BEACH, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

H-15

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Operating revenues:			
Charges for sales and services:			
Water sales pledged as security for revenue bonds	\$ 11,827,006	\$ -	\$ 11,827,006
Sewer charges pledged as security for revenue bonds	6,731,402	-	6,731,402
Solid waste charges	-	13,441,726	13,441,726
Engineering fees	66,357	-	66,357
Miscellaneous	<u>350,655</u>	<u>672,508</u>	<u>1,023,163</u>
Total operating revenues	<u>18,975,420</u>	<u>14,114,234</u>	<u>33,089,654</u>
Operating expenses:			
Personal services	5,090,624	3,556,590	8,647,214
Contractual services	645,652	832,012	1,477,664
Electricity	791,149	-	791,149
Insurance	817,029	544,686	1,361,715
Fixed charges	47,952	52,625	100,577
County wastewater charge	2,823,763	-	2,823,763
County raw water charge	41,594	-	41,594
Disposal fees	-	6,880,329	6,880,329
General administrative charge	2,492,836	594,287	3,087,123
Commodities	2,259,405	732,540	2,991,945
Depreciation	2,885,105	828,111	3,713,216
Fiscal charges	<u>12,093</u>	<u>-</u>	<u>12,093</u>
Total operating expenses	<u>17,907,202</u>	<u>14,021,180</u>	<u>31,928,382</u>
Operating income	<u>1,068,218</u>	<u>93,054</u>	<u>1,161,272</u>
Non-operating revenues (expenses):			
Investment earnings	350,951	26,528	377,479
Interest charges	(636,117)	(41,684)	(677,801)
Amortization of bond issuance costs	(6,837)	-	(6,837)
Amortization of bond discount	<u>(2,155)</u>	<u>-</u>	<u>(2,155)</u>
Total non-operating expenses	<u>(293,958)</u>	<u>(15,156)</u>	<u>(309,114)</u>
Income before contributions and transfers	774,260	77,898	852,158
Capital contributions - tap fees	<u>111,760</u>	<u>-</u>	<u>111,760</u>
Change in net assets	886,020	77,898	963,918
Total net assets - beginning	<u>54,571,801</u>	<u>2,080,940</u>	<u>56,652,741</u>
Total net assets - ending	<u>\$ 55,457,821</u>	<u>\$ 2,168,838</u>	<u>\$ 57,626,659</u>

The notes to the financial statements are an integral part of this statement.

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 18,979,617	\$ 13,714,964	\$ 32,694,581
Payments to suppliers	(9,268,689)	(9,768,017)	(19,036,706)
Payments to employees	<u>(4,923,000)</u>	<u>(3,474,444)</u>	<u>(8,397,444)</u>
Net cash provided by operating activities	<u>4,787,928</u>	<u>472,503</u>	<u>5,260,431</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Collection of interfund loans	<u>1,262,118</u>	<u>892,903</u>	<u>2,155,021</u>
Net cash provided by non-capital financing activities	<u>1,262,118</u>	<u>892,903</u>	<u>2,155,021</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Loan proceeds	246,421	-	246,421
Capital contributed from connection fees	111,760	-	111,760
Acquisition and construction of capital assets	(2,779,471)	(699,228)	(3,478,699)
Principal paid on:			
Revenue bonds	(2,965,000)	-	(2,965,000)
Capital lease	-	(607,010)	(607,010)
Loan	<u>(887,952)</u>	<u>-</u>	<u>(887,952)</u>
Interest paid on:			
Revenue bonds	(130,257)	-	(130,257)
Capital lease	-	(41,626)	(41,626)
Loan	(513,268)	-	(513,268)
Deposits	(1,384)	(58)	(1,442)
Collection of special assessment levies	1,272	-	1,272
Interest received on special assessment	<u>6,674</u>	<u>-</u>	<u>6,674</u>
Net cash used in capital and related financing activities	<u>(6,911,205)</u>	<u>(1,347,922)</u>	<u>(8,259,127)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	9,747,805	(191,840)	9,555,965
Purchase of investments	(9,403,459)	-	(9,403,459)
Interest and dividends received	<u>255,693</u>	<u>26,528</u>	<u>282,221</u>
Net cash provided by (used) in investing activities	<u>600,039</u>	<u>(165,312)</u>	<u>434,727</u>
Net decrease in cash and cash equivalents	<u>(261,120)</u>	<u>(147,828)</u>	<u>(408,948)</u>
Cash and cash equivalents, beginning of year	<u>1,253,277</u>	<u>176,447</u>	<u>1,429,724</u>
Cash and cash equivalents, end of year	<u>\$ 992,157</u>	<u>\$ 28,619</u>	<u>\$ 1,020,776</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DEERFIELD BEACH, FLORIDA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(continued)

CITY OF DEERFIELD BEACH, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2005

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 1,068,218	\$ 93,054	\$ 1,161,272
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	2,885,105	828,111	3,713,216
Changes in assets and liabilities:			
Increase in accounts receivable (net of allowances)	(44,039)	(277,985)	(322,024)
Increase in intergovernmental receivables	-	(164,955)	(164,955)
Decrease in inventories	50,573	-	50,573
Increase in prepaid items	(757)	(158)	(915)
Increase in customer deposits	48,237	29,649	77,886
Increase (decrease) in accounts payable and accrued liabilities	635,443	(98,593)	536,850
Increase in compensated absences payable	145,148	63,380	208,528
Total adjustments	<u>3,719,710</u>	<u>379,449</u>	<u>4,099,159</u>
Net cash provided by operating activities	<u>\$ 4,787,928</u>	<u>\$ 472,503</u>	<u>\$ 5,260,431</u>
Non-cash investing, capital and financing activities:			
Borrowings under capital lease agreements	<u>\$ -</u>	<u>\$ 1,083,780</u>	<u>\$ 1,083,780</u>

	Fiduciary Funds
ASSETS:	
Cash and cash equivalents	\$ 1,002,996
Investments:	
Money market funds	29,502,318
U.S. Government securities	28,710,826
Corporate equities	88,511,387
Corporate bonds and notes	11,397,669
Real estate	19,929
Total investments	<u>158,142,129</u>
Receivables:	
Interest and dividends	576,396
Due from other governments	482,526
Contributions	17,178
Total receivables	<u>1,076,100</u>
Total assets	<u>160,221,225</u>
LIABILITIES:	
Accounts payable	<u>164,799</u>
NET ASSETS:	
Held in trust for pension benefits	<u>\$ 160,056,426</u>

The notes to the financial statements are an integral part of this statement.

H-16

CITY OF DEERFIELD BEACH, FLORIDA
PENSION TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CITY OF DEERFIELD BEACH, FLORIDA
INDEX TO NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

H-17

	Fiduciary Funds
ADDITIONS:	
Contributions:	
Employer	\$ 3,456,313
Employer (on behalf of plan members)	180,883
Plan members	1,204,385
State of Florida	897,215
Total contributions	<u>5,738,796</u>
Investment earnings:	
Interest and dividends	3,759,387
Net increase in the fair value of investments	15,094,196
Total investment earnings	18,853,583
Less investment expense	<u>(712,647)</u>
Net investment earnings	<u>18,140,936</u>
Other miscellaneous income	8,693
Total additions	<u>23,888,425</u>
DEDUCTIONS:	
Benefits paid	7,815,675
Administrative expenses	<u>547,114</u>
Total deductions	<u>8,362,789</u>
 Change in net assets	 15,525,636
 Net assets held in trust for pension benefits:	
Beginning of year	<u>144,530,790</u>
 End of year	 <u>\$ 160,056,426</u>

The notes to the financial statements are an integral part of this statement.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity	29
B. Government-wide and Fund Financial Statements	30
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	30
D. Assets, Liabilities, and Net Assets or Equity	32
1. Deposits and Investments	32
2. Receivables and Payables	32
3. Inventories and Prepaid Items	33
4. Restricted Assets	33
5. Capital Assets	33
6. Compensated Absences	34
7. Long-term Obligations	34
8. Fund Equity/Net Assets	34
9. Estimates	35

NOTE II - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of Expenditures Over Appropriations	35
B. Deficit Fund Equity	35

NOTE III - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments	35
B. Receivables	38
C. Capital Assets	39
D. Construction Commitments	40
E. Unearned Revenue	40
F. Interfund Receivables, Payables and Transfers	41
G. Capital Leases	41
H. Long-term Debt	42
1. Governmental Activities Debt	42
2. Business-type Activities Debt	43
3. Changes in Long-term Liabilities	44
4. Advance and Current Refundings	44
5. Summary of Annual Debt Service Requirements	45

NOTE IV - OTHER INFORMATION

A. Restricted Assets	46
B. Risk Management	46
C. Contingent Liabilities	47
D. Pension Information - Defined Benefit Plans	47
1. Plan Description	47
2. Funding Policy and Annual Required Contributions	49
3. Three-year Trend Information	51
E. Defined Contribution Plan	51
F. Deferred Compensation Plan	52
G. Other Post-employment Benefits	52
H. New Accounting Pronouncements Not Yet Adopted	52

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the City of Deerfield Beach's ("the City") significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The format of the accompanying financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34, known as the new financial reporting model, affects the way the City prepares and presents financial information.

The basic financial statements include both government-wide and fund financial statements. While the previous financial reporting model emphasized fund types, in the new financial reporting model the focus is on either the City as a whole, or major individual funds. This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories.

The City's fiduciary funds are presented in the basic financial statements by type (i.e., pension). 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, these funds are not incorporated into the government-wide statements.

A. Financial Reporting Entity

The City of Deerfield Beach is a political subdivision of the State of Florida, located in Broward County along the lower southeast coast of the state. The City, which was incorporated in June, 1925, is approximately 16.4 square miles in area. In addition to the public safety, general government, recreation, and public works services provided to its 77,039 residents, the City operates water, sewer and solid waste enterprises. The City does not provide educational or hospital facilities. Those services are provided by the School Board of Broward County and the North Broward Hospital District, respectively.

The financial reporting entity covered by this report includes the City and its component unit. The reporting entity has been defined by GASB Statement No. 14 (as amended by GASB Statement No. 39) as the primary government and those component units for which the primary government is financially accountable. Financial accountability exists when a primary government appoints a voting majority of an organization's governing board and may either impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the primary government. Blended component units, although legally separate entities, are, in substance, part of the City's operations, and so data for these units are combined with data of the primary government.

The Deerfield Beach Community Redevelopment Agency (the "CRA"), which is largely responsible for redevelopment of the area that encompasses most of the beach district and the area along Hillsboro Boulevard from Federal Highway to the intracoastal waterway, was established in November 1999. The CRA is governed by a board which is comprised of the City's elected officials. The CRA is fiscally dependent upon the City because the City Commission approves the CRA's budget, levies taxes and must approve any debt issuances. Accordingly, the CRA is a blended component unit and is presented as a special revenue fund. The CRA has a September 30 year-end. Complete financial statements for the CRA are not available.

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

The Deerfield Beach Housing Authority (the "Housing Authority") is a related organization because the mayor, with the concurrence of the City Commission, has the responsibility of appointing the members of the Housing Authority Board. Its operations are conducted within City boundaries. However, it is not included as a part of the financial reporting entity because it is fiscally independent and it has no financial accountability to the City. The Housing Authority's autonomy prohibits it from providing any financial benefit or imposing a financial burden upon the City. The Housing Authority is not exclusively for the benefit of City residents and the City Commission cannot impose its will over operations, cannot hire, reassign or dismiss management, and cannot remove Housing Authority board members without cause. The Housing Authority is responsible for ensuring that a complete and full financial accounting and an audit is made biennially by a certified public accountant.

The Northeast Focal Point CASA, Inc (hereinafter referred to as "CASA"), is a nonprofit entity which was organized under the laws of the State of Florida in September 1986. This organization raises funds and makes yearly pledges to the City to subsidize the costs of operating the City's children's, Alzheimer's, senior and adult day care facilities. GASB Statement No. 39 requires that a legally separate, tax-exempt organization should be reported as a component unit of the City, if all of the following are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the City; (2) the City is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization and (3) the economic resources received or held by the separate organization are significant to the City. The City believes that conditions (1) and (2) applies to CASA. However, the City does not believe that the economic resources held/received by that entity is "significant" to the City's operations. As such, it is not included as a part of the financial reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

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 if they are collected within three months of the end of the current fiscal period, with the exception of property tax revenue, which is deferred unless taxes are received within sixty days subsequent to year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, (when levied for), franchise taxes, intergovernmental revenue (when the eligibility requirements are met), licenses, special assessments 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, if available. All other revenue items are considered to be measurable and available only when cash is received by the City.

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 City, except those required to be accounted for in another fund.

The **General Construction Fund** accounts for the acquisition and construction of capital improvements which are financed by the issuance of bonds.

The City reports the following major proprietary funds:

The **Water and Sewer Fund** accounts for the provision of water and sewer services to the City's residents.

The **Solid Waste Fund** accounts for the provision of solid waste services to the City's residents.

Additionally, the City's **pension trust funds**, namely, Fire, Police and Non-uniformed pension funds, account for the activities of the retirement systems for these relevant classes of employees and accumulate resources for pension benefit payments to qualified retirees.

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 GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to apply subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods and services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services in connection with a

proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for the provision of water and sewer services. This fund also recognizes as revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Further, the Solid Waste Fund recognizes as revenue charges to customers for the provision of solid waste services. Operating expenses for both 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 non-operating 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

1. Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The City has established an investment policy in accordance with Section 218.415, Florida Statutes, that allows the City to invest in relatively low-risk securities, such as the State Treasurer's Investment Pool, and U.S. Government and Agencies securities. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," all investments have been reported at fair value. The State Treasurer's Investment Pool's reported value is the same as the fair value of the pool shares. Resources of all funds, with the exception of the pension trust funds, have been combined into investment pools for the purpose of maximizing investment yields. Investment revenue is comprised of interest and dividends and realized and unrealized gains and losses on investments. Investment earnings on pooled investments are allocated monthly based upon equity balances of the respective funds. Accrued interest on pooled investments is grouped with investments on the balance sheet at year-end. In addition, the pension trust funds are authorized to invest in corporate bonds, stocks, money market funds, mortgages and notes.

During the fiscal year, the City adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. This statement modifies disclosure requirements for deposits and investments to address common deposit and investment risks related to credit risk, concentration risk, custodial credit risk, interest rate risk and foreign currency risk. Accordingly, certain note disclosures have been revised to conform to the provisions of GASB Statement No. 40.

2. Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of allowance for uncollectibles. Accounts receivable in excess of 90 days comprise the accounts receivable allowance for uncollectibles. Property taxes are levied as of October 1 on property values assessed as of January 1 of the same year. The tax levy is divided into two billings: the first billing (mailed during September) is an estimate of the current year's levy based on the prior year's taxes; the second billing (mailed on November 1) reflects adjustments to the current year's actual levy. The billings are considered past due on April 1 of the subsequent year, at which time the applicable property is subject to lien, and penalties and interest are assessed.

Amounts reflected as "due from other governments" in the government-wide and the fund financial statements represent amounts that are owing to the City by other governmental

CITY OF DEERFIELD BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

entities for services rendered by the City in the capacity of a vendor or for amounts to be reimbursed in connection with grants and other cooperative agreements.

Water and sewer and solid waste charges to customers are based on actual consumption. Consumption is determined on a monthly basis. The City recognizes revenue and a related receivable for the estimated unbilled consumption as of September 30.

3. Inventories and Prepaid Items – Inventories consisting principally of expendable items held for consumption, as well as certain resources that have been set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their uses are limited by applicable bond covenants. The revenue bond sinking fund account is used to segregate resources that are accumulated for the payment of debt service on the City's water and sewer revenue bonds. The "renewal, replacement and improvement account" is used to account for the minimum amount required to be maintained on deposit (\$100,000), which funds must be used for extensions, enlargements or additions to the assets of the water and sewer system. The "rate stabilization account" is used to account for amounts held in reserves to pay the costs of operations and maintenance of the water and sewer system.

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.

4. Restricted Assets – Certain proceeds of the City's Water and Sewer enterprise fund's revenue bonds, as well as certain resources that have been set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their uses are limited by applicable bond covenants. The revenue bond sinking fund account is used to segregate resources that are accumulated for the payment of debt service on the City's water and sewer revenue bonds. The "renewal, replacement and improvement account" is used to account for the minimum amount required to be maintained on deposit (\$100,000), which funds must be used for extensions, enlargements or additions to the assets of the water and sewer system. The "rate stabilization account" is used to account for amounts held in reserves to pay the costs of operations and maintenance of the water and sewer system.

The "general obligation bond construction account" is used to report those proceeds of general obligation bonds that are restricted for use in the construction of specified projects, as outlined in the bond covenants.

5. Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide and the proprietary fund financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred, net of interest earned on related debt proceeds, during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The City's property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

CITY OF DEERFIELD BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

<u>Asset Type</u>	<u>Years</u>
Buildings	40
Building improvements	20
Roads	40
Bridges	50
Other infrastructure	20 to 50
Equipment	5 to 7

In the governmental fund financial statements, capital assets are reported as expenditures and no depreciation expense is recorded.

6. Compensated Absences – It is the City's policy to permit employees to accumulate earned unused vacation and sick pay benefits. A portion of accumulated sick pay benefits are paid upon separation, based on the number of years of service. All vacation pay and applicable portions of sick pay balances are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable 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 are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds, are reported as debt service expenditures.

8. Fund Equity/Net Assets - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The government-wide and proprietary fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt) – is intended to reflect the portion of net assets which are associated with capital assets (net of accumulated depreciation), less outstanding capital asset related debt, net of unspent bond proceeds.

Restricted Net Assets – have third-party (statutory bond covenant or granting agency) limitations on their use or limitations which have been imposed through enabling legislation.

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

Unrestricted Net Assets – have no third party limitations on their use. While the City's management may have categorized and segmented portions for various purposes, the City Commission has the unrestricted authority to revisit or alter these managerial decisions.

9. 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 expenses during the reporting period. Actual results could differ from management's estimates.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of Expenditures Over Appropriations – For the year ended September 30, 2005, expenditures exceeded appropriations in the Risk Management Department (the legal level of budgetary control) of the General Fund by \$361,131. This overexpenditure was funded by greater than anticipated revenues.

B. Deficit Fund Equity - At September 30, 2005, the Capital Projects Grants Fund had a deficit fund balance of \$1,375,967. This deficit is expected to be funded by future grant reimbursements, which were not susceptible to accrual at September 30, 2005.

NOTE III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

1. Deposits – The City maintains a common cash and cash equivalents pool for use by all funds. Deposits of the City, including time deposit accounts, demand deposit accounts and certificates of deposit, are defined as public deposits. Pursuant to the City's policies, all of the City's deposits are held in qualified public depositories pursuant to Chapter 280.03 of the Florida Statutes, "Florida Security for Public Deposits Act." Under the Act, all qualified public depositories are required to pledge eligible collateral having market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledging level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any losses to public depositories are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessments against other qualified public depositories of the same type as the depository in fault. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss. At September 30, 2005, the carrying amount of the City's deposits totaled \$4,298,101.

2. Investments

Authorized Investments

The City's investments are categorized as investments for the City as a whole (hereinafter referred to as "general City investments") and those of its various defined benefit pension plans. The City is authorized by Statute and policy to invest public funds (general City investments) in interest-bearing savings accounts, money market accounts and checking accounts, obligations of the United States government, its agencies and instrumentalities; certificates of deposit that are fully insured and collateralized; repurchase agreements having a defined termination date and collateralized by U.S. Treasury obligations; and Local Government Surplus Trust Funds as created by Section 218.405, Florida Statutes.

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

The overriding objectives of the City's investment policy are preservation of its principal investment, while providing for liquidity and maximization of investment income.

Each of the City's three individual pension plans is governed by a Board of Trustees, which is responsible for determining the investment policies for the respective plan, namely the City's Fire, Police Officers, and Non-uniformed retirement pension plans. The investment policies for the various plans typically are devised to earn an average rate of return over the long term that will equal or exceed the return of a target index. The trustees are authorized to invest in a wide range of instruments, including but not limited to, federally-guaranteed obligations, bonds, stocks, or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or any state or organized territory of the United States, provided that the corporation is listed on any one or more of the recognized national stock exchanges or the National Market System of the NASDAQ Stock Market.

In acquiring these investments on behalf of the various plans, the trustees are required to exercise a level of care which persons of prudence, discretion and intelligence would exercise when acquiring these same investments for their own (personal) accounts. As of September 30, 2005, the City had the following investments:

	Pension Trust Funds	All Other Funds	Total
Investment in Fl. Local Gov't. Investment Trust	\$ -	\$ 5,823,129	\$ 5,823,129
Investment in Fl. Municipal Investment Trust	-	24,843,382	24,843,382
Money market funds	29,502,318	774,054	30,276,372
Repurchase agreements	-	10,099,520	10,099,520
U.S. Government and agency securities	28,710,826	8,792,790	37,503,616
Domestic corporate bonds and notes	11,397,969	-	11,397,969
Domestic corporate equities	88,511,387	-	88,511,387
Real estate	19,929	-	19,929
Total	\$ 158,142,129	\$ 50,332,875	\$ 208,475,004

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the City's investment policy, the City minimizes the market value risk of investments in the portfolio by placing limitations on the duration of such investments. With the exception of funds reserved for capital projects, all of the City's general investments shall be limited to instruments maturing within two years of purchase. This ensures that securities mature to meet cash requirements for operations, thereby avoiding the need to sell securities in the open market prior to maturity. The various pension plans limit their exposure to interest rate risk through diversification of investments by security type and institution and limit holdings in any one type of investment with any one issuer with various durations of maturities.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Investment Type	Fair Value	Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Repurchase agreements	\$ 10,099,520	\$ 10,099,520	\$ -	\$ -	\$ -
Investment Pools	30,666,511	30,666,511	-	-	-
Money market funds	30,276,372	30,276,372	-	-	-
U.S. Treasuries	10,720,858	3,742,115	3,180,440	3,107,328	690,975
U.S. Agencies	26,782,758	9,987,168	6,641,234	3,680,481	6,473,875
Corporate bonds and notes	11,397,669	161,703	4,458,802	4,462,894	2,314,270
Total	\$ 119,943,688	\$ 84,933,389	\$ 14,280,476	\$ 11,250,703	\$ 9,479,120

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO's). State law limits investments in commercial paper and corporate bonds to the top 3 ratings issued by NRSRO's. It is the City's policy (and those of its pension plans) to limit its investments to the top ratings issued by NRSRO's. All U.S. Agency securities and Treasury obligations are guaranteed by the good faith and credit of the United States and are therefore not subject to credit risk. The amounts held in the investment pools, namely the Florida Local Government Investment Trust and the Florida Municipal Investment Trust are also not rated. The following table discloses credit ratings by investment type, at September 30, 2005, as applicable:

S & P	Quality Credit Rating*	
	Moody's	Fair Value
A		\$ 569,888
A-		317,429
A+		1,118,525
AA		106,999
AAA		110,353
BBB		300,197
BBB+		600,818
	Aaa	31,477,661
	Aa1	1,050,986
	Aa2	1,112,962
	Aa3	1,296,214
	A1	1,059,973
	A2	763,985
	A3	824,760
	Baa1	449,598
	Baa2	283,032
	Baa3	130,898
	MIG1	99,963
Total corporate bonds and notes		\$ 41,674,041

*Moody's ratings were primarily used. If Moody's did not rate a particular security, then Standard & Poor's was used.

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Concentration of Credit Risk

The City limits its investments in any one issuer to no more than 5% of total investments, except for investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments, which are excluded from this requirement. There were no individual investments that represented 5% or more of the City's total investments at September 30, 2005.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. All of the City's investments in corporate bonds and notes are held by the pension plans. These investments are held by the various pension plans' custodial banks and are registered in the name of the pertinent pension plan.

Included in the City's investments at September 30, 2005 were repurchase agreements totaling \$10,099,520. These securities were collateralized by U.S. Government obligations that were held in book entry form by the City's custodial bank. All of the City's remaining general investments were held by the City's custodial bank and were insured or registered in the City's name as of year-end.

B. Receivables – Receivables as of year end for the City's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General		Water and	Solid	Non-major	Pension	Total
	General	Construction	Sewer	Waste	Governmental	Trust	
Receivables:							
Accounts	\$ 588,918	\$ -	\$ 2,547,270	\$ 1,818,311	\$ 254	\$ 17,178	\$ 4,971,931
Assessments	1,707	-	65,077	-	-	-	66,784
Interest	14,483	71,802	232,589	-	8,344	576,396	903,614
Intergovernmental	1,489,363	-	-	221,165	1,784,896	482,526	3,977,950
Gross receivables	2,094,471	71,802	2,844,936	2,039,476	1,793,494	1,076,100	9,920,279
Less: allowance for uncollectibles	-	-	(113,559)	(128,525)	-	-	(242,084)
Net receivables	\$ 2,094,471	\$ 71,802	\$ 2,731,377	\$ 1,910,951	\$ 1,793,494	\$ 1,076,100	\$ 9,678,195

Revenues of the General Fund, Water and Sewer and Solid Waste Enterprise Funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to water sales	\$ 85,438
Uncollectibles related to sewer charges	28,121
Uncollectibles related to solid waste charges	128,525
Total uncollectibles for the current fiscal year	\$ 242,084

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

C. Capital Assets – The following is a summary of capital asset activity for the year ended September 30, 2005:

	Beginning Balance	Increases	Decreases	Total
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 8,755,876	\$ 429,316	\$ -	\$ 9,185,192
Construction in progress	<u>11,711,363</u>	<u>4,668,683</u>	<u>6,617,587</u>	<u>9,762,459</u>
<i>Total capital assets not being depreciated</i>	<u>20,467,239</u>	<u>5,097,999</u>	<u>6,617,587</u>	<u>18,947,651</u>
<i>Capital assets being depreciated:</i>				
Buildings	10,506,253	40,446	-	10,546,699
Improvements other than buildings	1,994,655	1,317,773	-	3,312,428
Equipment	13,772,433	970,771	840,605	13,902,599
Infrastructure	<u>39,211,799</u>	<u>10,601,646</u>	<u>-</u>	<u>49,813,445</u>
<i>Total capital assets being depreciated</i>	<u>65,485,140</u>	<u>12,930,636</u>	<u>840,605</u>	<u>77,575,171</u>
<i>Less: accumulated depreciation for:</i>				
Buildings	4,565,569	306,002	-	4,871,571
Improvements other than buildings	684,704	85,594	-	770,298
Equipment	10,367,164	1,228,909	840,605	10,755,468
Infrastructure	<u>21,845,410</u>	<u>1,258,330</u>	<u>-</u>	<u>23,103,740</u>
<i>Total accumulated depreciation</i>	<u>37,462,847</u>	<u>2,878,835</u>	<u>840,605</u>	<u>39,501,077</u>
Total capital assets being depreciated, net	<u>28,022,293</u>	<u>10,051,801</u>	<u>-</u>	<u>38,074,094</u>
Governmental activities capital assets, net	<u>\$ 48,489,532</u>	<u>\$ 15,149,800</u>	<u>\$ 6,617,587</u>	<u>\$ 57,021,745</u>
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 50,531	\$ -	\$ -	\$ 50,531
Construction in progress	<u>772,345</u>	<u>362,702</u>	<u>-</u>	<u>1,135,047</u>
<i>Total capital assets not being depreciated</i>	<u>822,876</u>	<u>362,702</u>	<u>-</u>	<u>1,185,578</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,798,520	-	-	1,798,520
Utility plants in service	33,114,262	1,944,873	-	35,059,135
Improvements other than buildings	50,760,560	437,300	-	51,197,860
Equipment	<u>12,708,338</u>	<u>1,817,601</u>	<u>315,538</u>	<u>14,210,401</u>
<i>Total capital assets being depreciated</i>	<u>98,381,680</u>	<u>4,199,774</u>	<u>315,538</u>	<u>102,265,916</u>
<i>Less: accumulated depreciation for:</i>				
Buildings	728,309	59,743	-	788,052
Utility plants in service	6,579,932	967,334	-	7,547,266
Improvements other than buildings	19,606,956	1,567,816	-	21,174,772
Equipment	<u>9,565,699</u>	<u>1,118,323</u>	<u>315,538</u>	<u>10,368,484</u>
<i>Total accumulated depreciation</i>	<u>36,480,896</u>	<u>3,713,216</u>	<u>315,538</u>	<u>39,878,574</u>
Total capital assets being depreciated, net	<u>61,900,784</u>	<u>486,558</u>	<u>-</u>	<u>62,387,342</u>
Business-type activities capital assets, net	<u>\$ 62,723,660</u>	<u>\$ 849,260</u>	<u>\$ -</u>	<u>\$ 63,572,920</u>

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 130,353
Economic environment	648
Public safety	869,159
Human services	104,994
Physical environment	465,229
Transportation	925,617
Culture and recreation	<u>382,835</u>
Total depreciation expense - governmental activities	<u>\$ 2,878,835</u>
Business-type activities:	
Water and Sewer	\$ 2,885,105
Solid Waste	<u>828,111</u>
Total depreciation expense - business-type activities	<u>\$ 3,713,216</u>

D. Construction Commitments – The City has outstanding commitments for construction and acquisition of property, plant and equipment. The following is a summary of the most significant of these commitments at September 30, 2005:

Project	Spent to Date	Amounts Outstanding
Deerfield Beach Middle School Park	\$ 4,710,403	\$ 209,670
Hillsboro Boulevard - Streetscape Improvements	540,327	746,700
Mitigation Operations Center	1,054,526	9,058,768
Public Works Facility	4,794,248	7,309,130
S- Curve Improvements, Phases I & II	617,475	1,094,600
Membrane Concentrate Pumping Facility	535,847	928,953
West Water Treatment - Reverse Osmosis	214,110	499,590
West Wellfield Improvements	74,700	174,300
North Boardwalk Expansion Project	<u>20,250</u>	<u>110,150</u>
	<u>\$ 12,561,886</u>	<u>\$ 20,131,861</u>

E. Unearned Revenue – Unearned revenue in the General Fund includes \$411,500 for occupational licenses relating to fiscal year 2006; ambulance transport fees which were not collected within 90 days of year-end; deferred property taxes of \$191,440 that were levied during the current fiscal year but were not received within 60 days of year-end and thus were not considered "available;" and \$31,527 in connection with the Federal Emergency Management Agency ("FEMA") for fiscal year 2005 hurricane damages.

Unearned revenue in the Water and Sewer Utility major fund represents a vendor payment in the amount of \$10,000 for the purchase and installation of a telemetry system into the sanitary sewage

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

lift station at the Quiet Waters Business Park. This project had not been completed by the City, as of year-end.

The unearned revenue in the State Housing Initiative Partnership Program ("SHIP") non-major special revenue fund, \$1,392,734, represents amounts received in advance from the State of Florida Housing Finance Agency which the City did not obligate (spend) as of September 30, 2005. Unearned revenue of \$90,230 in the Miscellaneous Grants non-major special revenue fund represents grant reimbursements which the City did not receive within 90 days of fiscal year-end. The Capital Grants non-major capital projects fund had \$1,375,967 in unearned revenue at September 30, 2005. This amount represents reimbursements from the School Board of Broward County and Broward County's Board of County Commissioners for amounts incurred by the City in connection with construction of a multi-purpose athletic facility at Deerfield Beach Middle School, which the City did not receive within 90 days of fiscal year end.

F. Interfund Receivables, Payables and Transfers - The interfund balances below represent short-term loans to cover temporary negative balances in each fund's equity in pooled cash at year end. The composition of interfund balances at September 30, 2005 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Non-major Governmental Funds	\$ 1,622,814
General Fund	General Construction Fund	1,717,031
Non-major Governmental Funds	Non-major Governmental Funds	43,115
Water and Sewer Fund	General Fund	120,564
Solid Waste Fund	General Fund	7,098
Total		<u>\$ 3,510,622</u>

Interfund Transfers:

	Transfers to:			Total
	General	Construction	Non-major Governmental	
Transfers from:				
General	\$ -	\$ 94,503	\$ 3,451,959	\$ 3,546,462
General Construction	-	-	351,482	351,482
Non-major Governmental	<u>854,097</u>	<u>736,031</u>	<u>71,068</u>	<u>1,661,196</u>
Total	<u>\$ 854,097</u>	<u>\$ 830,534</u>	<u>\$ 3,874,509</u>	<u>\$ 5,559,140</u>

Transfers to the General Fund represent amounts paid by the non-major governmental funds for matching grant requirements for amounts which were accounted for in the General Fund. Transfers to the non-major governmental funds represent payment of debt service as well as payment for the City's match in connection with grants that require that the City participate in the sharing of expenditures for a particular project(s). Transfers into the General Construction Fund represent funding for capital projects.

G. Capital Leases - The City has entered into master lease purchase agreements and other lease agreements as lessee for financing the acquisition of equipment for public safety and public works.

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

The City has also financed the acquisition of sanitation vehicles in its Solid Waste enterprise fund. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the date of inception. The future minimum lease obligations and the net present value of the minimum lease payments as of September 30, 2005, were as follows:

Fiscal Year	Governmental	Business-type	Total
	Activities	Activities	
2006	\$ 793,013	\$ 709,561	\$ 1,502,574
2007	643,810	615,261	1,259,071
2008	546,636	439,765	986,401
2009	442,163	359,507	801,670
2010	295,524	132,358	427,882
After 2010	<u>169,923</u>	<u>-</u>	<u>169,923</u>
Total Minimum lease payments	2,891,069	2,256,452	5,147,521
Less: amount representing interest	<u>(227,464)</u>	<u>(137,778)</u>	<u>(365,242)</u>
Present value of future minimum lease payments	<u>\$ 2,663,605</u>	<u>\$ 2,118,674</u>	<u>\$ 4,782,279</u>

As of September 30, 2005, the equipment held under capital leases for governmental activities and business-type activities were \$3,347,590 and \$3,196,418, respectively. Accumulated depreciation for equipment held under capital leases was \$520,703 and \$674,660 for governmental and business-type activities, respectively, as of September 30, 2005.

H. 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, 2005:

1. Governmental Activities Debt:

- *General Obligation Bonds, Series 2000* - The original amount of this issue was divided into two series: Series "A" for which \$9,978,847 in bonds were issued, and Series "B" for which \$2,820,183 in bonds were issued. The proceeds of these bonds will be used to finance the construction of a public safety complex, a public works facility, parks improvements, right-of-way improvements and expansion of the senior services facilities. The combined outstanding bonds of the issue, \$12,181,189, earn interest at rates from 4.25% to 6.08%. For Series A, principal is due annually on April 1st and interest is payable semi-annually on April 1st and October 1st with the final maturity date being October 1, 2024. For Series B, principal is due annually on November 1st, and interest is payable semi-annually on May 1st and November 1st with the final maturity date being November 1, 2027.
- *General Obligation Bonds, Series 2003A* - The original amount of this issue was \$5,140,000, which proceeds were used for refunding two previously issued general obligation bonds, namely Series 1993 and 1995. The outstanding bonds of the issue, \$4,690,000, earn interest at rates from 3.00% to 5.00%. Principal is due annually on May 1st and interest is payable semi-annually on May 1st and November 1st, with the final maturity date being May 1, 2016.

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

- *General Obligation Bonds, Series 2003B* – The original amount of this issue was \$15,410,000, which proceeds are to be used for the acquisition and construction of a public works facility, a fire station, neighborhood right-of-way improvements, and improvements to parks and recreational facilities. The interest rates on the bonds range from 1.32% to 4.77%. Principal is due annually on December 1st and interest is payable semi-annually on June 1st and December 1st, with the final maturity date being December 1, 2028.
- *Improvement Revenue Refunding Bonds, Series 1992* - The original amount of this issue was \$4,870,000 and was used to advance refund and defease the 1978 and 1986 improvement revenue bonds. The remaining outstanding bonds of this issue, \$500,000, earn interest at rates from 3.35% to 5.7%. Principal is due annually on July 1st and interest is payable semi-annually on January 1st and July 1st with the final maturity date being July 1, 2006.
- *Covenant Bonds, Series 2003A* – These bonds were issued in connection with the City's General Obligation Bonds, Series 2003A, described previously. The principal amount of the loan was \$6,825,000, which was issued for the purpose of financing streetscape improvements in the City's Community Redevelopment Area. The remaining outstanding bonds of this issue, \$6,825,000, earn interest from 3.00% to 5.00%. Principal is due annually on May 1st and interest is payable semi-annually on May 1st and November 1st, with the final maturity date being May 1, 2028. The City is required to budget and appropriate non-ad valorem tax revenues to pay the annual debt service on this issue.
- *Covenant Bonds, Series 2003B* – These bonds were issued in connection with the City's General Obligation Bonds, Series 2003B, described previously. The principal amount of the loan was \$2,480,000, which was issued for the purpose of financing improvements in the City's beach district, more commonly described as "Ocean Way Improvements." The remaining outstanding bonds of this issue, \$2,420,000, earn interest at a rate that is similar to the general obligation debt issue. Further, the interest and principal payments as well as the final maturity dates are identical to those of the general obligation issue.

2. Business-type Activities Debt:

- *Water and Sewer Refunding and Improvement Revenue Bonds, Series 1992* – The original amount of this issue was \$13,890,000, less a discount of \$132,708. It was sold to provide \$3,600,000 for various improvements to the City's water plants and the remainder was used to advance refund a portion of the 1984 series water and sewer bonds. As of September 30, 2005, \$420,000, less a discount of \$465 of the bonds remain outstanding. Interest rates on the bonds range from 4.50% to 6.125%. Interest payments are made semi-annually on April 1st and October 1st, and principal payments are made annually on October 1st, with the final maturity date of October 1, 2006. This issue is secured by the revenues from the operation of the water and sewer system.
- *State Revolving Loan Payable* - In November of 1998, the City entered into a loan agreement with the State of Florida Department of Environmental Protection to borrow up to \$19,806,000. The purpose of this loan was to construct water and wastewater facilities. As of September 30, 2005, the City borrowed \$18,976,567 with an interest rate ranging from 2.99% to 3.57%. Interest and principal payments are

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

due on May 15 and November 15 of each year. Revenues of the Water and Sewer System have been pledged as security for repayment of this loan.

3. Changes in Long-term Liabilities – The following is a summary of changes in long-term liabilities for the year ended September 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 33,482,219	\$ -	\$ 1,201,030	\$ 32,281,189	\$ 1,430,247
Improvement revenue refunding bonds	970,000	-	470,000	500,000	500,000
Covenant bonds	9,305,000	-	60,000	9,245,000	240,000
Plus: Deferred amounts for premiums on refunding	1,080,848	-	62,652	1,017,996	-
Total bonds payable	44,837,867	-	1,793,682	43,044,185	2,170,247
Capital leases	1,934,053	1,551,437	821,884	2,663,606	710,919
Claims and judgments	3,690,977	7,998,274	5,562,231	6,127,020	2,832,460
Compensated absences	3,252,568	1,706,633	1,640,381	3,318,820	1,597,988
Notes payable	132,300	-	132,300	-	-
Total governmental activities long-term liabilities	\$ 53,847,785	\$ 11,256,344	\$ 9,950,478	\$ 55,153,631	\$ 7,311,614
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 3,365,000	\$ -	\$ 2,985,000	\$ 420,000	\$ -
Less: Deferred amounts for discounts on refunding	(2,620)	-	(2,155)	(465)	-
Total bonds payable	3,382,380	-	2,962,845	419,535	-
Capital leases	1,641,904	1,083,780	607,010	2,118,674	651,824
Compensated absences	1,146,867	792,151	583,623	1,355,395	620,103
Loan payable	17,182,818	246,421	887,952	16,541,287	899,258
Total business-type activities long-term liabilities	\$ 23,353,969	\$ 2,122,352	\$ 5,041,430	\$ 20,434,891	\$ 2,171,185

4. Advance and Current Refundings – At September 30, 2005, two bond issues were considered defeased. The proceeds of all defeased issues have been placed in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements. At September 30, 2005, outstanding bonds of \$9,215,000 of business-type activity debt were considered defeased.

The governmental activities claims and judgments as well as compensated absences are generally liquidated by the General Fund.

CITY OF DEERFIELD BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

5. **Summary of annual Debt Service Requirements** – The annual debt service requirements to maturity for debt outstanding as of September 30, 2005 are as follows:

Year Ending September 30	Governmental Activities Debt			
	General Obligation Bonds		Improvement Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 1,430,247	\$ 1,226,263	\$ 500,000	\$ 28,500
2007	1,423,187	1,233,031	-	-
2008	1,414,345	1,243,622	-	-
2009	1,405,211	1,248,946	-	-
2010	1,398,530	1,255,072	-	-
2011-2015	6,665,976	6,638,792	-	-
2016-2020	5,396,354	7,880,990	-	-
2021-2025	5,385,441	7,887,575	-	-
2026-2029	7,741,898	2,883,110	-	-
Total	<u>\$ 32,281,189</u>	<u>\$ 31,497,401</u>	<u>\$ 500,000</u>	<u>\$ 28,500</u>

Year Ending September 30	Governmental Activities Debt		Business-type Activities Debt	
	Covenant Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 240,000	\$ 437,909	\$ -	\$ -
2007	245,000	429,609	420,000	12,863
2008	250,000	422,394	-	-
2009	255,000	415,316	-	-
2010	270,000	407,824	-	-
2011-2015	1,540,000	1,838,785	-	-
2016-2020	1,950,000	1,399,157	-	-
2021-2025	2,510,000	845,400	-	-
2026-2029	1,985,000	202,375	-	-
Total	<u>\$ 9,245,000</u>	<u>\$ 6,398,769</u>	<u>\$ 420,000</u>	<u>\$ 12,863</u>

The City is still drawing down funds from the State Revolving loan, and no debt repayment schedule has yet been established. The City currently makes estimated annual payments of \$1,408,048.

CITY OF DEERFIELD BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

NOTE IV – OTHER INFORMATION

A. Restricted Assets – The amounts shown below are those assets restricted by sources external to the City.

Ordinances and bond covenants pertaining to long-term debt and other agreements require segregation and restriction of certain assets represented by the following amounts as of September 30, 2005:

Business-type Activities	Water and Sewer Fund	Solid Waste Fund	Total
	Debt Service Sinking Funds	\$ 704,024	\$ -
Customer Deposits	393,945	48,163	442,108
Rate Stabilization Funds	3,600,000	-	3,600,000
Renewal and Replacement Funds	100,000	-	100,000
Total business-type activities restricted assets	<u>\$ 4,797,969</u>	<u>\$ 48,163</u>	<u>\$ 4,846,132</u>

B. Risk Management - The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health; and natural disasters. Liability claims in the State of Florida are limited to some extent by Chapter 768.28 of the Florida Statutes under the Doctrine of Sovereign Immunity. The General Fund provides coverage of up to \$100,000 for employee health claims. The General Fund also provides coverage for workers compensation claims. The City retains the risk of loss up to \$100,000 for general liability claims and \$100,000 for property damage claims. For all other risks of loss, the City has purchased an excess coverage insurance policy covering individual claims in excess of these specified amounts. Settled claims did not exceed the commercial coverage in any of the past three fiscal years.

Various funds of the City participate in the risk management program and make payments to the General Fund based on estimates of the amounts needed to pay prior and current years' claims. Claims expenditures and liabilities are reported when it is probable and a loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

At September 30, 2005, the amount of these liabilities was \$6,127,020. Changes in the reported liability since September 30, 2004 resulted from the following:

Fiscal Year	Claims Payable	Current Year's Claims and Changes in Estimates	Claims Payments	Liability September 30
	October 1	Estimates	Payments	September 30
2005	\$3,690,977	\$ 7,998,275	\$ (5,562,232)	\$ 6,127,020
2004	\$5,214,660	\$ 4,161,570	\$ (5,685,253)	\$ 3,690,977

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

C. Contingent Liabilities – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally, the federal and state agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Various lawsuits have been filed against the City including personal injury and general liability claims. The liability related to the various claims which were reasonably determinable at the end of the fiscal year has been accrued in the pertinent funds. In the opinion of management and legal counsel, any other potential claims will not have a material adverse effect on the City's financial statements.

D. Pension Information – The following information is provided in accordance with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers." This statement prescribes standards for the measurement, recognition and display of pension expenditures/expenses and related liabilities, assets and note disclosures in the financial statements of state and local governmental employers.

1. Plan Description - The City of Deerfield Beach, as a single employer, maintains three defined benefit pension plans covering full-time firefighters, police officers employed by the City prior to January 13, 1990 and non-uniformed employees hired before April 17, 1990. The Fire Pension Plan, Police Pension Plan and Non-uniformed Pension Plan are individual plans administered for each of three employee categories: fire, police and non-uniformed personnel. Each plan is governed by its own board of trustees which is responsible for establishing employee benefit provisions within the framework of Chapters 175 and 185 of the Florida Statutes and local ordinances. Retirement, disability and death benefits and annual cost-of-living adjustments are provided by all three plans to members and beneficiaries. New members are no longer admitted to the police and non-uniformed defined benefit plans.

The Financial statements for the City's pension plans are prepared using the accrual basis of accounting. Contributions from plan members are recognized in the period in which the contributions are due. The City's contributions are recognized when due and when a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of each individual plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the City's balance sheet date. Securities without an established market price are reported at estimated fair value. Also, the Fire Pension Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing or calling the following: The Pension Resource Center, Inc., 4360 Northlake Blvd., Suite 206, Palm Beach Gardens, FL 33410; (561) 624-3277.

The Police Officers' Retirement Plan also issues a publicly available financial report. The report may be obtained via written request to Administrative Services, Inc., 7990 SW 117th Avenue; Miami, FL 33183, or by calling (800) 749-1858.

The Non-uniformed Employees' Pension Plan does not issue stand-alone financial statements. The financial statements for this plan are presented hereinafter.

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

CITY OF DEERFIELD BEACH NON-UNIFORMED EMPLOYEES' RETIREMENT PLAN
STATEMENT OF FIDUCIARY NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

ASSETS:	
Investments:	
Money market funds	\$ 973,233
U.S. Government securities	5,106,596
Corporate equities	42,086,680
Corporate bonds and notes	5,119,672
Total investments	<u>53,286,181</u>
Receivables:	
Interest and dividends	164,892
Total assets	<u>53,431,073</u>
NET ASSETS:	
Held in trust for pension benefits	<u>\$ 53,431,073</u>

CITY OF DEERFIELD BEACH NON-UNIFORMED EMPLOYEES' RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

ADDITIONS:	
Contributions:	
Employer	\$ 738,339
Employer (on behalf of plan members)	18,463
Plan members	325,445
Total contributions	<u>1,080,247</u>
Investment earnings:	
Interest and dividends	1,284,965
Net increase in the fair value of investments	5,855,002
Total investment earnings	8,919,967
Less investment expense	(113,175)
Net investment earnings	<u>6,806,792</u>
Total additions	<u>7,887,039</u>
DEDUCTIONS:	
Benefits paid	2,622,779
Administrative expenses	354,687
Total deductions	<u>2,977,446</u>
Change in net assets	4,909,593
Net assets held in trust for pension benefits:	
Beginning of year	<u>48,521,480</u>
End of year	<u>\$ 53,431,073</u>

On January 13, 1990 the police officers of the City of Deerfield Beach merged with the Broward County Sheriff's Office. State law provides that these officers, who are now employees of the Broward County Sheriff's Office, could make an irrevocable election to remain in the City's pension plan.

CITY OF DEERFIELD BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

2. Funding Policy and Annual Required Contributions - The board of trustees of each plan establishes and may amend the contribution requirements of plan members and of the City.

The City's annual required contribution for the current year and related information for each plan is as follows:

	<u>Fire</u>	<u>Police</u>	<u>Non-uniformed</u>
Contribution rates:			
City	27.30%	55.10%	21.36%
Plan members	9.00%	9.00%	9.00%
Annual required contribution ("ARC")	\$1,777,309	\$840,265	\$741,914
Contributions made	\$1,777,309	\$840,265	\$741,914
Actuarial valuation date	10/01/04	10/01/04	10/01/04
Actuarial cost method	Entry age	Entry age	Aggregate cost (a)
Amortization method	Level percentage of pay, closed	Level percentage of pay, closed	Level percentage of pay, closed
Remaining amortization period	30 years	30 years	15 years
Asset valuation method	5 year smoothed market	4 year smoothed market	4 year smoothed market
Actuarial assumptions:			
Investment rate of return	7.63%	7.00%	7.50%
Projected salary increases	7.00%	6.50%	6.00%
Includes inflation of	3.00%	3.00%	4.00%
Cost of living adjustments	None	None	4.00%

(a) The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial accrued liabilities.

CITY OF DEERFIELD BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

Information regarding fiscal year 2005 participant data for the three pension plans is as follows:

	<u>Fire</u>	<u>Police</u>	<u>Non-uniformed</u>	<u>Total</u>
<i>Number of plan members:</i>				
Retirees and beneficiaries				
currently receiving benefits	30	56	104	190
Vested terminated employees	1	1	10	12
<i>Active employees:</i>				
Fully vested	53	21	64	138
Non-vested	65	0	0	65
<i>Benefit provisions:</i>				
<i>Normal retirement benefit equals:</i>				
Average salary for years shown	3	3	3	
At the rate of/per year of service	(b)	3.00%	3.00%	
Maximum years of service	30	30	30	
<i>Normal retirement eligibility:</i>				
Age/service years	52/10	47/10	65/10	
(Alternative)	N/A/20	47/20	55/25	
<i>Early retirement eligibility:</i>				
Age/service years	47/10	47/10	55/10	

(b) The Fire Pension Plan's accrual rate is 3% for the first 10 years of service and 3.25% thereafter.

Covered employees in the fire and non-uniformed defined benefit plans are required to contribute 9 percent of their gross salary. Beginning on January 13, 1990 participants in the police pension plan were no longer required to contribute to the plan. Prior to that time a 9 percent contribution of gross salary was mandatory. The member's contribution rate is fixed by the authorizing ordinance and the City's contribution rate is actuarially determined. The actuarial assumptions and four/five-year smoothed market methods were selected to fund the plans with the intent of producing future required employer contributions which remain fairly level as a percentage of covered payroll. The contribution rate for normal cost is determined using the entry age or the aggregate cost method, depending on the plan, over a 15 to 30 year period.

CITY OF DEERFIELD BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

3. Three-year Trend Information - The Annual Pension Cost ("APC") is a measure of the periodic cost of an employer's participation in a defined benefit pension plan. As of the valuation dates indicated, three year historical trend information on the plans is presented in the table below:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Fire			
2004	\$ 1,597,171	101.6%	\$(150,625)
2003	\$ 1,508,067	100.2%	\$(124,721)
2002	\$ 707,691	111.6%	\$(122,397)
Police			
2004	\$ 798,119	100.0%	\$ -
2003	\$ 831,455	100.0%	\$ -
2002	\$ 402,018	115.0%	\$ -
Non-uniformed			
2004	\$ 319,893	100.0%	\$ -
2003	\$ 552,825	100.0%	\$ -
2002	\$ -	N/A	\$ -

At September 30, 2004, the Firefighters' Pension Trust had a negative net pension obligation, which was derived as follows:

a. Annual required contribution ("ARC")	\$ 1,597,539
b. Interest on Net Pension Obligation ("NPO")	(9,978)
c. Adjustment to ARC	7,610
d. Annual pension cost (a+b+c)	1,595,171
e. Actual contributions	1,623,075
f. NPO at beginning of year	(124,721)
g. Increase (decrease) in NPO (d-e)	(25,904)
h. NPO at end of year (f+g)	(150,625)

E. Defined Contribution Plan - The City has a defined contribution plan that was established on April 17, 1990 via Ordinance No. 1990-025. This plan covers all full-time employees who are not members of the City's defined benefit pension plans, previously described. This plan was established under the provisions of Section 401(a) of the Internal Revenue Code. The City has authorized the city commission to establish and amend all plan provisions. The assets of the plan are self-directed, and investment results are reported to participants/employees on a quarterly basis. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment returns thereon. The City does not have fiduciary accountability for the plan and, accordingly, the plans are not reported in the accompanying financial statements.

The City contributed 8% of salaries to the plan on a bi-weekly basis, for a contribution for the year ending September 30, 2005 of \$1,141,850. The plan requires a 4% match of all participants. Plan participants become fully vested in the plan after five years of service. Total member contributions for the fiscal year totaled \$570,925.

CITY OF DEERFIELD BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

F. Deferred Compensation Plan - The City offers certain employees the opportunity to participate in a deferred compensation plan that was created on December 1, 1987 via resolution C1987/114. This plan was established in accordance with Section 457 of the Internal Revenue Code. The plan permits employees to defer a portion of their salaries until future years. At the employee's election, such amounts may be invested in mutual funds with varying degrees of risk and return. Loans may be taken against an employee's account for specified purposes. All amounts of compensation deferred under a "Section-457" plan, all property and rights purchased with those amounts, and all investment earnings, are held in trust for the exclusive benefit of the plan's participants and their beneficiaries. Since the City has no control over these assets, they are not reflected in the City's financial statements.

G. Other Post-employment Benefits - In addition to providing pension benefits, the City provides health insurance benefits to retired employees, as established by City ordinance. This is part of the City's self-insurance health plan. The retirees are not required to contribute to the cost of insurance coverage. The cost of retiree health care insurance benefits is recognized as an expenditure as claims are paid on a "pay-as-you-go basis." For the year ending September 30, 2005, those costs totaled \$762,167 for the 67 participants.

H. New Accounting Pronouncements Not Yet Adopted - In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires governments to report the effects of capital asset impairment in the financial statements when the impairment occurs by evaluating major events affecting capital assets including physical damage, changes in legal or environmental factors, technological changes or obsolescence, changes in manner or duration and construction stoppage to determine whether the capital assets are impaired. Impairment will be measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment. This Statement also enhances comparability of financial statements by requiring all governments to account for insurance recoveries in the same manner. The City will be required to implement this Statement for the fiscal year 2006. Management does not believe implementation of this Statement will materially impact the City's financial statements.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1* will be effective for the City beginning with its year ending September 30, 2006. This Statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by Statement 34.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* will be effective for the City beginning with its year ending September 30, 2008. This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The impact of implementing this statement was not ascertainable as of September 30, 2005.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34* will be effective for the fiscal year ending September 30, 2007. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Further, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

CITY OF DEERFIELD BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

GASB Statement No. 47, *Accounting for Termination Benefits*, will be effective for fiscal years beginning after June 15, 2005. This Statement requires employers to disclose its termination benefit arrangements, the cost of the termination benefits and any significant methods and assumptions used to determine termination benefit liabilities. Management does not believe implementation of this Statement will materially impact the City's financial statements.

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CITY OF DEERFIELD BEACH, FLORIDA
 Government-wide Revenues
 Last Ten Fiscal Years



City of
DEERFIELD
BEACH

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES				Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
1996	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1997	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1998	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1999	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2001	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2003	\$43,471,397	\$3,163,889	\$2,432,851	\$37,018,094	\$1,951,679	\$529,031	\$114,182	\$88,681,123
2004	45,637,073	5,229,862	2,683,580	41,201,384	2,276,438	644,088	72,457	97,745,182
2005	50,445,407	4,458,951	1,633,004	46,126,207	2,779,545	1,580,557	279,254	107,283,925

Information for fiscal years prior to 2003 is not available in this format.

CITY OF DEERFIELD BEACH, FLORIDA
 GOVERNMENT-WIDE EXPENSES BY FUNCTION
 LAST TEN FISCAL YEARS

Fiscal Year	General Government	Economic Environment	Public Safety	Human Services	Physical Environment	Transportation	Culture and Recreation	Interest and Fiscal Charges	Water and Sewer	Solid Waste	Total
1996	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1997	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1998	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1999	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2001	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2003	\$ 12,772,118	\$ 841,411	\$ 26,211,599	\$ 2,197,139	\$ 3,493,509	\$ 2,649,217	\$ 3,734,646	\$ 1,026,374	\$ 14,232,165	\$ 11,507,115	\$ 78,665,293
2004	13,173,248	1,209,660	29,863,193	2,338,711	3,642,515	2,476,519	3,781,281	1,512,795	15,564,964	11,821,977	85,184,863
2005	16,465,472	1,104,229	34,156,399	2,489,242	4,640,670	2,839,192	4,777,558	1,713,398	18,577,991	14,118,216	100,882,367

Information for fiscal years prior to 2003 is not available in this format.

H-32

CITY OF DEERFIELD BEACH, FLORIDA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS

Fiscal Year	General Government	Economic Environment	Public Safety	Human Services	Physical Environment	Transportation	Culture and Recreation	Capital Outlay	Debt Service	Total
1996	\$ 9,119,426	\$ 70,000	\$ 12,615,936	\$ 1,372,937	\$ 1,491,604	\$ 1,383,015	\$ 1,945,033	\$ 3,005,411	\$ 2,277,243	\$ 33,280,605
1997	9,401,227	70,000	13,522,542	1,329,052	1,788,101	1,311,838	2,039,404	2,541,788	2,137,318	34,141,270
1998	10,024,138	132,975	14,751,523	1,435,811	2,091,582	1,832,419	2,424,879	3,041,996	2,455,704	38,191,027
1999	11,149,613	524,309	16,780,440	1,502,407	2,064,874	1,416,179	2,438,419	2,083,414	2,404,877	40,364,532
2000	12,330,732	399,459	19,111,897	1,699,055	2,417,869	1,626,572	2,703,622	4,651,290	2,508,994	47,449,490
2001	12,906,517	739,004	21,076,694	1,894,364	2,365,368	1,566,461	3,014,426	3,141,280	2,979,404	49,683,518
2002	13,324,384	567,645	22,243,484	1,986,327	2,535,156	1,631,333	3,137,326	4,580,320	3,008,720	53,014,695
2003	13,775,845	840,763	26,014,787	2,135,110	3,138,612	1,891,522	3,354,044	5,422,747	3,297,210	59,870,640
2004	16,178,208	1,209,012	30,303,355	2,227,748	3,493,836	1,539,200	3,552,922	5,038,057	3,636,132	67,178,470
2005	14,800,858	1,103,581	33,818,934	2,384,248	4,299,381	1,913,574	4,504,233	10,573,713	4,230,255	77,628,777

(1) Includes general, special revenue, debt service, and capital projects funds.

H-33

CITY OF DEERFIELD BEACH, FLORIDA
 GENERAL GOVERNMENTAL REVENUES BY SOURCE
 LAST TEN FISCAL YEARS

Fiscal Year	Taxes	Fire Assessment Fees	Licenses and Permits	Inter-governmental	Charges for Services	Fines and Forfeitures	Investment Earnings	Miscellaneous	Total
1996	\$ 18,942,292	\$ -	\$ 1,619,825	\$ 2,404,692	\$ 3,922,466	\$ 852,572	\$ 948,215	\$ 3,268,811	\$ 31,958,873
1997	20,616,175	-	1,982,942	2,254,303	3,759,826	980,718	984,383	3,782,610	34,360,957
1998	20,947,264	-	1,639,968	3,259,221	3,887,737	922,972	876,184	4,215,529	35,748,875
2000	25,811,687	-	1,500,511	3,784,930	4,213,192	1,167,329	848,596	4,141,581	41,467,826
2001	28,351,387	-	1,439,905	4,058,116	5,249,764	1,204,497	1,541,038	3,873,836	45,718,543
2002	33,232,644	2,188,669 (1)	1,677,301	3,441,169	5,037,560	1,126,129	1,165,452	4,232,765	52,101,689
2003	36,802,201	2,956,946	1,567,473	5,646,977	4,895,715	1,226,663	403,787	4,536,017	58,035,779
2004	41,201,384	2,862,874	1,619,185	6,646,581	4,874,660	1,500,637	497,863	4,719,506	63,922,690
2005	46,072,064	3,432,997	1,420,371	8,151,325	6,294,641	1,463,170	1,262,404	5,338,199	73,435,171

(1) First year of fire assessment fee.

H-34

CITY OF DEERFIELD BEACH, FLORIDA
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Property Taxes	Sales Taxes	Franchise Taxes	Local Option Gas Tax	Total
1996	\$ 12,425,449	\$ 2,407,280	\$ 3,213,495	\$ 896,068	\$ 18,942,292
1997	13,564,279	2,472,495	3,666,739	912,662	20,616,175
1998	14,146,702	2,578,822	3,294,145	927,595	20,947,264
1999	15,144,729	2,699,792	3,641,017	953,035	22,438,573
2000	17,859,295	3,053,854	3,942,356	956,182	25,811,687
2001	19,090,178	3,555,078	4,505,254	1,200,877	28,351,387
2002	22,548,974	3,662,369	5,798,169	1,223,132	33,232,644
2003	24,385,094	3,774,962	7,511,692	1,130,453	36,802,201
2004	27,601,682	3,786,457	8,465,117	1,348,128	41,201,384
2005	31,779,407	3,970,596	9,082,753	1,239,308	46,072,064

CITY OF DEERFIELD BEACH, FLORIDA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	Total Adjusted Tax Levy (1)	Current Tax Collections (2)	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Collections to Total Adjusted Tax Levy	Delinquent Taxes (3)	Ratio of Delinquent Taxes to Total Adjusted Tax Levy
1996	\$ 12,509,727	\$ 12,396,546	99.1%	\$ 28,903	\$ 12,425,449	99.3%	\$ 70,384	0.6
1997	13,556,292	13,505,467	99.6	58,812	13,564,279	100.0	50,180	0.4
1998	14,182,933	14,120,813	99.6	25,889	14,146,702	99.7	51,382	0.4
1999	15,190,034	15,092,192	99.4	52,537	15,144,729	99.7	54,121	0.4
2000	17,895,909	17,726,195	99.1	133,100	17,859,295	99.8	78,280	0.4
2001	19,070,974	18,812,319	98.7	238,403	19,050,722	99.9	64,506	0.3
2002	22,462,744	22,349,036	99.5	50,084	22,395,120	99.7	75,426	0.3
2003	24,263,239	24,008,013	98.9	58,739	24,066,752	99.2	107,455	0.4
2004	27,585,317	26,620,437	96.5	350,144	26,970,581	97.8	128,979	0.5
2005	27,585,317	26,620,437	96.5	350,144	26,970,581	97.8	128,979	0.5

Notes

The table above depicts the City of Deerfield Beach's ad valorem taxes only. Delinquent tax collections are net of any penalties, interest and commissions. The total adjusted tax levy is equal to the total tax levy for a particular year less any discounts allowed for early payment and less any errors made in formulating the original levy.

(1) Broward County assesses property valuations and collects all ad valorem taxes.

(2) Current tax collections excludes tax increment revenues.

(3) Delinquent taxes have been fully reserved and are not reported in the Basic Financial Statements.

CITY OF DEERFIELD BEACH, FLORIDA
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS

CITY OF DEERFIELD BEACH, FLORIDA
 PROPERTY TAX RATES
 DIRECT AND OVERLAPPING GOVERNMENTS
 LAST TEN FISCAL YEARS

Fiscal Year	Real Property	Personal Property	Total
1996	\$ 1,877,605,877	\$ 331,638,468	\$ 2,209,244,345
1997	1,972,523,060	330,590,786	2,303,113,846
1998	2,070,581,660	318,863,458	2,389,445,118
1999	2,239,964,380	325,605,676	2,565,570,056
2000	2,622,185,650	387,479,427	3,009,665,077
2001	2,803,935,200	414,770,412	3,218,705,612
2002	3,666,140,080	429,856,742	4,095,996,822
2003	4,131,258,720	445,649,267	4,576,907,987
2004	4,725,301,110	424,948,029	5,150,249,139
2005	6,860,658,070	431,527,907	7,292,185,977

MILLAGE RATES PER \$1,000 OF TAXABLE VALUE

Fiscal Year	Deerfield Beach Operations	Deerfield Beach Debt	Broward County	School Board	North Broward Hospital District	S. Florida Water Management District	Florida Inland Navigation District	Total
1996	5.3230	0.6630	8.1165	10.0477	2.4327	0.6470	0.0400	27.2699
1997	5.6144	0.6536	7.7524	9.9400	2.4200	0.6720	0.0380	27.0904
1998	5.6144	0.6134	7.8380	9.9745	2.4087	0.6970	0.0500	27.1960
1999	5.6541	0.5737	7.5710	9.7256	2.5000	0.6970	0.0470	26.7684
2000	5.6910	0.5368	7.5710	9.1283	2.4895	0.6970	0.0440	26.1576
2001	5.7166	0.5112	7.5250	8.9553	2.4803	0.6970	0.0410	25.9264
2002	6.3546	0.4960	7.4005	8.7541	2.4803	0.6970	0.0385	26.2210
2003	6.3819	0.4550	7.3650	8.8825	2.4803	0.6970	0.0385	26.3002
2004	6.5205	0.3096	7.0230	8.2695	2.4803	0.6970	0.0385	25.3384
2005	5.9949	0.5051	6.7830	8.0623	2.1746	0.6970	0.0385	24.2554

TAX LEVIES APPLICABLE TO DEERFIELD BEACH ASSESSED VALUE (in thousands)

Fiscal Year	Deerfield Beach	Broward County	School Board	North Broward Hospital District	S. Florida Water Mgmt. District	Florida Inland Navigation District	Total
1996	13,094	17,931	22,198	5,374	1,429	88	60,114
1997	14,212	17,566	22,522	5,483	1,523	86	61,392
1998	14,706	18,479	23,516	5,679	1,643	118	64,141
1999	15,747	19,136	24,582	6,319	1,762	119	67,665
2000	18,523	22,518	27,150	7,404	2,073	131	77,799
2001	19,774	23,893	28,435	7,875	2,213	130	82,320
2002	23,396	25,274	29,897	8,471	2,380	131	89,549
2003	25,195	27,142	32,734	9,140	2,569	142	96,922
2004	20,174	28,364	33,398	10,017	2,815	155	94,923
2005	24,022	32,260	38,344	10,342	3,315	183	108,466

State law requires full (100%) valuation. Therefore, the assessed value and estimated tax value are the same.

CITY OF DEERFIELD BEACH, FLORIDA
STATEMENT OF PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2005

CITY OF DEERFIELD BEACH, FLORIDA
SPECIAL ASSESSMENT COLLECTIONS
LAST TEN FISCAL YEARS

Taxpayer	Type of Business	Assessed Valuation for Fiscal 2005	Percentage
1. Publix Supermarket	Food warehousing	\$ 58,902,640	.81
2. City National Bank of FL, Trustee	Banking	44,995,100	.62
3. Felcor/CSS Holdings LP	Hotel	35,627,240	.49
4. CP Deerfield LLC	Shopping Center	31,409,180	.43
5. SPTMRT Properties Trust	Condominium	26,293,410	.36
6. Security Capital Atlantic, Inc.	Apartments	25,129,260	.34
7. CMD Realty Investors	Office building	23,656,930	.32
8. FGI Financing I Corp.	Condominium	23,317,960	.32
9. Tivoli Lakes Club Investors	Apartments	21,513,900	.30
10. Quiet Waters Business Park LLC	Warehouses	20,285,540	.28
Total taxable assessed value of ten largest taxpayers		311,131,160	4.27
Total taxable assessed value of other taxpayers		<u>6,981,054,817</u>	<u>95.73</u>
Total taxable assessed value of all taxpayers		<u>\$ 7,292,185,977</u>	<u>100.00%</u>

Fiscal Year	Assessments Outstanding at Beginning of Fiscal Year	Net Assessments Made During Fiscal Year	Assessments Collected During Fiscal Year	Assessments Outstanding at End of Fiscal Year
1996	\$ 128,375	\$ 26,067	\$ 27,256	\$ 127,186
1997	127,186	31,067	32,608	125,645
1998	125,645	5,000	14,408	116,237
1999	116,237	5,000	4,838	116,399
2000	116,399	-	10,490	105,909
2001	105,909	-	8,919	96,990
2002	96,990	-	2,493	94,497
2003	94,497	-	4,497	90,000
2004	90,000	-	16,527	73,473
2005	73,473	-	6,689	66,784

H-37

CITY OF DEERFIELD BEACH, FLORIDA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Valuation	Net Bonded Debt per Capita (A)	Ratio of Total Bonded Debt to Assessed Value	Total Net Bonded Debt Per Capita (B)
1996	48,974	\$ 2,209,244,345	\$ 12,555,000	\$ 212,039	\$12,342,961	0.56%	\$252	1.74%	\$786
1997	50,123	2,303,113,846	11,835,000	201,539	11,633,461	0.51	232	1.58	727
1998	50,213	2,389,445,118	11,085,000	114,039	10,970,961	0.46	218	1.38	657
1999	60,166	2,565,570,056	10,295,000	118,190	10,176,810	0.40	169	1.24	527
2000	61,671	3,009,665,077	19,443,847	125,174	19,318,674	0.64	313	1.27	620
2001	64,948	3,218,705,612	21,269,104	52,278	21,216,826	0.66	327	1.30	641
2002	65,500	4,095,996,822	20,215,364	-	20,215,364	0.50	309	1.01	629
2003	64,748	4,576,907,987	18,873,774	280,655	18,593,119	0.41	287	0.82	581
2004	74,304	5,150,249,139	33,482,219	282,391	33,199,828	0.64	447	1.22	846
2005	77,039	7,292,185,977	32,281,189	297,967	31,983,222	0.44	415	0.86	816

Note: Population estimates were obtained from the following sources:
 1995 through 1996, 1998 - University of Florida, Bureau of Business and Economic Research
 1997 - U.S. Bureau of the Census Official Estimate
 1999 - City of Deerfield Beach, Planning and Growth Management Department
 2000 - 2001 - Broward County Planning Department Estimate
 2002 - University of Florida, Bureau of Business and Economic Research
 2003 - 2005 - City of Deerfield Beach, Planning and Growth Management Department

(A) Net bonded debt per capita is equal to the direct general obligation bonded debt of the City divided by population.

(B) Total net bonded debt per capita is equal to the direct general obligation bond debt of the city plus the overlapping general obligation bond debt of the county and school district divided by population.

CITY OF DEERFIELD BEACH
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2005

Assessed value of taxable property	<u>\$7,292,185,977</u>
Limit, 15% of assessed value	\$1,093,827,896
Amount of net applicable to debt limits:	
General Obligation Bonds, Series 2000	12,181,189
General Obligation Bonds, Series 2003	<u>20,100,000</u> <u>32,281,189</u>
LEGAL DEBT MARGIN	<u>\$1,061,546,707</u>

Authorization to issue and debt limit are established by the City Charter, as follows:

"The City is authorized to issue full faith and credit bonds only after same shall have been approved by a majority of votes cast in an election in which a majority of freeholders who are qualified electors residing in the City shall participate, as required by Section 12 of Article VII of the Constitution of Florida. Full faith and credit bonds of the City can be issued only if all full faith and credit bonds outstanding at the time together with the amounts of bonds proposed to be issued shall not exceed in the aggregate fifteen percentum (15%) of the assessed valuation of taxable property in the City at such time."

CITY OF DEERFIELD BEACH, FLORIDA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to Governmental Expenditures
1996	\$ 959,000	\$ 948,714	\$1,907,714	\$ 33,280,605	5.73%
1997	1,050,500	884,039	1,934,539	34,141,270	5.67
1998	1,167,500	833,271	2,000,771	38,191,027	5.24
1999	1,135,000	778,763	1,913,763	40,364,532	4.74
2000	1,195,000	720,553	1,915,553	47,449,490	4.04
2001	1,379,926	706,887	2,086,813	49,683,518	4.20
2002	1,458,740	696,630	2,155,370	53,014,695	4.07
2003	1,516,590	636,026	2,152,616	59,870,640	3.60
2004	1,251,555	1,192,675	2,444,230	67,178,470	3.64
2005	1,731,030	1,624,635	3,355,665	77,628,777	4.32

CITY OF DEERFIELD BEACH, FLORIDA
 COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
 GENERAL OBLIGATION BONDS
 SEPTEMBER 30, 2005

Governmental Unit	Net General Obligation Bonded Debt Outstanding	Percentage Applicable to City of Deerfield Beach	Amount Applicable to City of Deerfield Beach
<i>Direct Debt:</i>			
City of Deerfield Beach	\$ 32,281,189	100.00%	\$ 32,281,189
<i>Overlapping Debt:</i>			
Broward County	607,815,602	6.32%*	38,413,946
Broward School District	79,088,067	6.32%*	4,998,366
	<u>686,903,669</u>		<u>43,412,312</u>
Total	\$ 719,184,858		\$ 75,693,501

* Ratio of taxable assessed value in the City of Deerfield Beach to total Broward County assessed value.

CITY OF DEERFIELD BEACH, FLORIDA
 WATER AND SEWER REVENUE BOND COVERAGE
 LAST TEN FISCAL YEARS

Fiscal Year	Gross Revenues (A)	Expenses (B)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Escrow or Principal	Interest	Total (C)	
1996	\$ 12,383,762	\$ 7,928,620	\$ 4,455,142	\$ 930,000	\$ 713,561	\$ 1,643,561	2.71
1997	12,674,544	8,507,678	4,166,866	980,000	665,009	1,645,009	2.53
1998	13,474,187	8,478,960	4,995,227	1,035,000	611,896	1,646,896	3.03
1999	14,646,659	8,861,837	5,784,822	1,090,000	553,809	1,643,809	3.52
2000	16,269,400	8,009,955	8,259,445	1,155,000	491,154	1,646,154	5.02
2001	17,014,773	8,915,308	8,099,465	1,225,000	422,994	1,647,994	4.91
2002	17,466,593	9,359,920	8,106,673	1,275,000	368,418	1,643,418	4.93
2003	18,672,822	9,700,131	8,972,691	1,355,000	290,325	1,645,325	5.45
2004	19,126,884	10,368,745	8,758,139	1,440,000	207,331	1,647,331	5.32
2005	19,352,251	12,529,261	6,822,990	1,525,000	119,130	1,644,130	4.15

- A) Gross revenue for the purpose of determining debt service coverage, is equal to the sum of the operating revenues of the Water and Sewer Fund and total interest earnings. For fiscal years before 1993, gross revenue does not include that portion of investment earnings earned by the treasury bonds that were held in the sinking fund for payment of the term bonds, which are now defeased, that mature on April 1, 2008.
- B) Expenses, for the purpose of determining debt service coverage, are equal to the total operating expenses of the Water and Sewer Fund less depreciation and less the general administrative charge.
- C) The debt service requirement for the water and sewer revenue bonds is set forth in the bond resolution which authorized the issuance of the Water and Sewer Refunding Revenue Bonds, Series 1984, as supplemented and amended by the bond resolutions passed in conjunction with the issuance of the Water and Sewer Refunding and Improvement Revenue Bonds, Series 1992.

**CITY OF DEERFIELD BEACH
DEMOGRAPHICS STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year	(A) Population	(B) Per Capita Income	(B) Median Age	(C) School Enrollment	(D) Unemployment Rate
1996	48,974	26,752	39.5	6,203	4.8
1997	50,123	27,661	39.5	6,738	4.7
1998	50,213	28,546	39.5	7,178	4.6
1999	60,166	29,442	39.5	7,345	3.8
2000	61,671	29,409	39.5	7,007	3.7
2001	64,948	30,702	39.5	7,023	3.6
2002	65,500	31,785	37.7	7,534	5.9
2003	64,748	32,844	38.6	7,253	5.1
2004	74,304	Not available	38.1	7,138	4.5
2005	77,039	Not available	38.5	8,583	3.5

**CITY OF DEERFIELD BEACH, FLORIDA
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS**

Fiscal Year	(A) Property Value	(B) Commercial Construction		(B) Residential Construction		Building Permits		(C) Bank Deposits
	Assessed Property Value (A)	Number of Units	Value*	Number of Units	Value*	Number of Permits	Value*	Total Deposits*
1996	2,209,244	353	19,017	1,320	13,033	5,524	63,411	\$ 7,161,930
1997	2,303,114	302	23,333	595	77,075	7,601	100,407	6,410,425
1998	2,389,445	498	106,951	687	21,803	8,264	178,019	8,873,818
1999	2,565,570	128	23,185	353	32,534	8,737	108,075	7,093,748
2000	3,009,665	533	26,740	548	17,890	7,809	73,049	7,319,000
2001	3,218,706	501	39,910	593	3,711	5,851	78,064	7,841,000
2002	4,095,997	270	55,182	296	8,194	10,985	94,019	8,632,000
2003	4,576,908	290	25,128	470	14,152	13,311	76,740	8,983,000
2004	5,150,249	302	54,395	359	8,763	9,564	100,977	9,463,000
2005	7,292,186	480	50,092	1,046	14,091	11,300	99,324	9,975,000

H-41

A) Source: City of Deerfield Beach Planning and Growth Management Department Estimate for 1999, 2000, 2004 and 2005. Population estimates from 1994 through 1996 and 1998 as well as 2001, 2002 and 2003 were obtained from the University of Florida, Bureau of Economic and Business Research. The 1997 population is from the US Bureau of the Census.

B) Source: University of Florida, Bureau of Business and Economic Research - for Broward County.

C) Source: School Board of Broward County.

D) Source: Florida Bureau of Labor Market Information.

*Amounts expressed in thousands

A) Source: Broward County Property Appraiser - Assessed value of all real and personal property, before exemptions, as of January 1st of current fiscal year.

B) Source: City of Deerfield Beach Building Department.

C) Source: Florida Bankers Association.

CITY OF DEERFIELD BEACH, FLORIDA
 MISCELLANEOUS STATISTICAL DATA
 SEPTEMBER 30, 2005

Date of incorporation	June 11, 1925
Date first charter adopted	1925
Date present charter adopted	1975
Form of government	Mayor/Commission
Area	16.4 square miles
Miles of streets and alleys:	
Paved	146.6
Sidewalks	133.8
Miles of sewers:	
Storm	28.96
Sanitary	133.66
Force mains	37.91
Building permits issued:	11,300
Value of buildings permitted:	99,324,063
Fire protection:	
Number of stations	4
Number of employees	140
Municipal water department:	
Number of meters	12,776
Number of units	33,017
Plant capacity	34,800,000 gallons per day
Recreation:	
Number of parks	22
Public beach	5,700 feet
Municipal pier	920 feet
Education:	
Number of public schools	7
Number of teachers	575
Number of students	8,583
Employees	569

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H-42

APPENDIX I

Financial Information Regarding Gadsden County

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Gadsden County, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the Years Ended September 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues			
Taxes	\$8,559,328	\$9,054,183	\$9,625,358
Licenses and permits	355,880	423,137	444,788
Intergovernmental Revenues	1,258,786	1,464,655	1,355,735
Charges for Services	250,795	274,796	379,473
Fines and forfeitures	0	0	0
Interest	0	0	0
Miscellaneous Revenues	<u>103,904</u>	<u>169,092</u>	<u>150,675</u>
Total revenues	<u>10,528,693</u>	<u>11,385,863</u>	<u>11,956,029</u>
Expenditures			
Current:			
General government	3,930,020	4,108,727	3,510,438
Public safety	366,437	399,257	370,312
Physical environment	226,320	219,833	234,882
Transportation	0	0	0
Economic Environment	114,761	116,954	125,726
Human Services	1,173,539	1,200,237	1,209,042
Culture and Recreation	<u>62,2002</u>	<u>111,131</u>	<u>106,084</u>
Debt Service			
Principal	0		21,500
Interest	0	764	15,208
Other	<u>0</u>	<u>2,797</u>	<u>4,442</u>
Total Expenditures	<u>(5,873,079)</u>	<u>(6,069,700)</u>	<u>(5,597,634)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,655,614</u>	<u>5,316,163</u>	<u>6,358,395</u>
Other Financing Sources (Uses):			
Operating Transfers in	57,328	245,239	121,966
Installment Purchases	0	0	0
Debt Proceeds	0	215,000	0
Operating Transfers out	<u>(5,613,851)</u>	<u>(5,812,988)</u>	<u>(5,873,383)</u>
Total Other Financing (Uses) Sources	<u>(5,556,523)</u>	<u>(5,352,749)</u>	<u>(5,751,417)</u>
(Deficiency) Excess of Revenues and Other Financing Sources (Under) Over Expenditures and Other Financing Uses	<u>(900,909)</u>	<u>(36,586)</u>	<u>606,978</u>
Fund Balance - Beginning of Year	<u>2,578,336</u>	<u>1,677,427</u>	<u>1,640,841</u>
Fund Balance - End of Year	<u>\$1,677,427</u>	<u>\$1,640,841</u>	<u>\$2,247,819</u>

The obligation of Gadsden County to pay the Loan Payments is limited as described in the Official Statement. Certain of the above revenues may not be legally available to make, nor are any of the above revenues pledged to, the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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Law, Redd, Crona & Munroe, P.A.
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

March 31, 2006

The Honorable Board of County Commissioners
and Constitutional Officers
Gadsden County, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gadsden County, Florida as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gadsden County, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Gadsden County, Florida as of September 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated, March 31, 2006, on our consideration of Gadsden County, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gadsden County, Florida's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance, as required by the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General of the State of Florida*, and the combining nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the 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.

Law, Redd, Crona & Munroe, P.A.
Law, Redd, Crona & Munroe, P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) is designed to provide an objective and easy to read analysis of the County's financial activities based on currently known facts, decisions or conditions. It is intended to provide a broad overview on the short-term and long-term analysis of the County's activities based on information presented in the financial report and fiscal policies that have been adopted by the County. The MD&A is designed to focus on significant financial issues, provide an overview of the County's financial activity, identify changes in the County's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget) and identify individual fund issues or concerns.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The reader of this statement should take the time to read and evaluate all sections of this report, including the footnotes and other supplemental information that is provided.

FINANCIAL HIGHLIGHTS

Government-Wide Statements

At September 30, 2005, County assets exceeded liabilities by \$44.3 million (net assets). Of this amount, only \$4.5 million represents unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors. \$35.6 million was invested in capital assets, net of related debt and accumulated depreciation. The remaining \$4.2 million was restricted by constraints imposed from outside of the County such as debt covenants, grantors, laws or regulations.

The County's total net assets increased \$3,046,780 or 7% as compared with the prior year. At September 30, 2005, the County's unrestricted net assets increased \$1,402,778 or 44.5% as compared with the previous year.

Fund Statements

At September 30, 2005 the County's governmental funds reported combined ending fund balances of \$12.6 million, a decrease of \$1.1 million, in comparison with the \$13.7 million balance as of September 30, 2004.

At September 30, 2005 and 2004, the General Fund unreserved fund balance was \$2.1 million and \$1.3 million, respectively. This is an increase of over \$800,000, which brings total General Fund balance to approximately 19% of General Fund annual expenditures as compared to 11% for the prior year.

USING THIS ANNUAL REPORT

The County's basic financial statements include three components; 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. A brief description of the different financial statements follows.

Government-Wide Statements (The Statement of Net Assets and The Statement of Activities)

The government-wide financial statements consist of two statements, The Statement of Net Assets and The Statement of Activities. The Statement of Net Assets presents information on all the County's assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies, with the difference between the two reported as net assets. Net assets, the difference between assets and liabilities, are one way to measure the County's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating.

The Statement of Activities presents information on all revenues and expenses of the County and shows *how* the County's net assets changed during the year. Expenses are reported by major function and program revenues relating to those functions are reported, providing the net cost of all the functions provided by the County. In the Statement of Activities governments report their operations as either governmental activities and/or business-type activities. All of Gadsden County's basic services are considered to be governmental activities. These include general government, public safety, physical environment, transportation, economic environment, human services and culture and recreation. Property taxes, sales taxes, gas taxes and franchise fees finance most of these activities.

Fund Financial Statements

The Fund financial statements provide detailed information about the most significant *funds* – not the County as a whole. The Fund financial statements include a Balance Sheet, and a Statement of Revenues, Expenditures and Changes in Fund Balances for each major fund and aggregate non-major funds. Gadsden County has two kinds of funds, *governmental* and *fiduciary*, each use different accounting approaches as explained below.

Governmental funds – Governmental fund presentation is presented on a sources and uses of liquid resources basis. Funds are established for various purposes and fund financial statements allow the demonstration of sources and uses and/or budgeting compliance associated therewith.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a condensed summary of net assets for the primary government for fiscal years 2005 and 2004.

**Gadsden County, Florida
Summary of Net Assets
September 30, 2005 and 2004**

	Governmental Activities		Total	
	2005	2004	2005	2004
	Current and Other Assets	\$ 13,293,004	\$10,637,320	\$ 13,293,004
Capital Assets	46,629,456	45,342,344	46,629,456	45,342,344
Total Assets	59,922,460	55,979,664	59,922,460	55,979,664
Current Liabilities	4,621,991	3,849,663	4,621,991	3,849,663
Non-Current Liabilities	10,933,841	10,810,153	10,933,841	10,810,153
Total Liabilities	15,555,832	14,659,816	15,555,832	14,659,816
Net Assets				
Invested in capital assets, net of related debt	35,667,128	34,609,867	35,667,128	34,609,867
Restricted	4,146,776	3,560,035	4,146,776	3,560,035
Unrestricted	4,552,724	3,149,946	4,552,724	3,149,946
Total Net Assets	\$ 44,366,628	\$41,319,848	\$ 44,366,628	\$41,319,848

By far, the largest portion of the County's net assets (80%) reflects its investment in capital assets, less any related debt to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The *restricted net assets* representing 9.3% of the County's net assets are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of *unrestricted net assets* (\$4.5 million or 10.7%) may be used to help meet the government's ongoing obligations to citizens and creditors.

The following schedule provides a summary of the changes in net assets.

**Gadsden County, Florida
Changes in Net Assets**

	Governmental Activities		Total	
	2005	2004	2005	2004
Revenues:				
Program Revenues:				
Charges for Services	\$ 4,795,916	\$ 4,562,185	\$ 4,795,916	\$ 4,562,185
Operating Grants and Contributions	3,314,139	2,723,010	3,314,139	2,723,010
Capital Grants and Contributions	1,359,569	62,498	1,359,569	62,498
Total Program Revenues	9,469,624	7,347,693	9,469,624	7,347,693
General Revenues:				
Property Taxes	9,406,707	8,838,671	9,406,707	8,838,671
Sales Tax and State Shared Revenue	4,376,040	4,192,383	4,376,040	4,192,383
Local Option Taxes	2,732,958	2,368,895	2,732,958	2,368,895
Motor Fuel Tax	2,901,945	2,673,096	2,901,945	2,673,096
Other	1,244,908	1,046,457	1,244,908	1,046,457
Total General Revenues	20,662,558	19,119,502	20,662,558	19,119,502
Total Revenues	30,132,182	26,467,195	30,132,182	26,467,195
Expenses:				
Program Expenses:				
General Government	7,382,821	7,082,199	7,382,821	7,082,199
Public Safety	9,670,670	9,762,204	9,670,670	9,762,204
Physical Environment	1,158,038	1,100,981	1,158,038	1,100,981
Transportation	5,184,163	4,624,202	5,184,163	4,624,202
Economic Environment	738,311	612,302	738,311	612,302
Human Services	1,730,703	1,695,704	1,730,703	1,695,704
Culture/Recreation	808,098	831,033	808,098	831,033
Interest on Long-term Debt	412,598	214,038	412,598	214,038
Total Expenses	27,085,402	25,922,663	27,085,402	25,922,663
Increase in Net Assets	3,046,780	544,532	3,046,780	544,532
Net Assets October 1, 2004	41,319,848	40,775,316	41,319,848	40,775,316
Net Assets September 30, 2005	\$44,366,628	\$41,319,848	\$44,366,628	\$ 41,319,848

Under Program Revenue, Charges for Services were \$4.8 million and represented 16% of governmental activities revenue. Departments that experienced an increase in revenue include building permits up 5%, zoning fees up 12%, library fees up 8% and emergency rescue up 1.6%. Animal control went up 118%, Pat Thomas Park up 8%, public works department up 23% and recycling curbside service up 13%. Overall there was an increase in Charges for Services of \$233,731 or 5%.

Gadsden County relies heavily on grants and aid from outside sources to contribute to its revenue stream. Program revenue from Operating and Capital Grants and Contributions consisted of 16% of overall revenue, an increase of 5% from the previous year. This increase is due primarily to road paving capital grants and the new library construction grant.

There were no major changes in overall expenses for the County.

FUND FINANCIAL ANALYSIS

As of the end of fiscal year 2005, the County's governmental funds reported combined ending fund balances of \$12.6 million, a decrease of \$1.1 million in comparison with the prior year. Of the approximately \$12.6 million total fund balance, unreserved fund balance is \$4.7 million and is available for spending at the County's discretion.

9-1

Gadsden County, Florida			
Reserved and Unreserved Fund Balance			
	2005	2004	Increase (Decrease)
Total Fund Balance	\$ 12,643,313	\$ 13,714,057	\$ (1,070,744)
Less Reserved Fund Balance:			
Inventories	128,332	125,932	2,400
Prepaid Items	55,103	297,554	(242,451)
Special Revenue Funds	3,032,216	3,057,802	(25,586)
Capital Project Funds	4,720,015	6,675,291	(1,955,276)
Unreserved Fund Balance	\$ 4,707,647	\$ 3,557,478	\$ 1,150,169

The following schedule provides a summary of the changes in General Fund Balance. The General Fund is the chief operating fund of the County.

Gadsden County, Florida			
Reserved and Unreserved General Fund Balance			
	2005	2004	Increase (Decrease)
Total General Fund Balance	\$ 2,247,819	\$ 1,640,841	\$ 606,978
Less Reserved Fund Balance:			
Inventories	64,705	70,450	(5,745)
Prepaid Items	16,063	252,878	(236,815)
Unreserved General Fund Balance	\$ 2,167,051	\$ 1,317,513	\$ 849,538

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues exceeded the original revenue budget by \$175,882. Excess general fund revenue received in comparison to the final amended budget was equal to approximately \$115,042. Actual overall expenditures were approximately \$96,384 less than the final amended budget.

The most significant budget amendments to the original general fund budget during the year were in the general funds Transfers In/Out. The original general fund budget for Transfers Out was \$5,097,289 compared to the final budget amount of \$6,159,969, an increase of \$1,062,680. Actual Transfers Out for the year were slightly lower than the final amended budget by \$286,586.

CAPITAL ASSETS AND DEBT MANAGEMENT

Capital Assets.

The County's investment in capital assets for its governmental activities as of September 30, 2005 amounts to \$42.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure, net of depreciation.

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

- Road paving in the tune of 4.4 million
- Construction-in-Progress of the new Quincy library of \$1,446,943
- The net increases of dump trucks and heavy equipment in the amount of \$393,045

Additional information regarding the County's capital assets is contained in the Notes to the Financial Statements.

Gadsden County, Florida				
Capital Assets (net of depreciation)				
	Governmental Activities		Total	
	2005	2004	2005	2004
Land	\$ 1,458,634	\$ 1,458,634	\$ 1,458,634	\$ 1,458,634
Buildings	12,488,273	12,800,421	12,488,273	12,800,421
Improvements Other than Buildings	833,395	772,247	833,395	772,247
Machinery and Equipment	8,357,637	8,449,294	8,357,637	8,449,294
Construction in Progress	1,448,768	0	1,448,768	0
Infrastructure	18,110,077	15,045,341	18,110,077	15,045,341
Total	\$42,696,784	\$ 38,525,937	\$ 42,696,784	\$ 38,525,937

Debt Management

The most significant component of the County's debt is the Florida Municipal Loan Council Revenue Bonds Series 2003B, at \$8.4 million. Future county fuel tax revenues and constitutional fuel tax revenues secure these bonds. This debt was issued to expedite the paving of dirt roads. Overall, long-term debt increased \$213,001 from 2004 to 2005.

Additional information regarding the County's Long-Term Debt is contained in the Notes to the Financial Statements.

**Gadsden County, Florida
Outstanding Debt**

	2005	2004	Increase (Decrease)
Revenue Bonds	\$ 8,390,000	\$ 8,850,000	\$ (460,000)
Pooled Commercial Paper	1,140,443	215,000	925,443
Notes and Loans Payable	945,097	1,143,834	(198,737)
Compensated Absences	930,342	953,138	(22,796)
Landfill Post-closure Costs	574,612	605,521	(30,909)
Total	\$11,980,494	\$11,767,493	\$ 213,001

ECONOMIC FACTORS AND FUTURE FINANCIAL CONDITION

Gadsden County is designated as a fiscally constrained County in the State of Florida and is included in the Governor's designated Northwest Florida Rural Area of Economic Concern. The County's millage rate is currently set at the statutory maximum level of 10.00 mills. Beyond property tax revenue, which generated approximately \$9.3 million in FY 2005, the County's other major revenues mostly include proceeds from state sponsored programs and gas taxes, as well as the local option "Small County" sales tax.

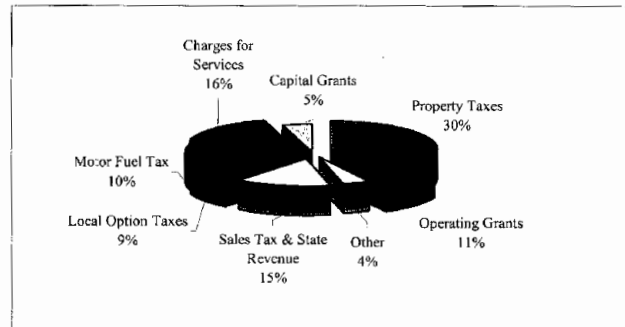
Gadsden County is approximately 516 square miles. The current population of Gadsden County is estimated at approximately 47,600 residents. This figure represents an increase over the 2000 Census estimates of approximately 45,000. Additionally, current estimates illustrate that approximately 65% of these residents live in the county and 35% live within the city limits of Chattahoochee, Gretna, Greensboro, Havana, Midway and Quincy. The most current labor statistics project that the County's labor force (persons employed over the age of 16) is equal to approximately 18,500 residents, this up from the 1990 estimate of 16,200. In 2005 unemployment rates were equal to 4.1% in Gadsden County. This is in comparison to 3.3% for the State of Florida and approximately 5% for the United States.

As Gadsden County looks towards the future it is clear that preparations must be made for certain unanticipated levels of growth. The eastern portion of Gadsden County, specifically within the City of Midway and other surrounding areas, is experiencing rapid growth and development. The County has taken steps to lead its residents and residents of the six municipalities in making the necessary preparations to handle this growth. The County has focused on developing plans and strategies to secure resources to provide the necessary infrastructure to properly accommodate future development. Additionally, the Board of County Commissioners has made a commitment to stabilize its financial health by building sufficient reserves and fund balances in its major governmental funds, strategically managing debt, and developing a long term capital improvement program to maintain current and future investments in its fixed assets. Furthermore, the County will also look towards diversifying its revenue structure as to decrease its dependency on both property taxes and state sponsored revenue proceeds.

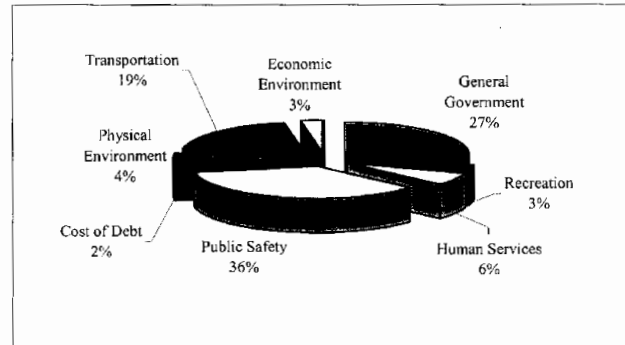
CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives and manages. If you have questions about this report or need additional financial information, contact the Gadsden County Finance Office, 10 E. Jefferson Street, Quincy, Florida 32351.

**Revenues – Governmental Activities
Fiscal Year Ended September 30, 2005**



**Expenses – Governmental Activities
Fiscal Year Ended September 30, 2005**



Financial Statements

Gadsden County, Florida
Statement of Net Assets
September 30, 2005

	Primary Government	
	Governmental Activities	Total
Assets		
Current Assets		
Cash	\$ 5,220,612	\$ 5,220,612
Investments	3,036,237	3,036,237
Receivables (Net):		
Accounts	941,710	941,710
Other	109,409	109,409
Due from Agency Funds	25,674	25,674
Due from Other Governments	3,775,389	3,775,389
Prepaid Items	55,641	55,641
Inventories	128,332	128,332
Total Current Assets	<u>13,293,004</u>	<u>13,293,004</u>
Noncurrent Assets		
Restricted Cash and Cash Equivalents	3,801,488	3,801,488
Capital Assets		
Non-Depreciable	1,458,634	1,458,634
Depreciable, Net	41,238,150	41,238,150
Unamortized Loan Issuance Costs	131,184	131,184
Total Noncurrent Assets	<u>46,629,456</u>	<u>46,629,456</u>
Total Assets	<u>\$ 59,922,460</u>	<u>\$ 59,922,460</u>
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 2,027,743	\$ 2,027,743
Due to Other Governments	43,679	43,679
Deferred Revenue	1,148,312	1,148,312
Unamortized Premium	26,923	26,923
Installment Notes Payable	954,256	954,256
Accrued Compensated Absences	421,078	421,078
Total Current Liabilities	<u>4,621,991</u>	<u>4,621,991</u>
Noncurrent Liabilities		
Unamortized Premium	328,681	328,681
Accrued Compensated Absences	509,264	509,264
Installment Notes Payable	9,521,284	9,521,284
Estimated Landfill Postclosure Costs	574,612	574,612
Total Noncurrent Liabilities	<u>10,933,841</u>	<u>10,933,841</u>
Total Liabilities	<u>15,555,832</u>	<u>15,555,832</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	35,667,128	35,667,128
Restricted for:		
Transportation	3,195,898	3,195,898
Grants and Other Purposes	950,878	950,878
Unrestricted	4,552,724	4,552,724
Total Net Assets	<u>44,366,628</u>	<u>44,366,628</u>
Total Liabilities and Net Assets	<u>\$ 59,922,460</u>	<u>\$ 59,922,460</u>

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

**Gadsden County, Florida
Statement of Activities
Year Ended September 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental Activities						
General Government	\$ 7,382,821	\$ 2,975,907	\$ 199,175	\$ 0	\$ (4,207,739)	\$ (4,207,739)
Public Safety	9,670,670	1,425,568	1,067,464	45,501	(7,132,137)	(7,132,137)
Physical Environment	1,158,038	281,644	264,229	0	(612,165)	(612,165)
Transportation	5,184,163	58,948	43,763	1,294,505	(3,786,947)	(3,786,947)
Economic Environment	738,311	0	540,749	0	(197,562)	(197,562)
Human Services	1,730,703	15,597	363,628	0	(1,351,478)	(1,351,478)
Culture and Recreation	808,098	38,252	835,131	19,563	84,848	84,848
Interest on Long-Term Debt	412,598	0	0	0	(412,598)	(412,598)
Total Governmental Activities	27,085,402	4,795,916	3,314,139	1,359,569	(17,615,778)	(17,615,778)
Total Primary Government	\$ 27,085,402	\$ 4,795,916	\$ 3,314,139	\$ 1,359,569	(17,615,778)	(17,615,778)

General Revenues

Taxes:			
Property Taxes		9,406,707	9,406,707
Franchise and Utility Taxes		220,248	220,248
Discretionary Sales Surtax		1,405,282	1,405,282
Local Option Gas Tax		1,327,676	1,327,676
Motor Fuel Tax		2,901,945	2,901,945
Other Taxes		26,091	26,091
Sales Tax and Other Shared Revenues		4,376,040	4,376,040
Investment Earnings		326,212	326,212
Miscellaneous		394,630	394,630
Proceeds from Sale of Assets		276,060	276,060
Transfers		1,667	1,667
Total General Revenues and Transfers		20,662,558	20,662,558
Change in Net Assets		3,046,780	3,046,780
Net Assets, Beginning of Year		41,319,848	41,319,848
Net Assets, End of Year		\$ 44,366,628	\$ 44,366,628

Capital Projects Road Resurfacing	Sheriff	Other Governmental Funds	Total Governmental Funds
\$ 918,527	\$ 64,087	\$ 2,116,052	\$ 5,220,612
0	0	778,563	3,036,237
0	0	5,305	941,710
0	0	9,103	109,409
0	362,737	85,566	1,895,134
0	0	451,942	3,775,389
0	0	39,578	55,641
0	0	0	128,332
3,801,488	0	0	3,801,488
\$ 4,720,015	\$ 426,824	\$ 3,486,109	\$ 18,963,952
\$ 0	\$ 331,628	\$ 153,256	\$ 2,027,743
0	75,776	453,667	1,869,460
0	0	32,677	43,679
0	19,420	462,660	2,379,757
0	426,824	1,102,260	6,320,639
0	0	0	15,018
4,720,015	0	0	6,984,788
0	0	0	46,484
0	0	110,602	393,705
0	0	42,103	42,103
0	0	39,040	55,103
0	0	0	128,332
0	0	188,402	188,402
0	0	81,731	81,731
0	0	0	2,167,051
0	0	1,921,971	2,540,596
4,720,015	0	2,383,849	12,643,313
\$ 4,720,015	\$ 426,824	\$ 3,486,109	\$ 18,963,952

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

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

Gadsden County, Florida

Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets

September 30, 2005

		Capital Projects Road Resurfacing	Sheriff	Other Governmental Funds	Total Governmental Funds
Total Fund Balances - Governmental Funds	\$ 12,643,313				
Amounts reported for governmental activities in the statement of net assets are different because:		\$ 0	\$ 0	\$ 968,260	\$ 13,296,601
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	42,696,784	0	0	0	444,788
		0	0	3,226,022	10,949,192
		0	0	2,207,207	4,178,806
		0	60,327	25,597	94,619
		126,197	0	281,195	720,842
		<u>126,197</u>	<u>60,327</u>	<u>6,708,281</u>	<u>29,684,848</u>
Receivables that do not provide current financial resources are reported as deferred revenue in the governmental funds.	1,231,445				
Loan issuance costs paid in the current period are not financial resources and, therefore, are not reported as assets in the governmental funds.	131,184	0	0	3,558,853	7,075,750
		0	5,471,126	1,824,749	9,424,317
		0	0	434,556	1,122,359
		2,081,473	0	0	8,640,715
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		0	0	21,253	738,166
Installment Notes Payable	\$ (10,475,540)	0	0	118,990	1,686,384
Unamortized Premium	(355,604)	0	0	619,528	2,244,944
Accrued Compensated Absences	(930,342)	0	0	113,953	869,018
Estimated Landfill Postclosure Costs	(574,612)	0	0	12,001	391,122
	<u>(12,336,098)</u>	<u>(2,081,473)</u>	<u>(5,471,126)</u>	<u>(6,703,883)</u>	<u>(32,204,319)</u>
Net Assets of Governmental Activities	<u>\$ 44,366,628</u>	<u>(1,955,276)</u>	<u>(5,410,799)</u>	<u>4,398</u>	<u>(2,519,471)</u>
		0	5,410,799	5,921,795	11,829,741
		0	0	24,387	1,171,000
		0	0	0	276,060
		0	0	(5,615,719)	(11,796,092)
		<u>0</u>	<u>0</u>	<u>(31,982)</u>	<u>(31,982)</u>
		<u>0</u>	<u>5,410,799</u>	<u>298,481</u>	<u>1,448,727</u>
		(1,955,276)	0	302,879	(1,070,744)
		<u>6,675,291</u>	<u>0</u>	<u>2,080,970</u>	<u>13,714,057</u>
		<u>\$ 4,720,015</u>	<u>\$ 0</u>	<u>\$ 2,383,849</u>	<u>\$ 12,643,313</u>

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

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

Gadsden County, Florida
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Year Ended September 30, 2005

Gadsden County, Florida
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ (1,070,744)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those activities is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay in excess of depreciation expense in the current period.	4,170,848
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.	935,204
The issuance of long-term debt provides current financial resources to governmental funds, while it has no effect on the statement of activities.	(1,171,000)
Debt issuance costs is an expenditure in the governmental funds; however, it is a deferred cost in the statement of net assets.	(9,932)
Amortization of the debt premium is a revenue in the statement of activities, while it has no effect in the governmental funds.	26,923
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for leave used. This is the net amount of vacation and sick leave earned in the current period in excess of the amount used.	22,797
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	142,684
Change in Net Assets - Governmental Activities	<u>\$ 3,046,780</u>

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 9,802,557	\$ 9,863,397	\$ 9,625,358	\$ (238,039)
Licenses and Permits	336,300	336,300	444,788	108,488
Intergovernmental Revenues	1,246,394	1,246,394	1,355,735	109,341
Charges for Services	335,920	335,920	379,473	43,553
Miscellaneous Revenues	58,976	58,976	150,675	91,699
Total Revenues	<u>11,780,147</u>	<u>11,840,987</u>	<u>11,956,029</u>	<u>115,042</u>
Expenditures				
Current:				
General Government	4,585,563	3,607,157	3,510,438	96,719
Public Safety	598,229	386,120	370,312	15,808
Physical Environment	246,363	234,883	234,882	1
Economic Environment	37,573	125,727	125,726	1
Human Services	1,082,153	1,209,046	1,209,042	4
Culture and Recreation	132,977	106,085	106,084	1
Debt Service				
Principal	0	25,000	21,500	3,500
Interest	0	0	15,208	(15,208)
Other	0	0	4,442	(4,442)
Total Expenditures	<u>(6,682,858)</u>	<u>(5,694,018)</u>	<u>(5,597,634)</u>	<u>96,384</u>
Excess of Revenues Over (Under) Expenditures	<u>5,097,289</u>	<u>6,146,969</u>	<u>6,358,395</u>	<u>211,426</u>
Other Financing Sources (Uses)				
Transfers In	0	13,000	121,966	108,966
Transfers Out	(5,097,289)	(6,159,969)	(5,873,383)	286,586
Total Other Financing Sources (Uses)	<u>(5,097,289)</u>	<u>(6,146,969)</u>	<u>(5,751,417)</u>	<u>395,552</u>
Net Change in Fund Balance	<u>0</u>	<u>0</u>	<u>606,978</u>	<u>606,978</u>
Fund Balance, Beginning of Year	<u>0</u>	<u>0</u>	<u>1,640,841</u>	<u>1,640,841</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,247,819</u>	<u>\$ 2,247,819</u>

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

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

Gadsden County, Florida

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
County Transportation Fund - No. 1

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,342,035	\$ 2,342,035	\$ 2,702,983	\$ 360,948
Intergovernmental Revenues	2,582,352	2,582,353	2,901,944	319,591
Charges for Services	18,288	18,288	31,661	13,373
Miscellaneous Revenues	20,425	20,424	55,680	35,256
Total Revenues	<u>4,963,100</u>	<u>4,963,100</u>	<u>5,692,268</u>	<u>729,168</u>
Expenditures				
Current:				
Transportation	5,410,011	5,527,234	5,211,196	316,038
Debt Service				
Principal	1,151,095	1,033,872	733,565	300,307
Interest	0	0	363,913	(363,913)
Other	0	0	7,102	(7,102)
Total Expenditures	<u>(6,561,106)</u>	<u>(6,561,106)</u>	<u>(6,315,776)</u>	<u>245,330</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,598,006)</u>	<u>(1,598,006)</u>	<u>(623,508)</u>	<u>974,498</u>
Other Financing Sources (Uses)				
Transfers In	0	0	121,308	121,308
Debt Proceeds	3,004,000	3,004,000	199,670	(2,804,330)
Proceeds from Sale of General Capital Assets	209,000	209,000	276,060	67,060
Total Other Financing Sources (Uses)	<u>3,213,000</u>	<u>3,213,000</u>	<u>597,038</u>	<u>(2,615,962)</u>
Net Change in Fund Balance	1,614,994	1,614,994	(26,470)	(1,641,464)
Fund Balance, Beginning of Year	0	0	2,354,870	2,354,870
Fund Balance, End of Year	<u>\$ 1,614,994</u>	<u>\$ 1,614,994</u>	<u>\$ 2,328,400</u>	<u>\$ 713,406</u>

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

Gadsden County, Florida

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Grants Fund

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental Revenues	\$ 5,454,094	\$ 5,454,094	\$ 3,455,041	\$ (1,999,053)
Charges for Services	74,576	74,576	255,356	180,780
Fines and Forfeitures	0	0	8,695	8,695
Miscellaneous Revenues	77,600	77,600	33,872	(43,728)
Total Revenues	<u>5,606,270</u>	<u>5,606,270</u>	<u>3,782,964</u>	<u>(1,853,306)</u>
Expenditures				
Current:				
General Government	9,114	9,114	6,459	2,655
Public Safety	269,096	269,096	131,621	137,475
Physical Environment	452,962	452,962	452,921	41
Transportation	3,063,585	3,063,585	1,348,046	1,715,539
Economic Environment	753,659	753,659	591,187	162,472
Human Services	418,920	418,920	358,352	60,568
Culture and Recreation	1,971,510	1,971,510	1,519,332	452,178
Total Expenditures	<u>(6,938,846)</u>	<u>(6,938,846)</u>	<u>(4,407,918)</u>	<u>2,530,928</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,332,576)</u>	<u>(1,332,576)</u>	<u>(654,954)</u>	<u>677,622</u>
Other Financing Sources (Uses)				
Transfers In	89,676	89,676	77,390	(12,286)
Debt Proceeds	1,400,000	1,400,000	946,943	(453,057)
Transfers Out	(313,037)	(313,037)	(303,076)	9,961
Total Other Financing Sources (Uses)	<u>1,176,639</u>	<u>1,176,639</u>	<u>721,257</u>	<u>(455,382)</u>
Net Change in Fund Balance	(155,937)	(155,937)	66,303	222,240
Fund Balance, Beginning of Year	555,333	555,333	619,648	64,315
Fund Balance, End of Year	<u>\$ 399,396</u>	<u>\$ 399,396</u>	<u>\$ 685,951</u>	<u>\$ 286,555</u>

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

Gadsden County, Florida

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
Emergency Medical Services

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental Revenues	\$ 0	\$ 0	\$ 10,450	\$ 10,450
Charges for Services	1,110,331	1,317,332	1,305,109	(12,223)
Miscellaneous Revenues	19,000	138,030	73,223	(64,807)
Total Revenues	<u>1,129,331</u>	<u>1,455,362</u>	<u>1,388,782</u>	<u>(66,580)</u>
Expenditures				
Current:				
Public Safety	1,651,433	1,698,550	1,626,509	72,041
Excess of Revenues Over (Under) Expenditures	<u>(522,102)</u>	<u>(243,188)</u>	<u>(237,727)</u>	<u>5,461</u>
Other Financing Sources (Uses)				
Transfers In	447,102	172,102	176,483	4,381
Transfers Out	0	(3,914)	(3,914)	0
Total Other Financing Sources (Uses)	<u>447,102</u>	<u>168,188</u>	<u>172,569</u>	<u>4,381</u>
Net Change in Fund Balance	<u>(75,000)</u>	<u>(75,000)</u>	<u>(65,158)</u>	<u>9,842</u>
Fund Balance, Beginning of Year	<u>75,000</u>	<u>75,000</u>	<u>342,437</u>	<u>267,437</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 277,279</u>	<u>\$ 277,279</u>

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

Gadsden County, Florida

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
Capital Projects - Road Resurfacing

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Miscellaneous Revenues	\$ 0	\$ 0	\$ 126,197	\$ 126,197
Total Revenues	<u>0</u>	<u>0</u>	<u>126,197</u>	<u>126,197</u>
Expenditures				
Current:				
Transportation	2,081,473	2,081,473	2,081,473	0
Other	0	0	0	0
Total Expenditures	<u>(2,081,473)</u>	<u>(2,081,473)</u>	<u>(2,081,473)</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,081,473)</u>	<u>(2,081,473)</u>	<u>(1,955,276)</u>	<u>126,197</u>
Other Financing Sources (Uses)				
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	<u>(2,081,473)</u>	<u>(2,081,473)</u>	<u>(1,955,276)</u>	<u>126,197</u>
Fund Balance, Beginning of Year	<u>2,081,473</u>	<u>2,081,473</u>	<u>6,675,291</u>	<u>4,593,818</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,720,015</u>	<u>\$ 4,720,015</u>

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

Gadsden County, Florida

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
Sheriff

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 0	\$ 0	\$ 60,327	\$ 60,327
Total Revenues	<u>0</u>	<u>0</u>	<u>60,327</u>	<u>60,327</u>
Expenditures				
Current:				
Public Safety	5,138,084	5,403,084	5,471,126	(68,042)
Excess of Revenues Over (Under)				
Expenditures	(5,138,084)	(5,403,084)	(5,410,799)	(7,715)
Other Financing Sources (Uses)				
Transfers In	5,153,784	5,418,784	5,410,799	(7,985)
Transfers Out	(15,700)	(15,700)	0	15,700
Total Other Financing Sources (Uses)	<u>5,138,084</u>	<u>5,403,084</u>	<u>5,410,799</u>	<u>7,715</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance, Beginning of Year	0	0	0	0
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Gadsden County, Florida

Statement of Fiduciary Net Assets
Fiduciary Fund

September 30, 2005

	Private Purpose Trust Fund	Agency Funds	Total
Assets			
Cash	\$ 197,845	\$ 1,256,847	\$ 1,454,692
Investments	12,208,264	0	12,208,264
Accounts Receivable	100,877	1,025	101,902
Due From Other Funds		4,028	4,028
Due from Other Governments	0	480	480
Total Assets	<u>12,506,986</u>	<u>1,262,380</u>	<u>13,769,366</u>
Liabilities			
Accounts Payable	0	89,927	89,927
Due to Individuals	0	71,526	71,526
Due to Other Funds	0	29,702	29,702
Due to Other Governments	0	48,116	48,116
Inmate Trust Funds	0	17,298	17,298
Officers' Special Trust Funds	0	59	59
Cold Case Trust Funds	0	28	28
Installment Tax Deposits	0	216,440	216,440
Deposits	0	789,284	789,284
Total Liabilities	<u>0</u>	<u>1,262,380</u>	<u>1,262,380</u>
Net Assets			
Held in Trust	<u>\$ 12,506,986</u>	<u>\$ 0</u>	<u>\$ 12,506,986</u>

I-14

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

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Gadsden County, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
Year Ended September 30, 2005

	Private Purpose Trust Fund
Additions	
Investment Earnings:	
Net Appreciation in Fair Value of Investments	\$ 554,784
Interest and Dividends	305,778
Net Investment Earnings	860,562
Total Additions	860,562
Deductions	
Transfers Out	33,649
Administrative Fees	16,048
Total Deductions	(49,697)
Net Increase	810,865
Net Assets Held in Trust, Beginning of Year	11,696,121
Net Assets Held in Trust, End of Year	\$ 12,506,986

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Note 1. Reporting Entity

Gadsden County, Florida (the County) is a political subdivision of the State of Florida and provides services to its residents in many areas including general government, public safety, physical environment, transportation, economic environment, human services, and culture and recreation. It is governed by a five-member elected Board of County Commissioners (the Board), which derives its authority by *Florida Statutes* and regulations. In addition to the members of the Board, there are five elected Constitutional Officers: Clerk of the Circuit Court, Sheriff, Tax Collector, Property Appraiser and Supervisor of Elections. The Constitutional Officers, with the exception of the Supervisor of Elections, maintain separate accounting records and budgets.

The accompanying financial statements include the operations of the Board and the Constitutional Officers. In addition, each Constitutional Officer has separately issued financial statements.

The Board funds a portion, or in certain instances, all of the operating budgets of the County's Constitutional Officers. *Florida Statutes* require the applicable budget excess of the Constitutional Officers to be remitted back to the Board at the close of the fiscal year.

The accompanying financial statements present the primary government, and its component units, for which the primary government is considered to be financially accountable. Also included are other entities whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in Governmental Accounting Standards Board (GASB) Statement No. 14 to determine whether the entity is: a) part of the primary government; b) a component unit which should be included in the reporting entity (blended or discretely presented); or c) an organization which should be excluded from the reporting entity entirely. The principal criteria for classifying a potential component unit include the legal separateness of the organization, the financial accountability of the primary government for the potential component unit resulting from either the primary government's ability to impose its will on the potential component unit, or the potential component unit's fiscal dependency on the primary government. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the reporting entity:

▪ **Gadsden County Hospital (the Hospital)**

The Hospital was created pursuant to Chapter 24534, *1947 Laws of Florida*. In evaluating this potential component unit, it was determined that the Hospital is not a separate legal entity as it generally cannot transact business in its own name and, therefore, should be included as part of the primary government for reporting purposes. The assets, liabilities, and results of operations of the Hospital are presented in the financial statements of the County as a non-major special revenue fund.

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

Note 1. Reporting Entity (continued)

- **Gadsden County Industrial Development Authority (the Development Authority)**
The Development Authority was created by resolution of the Board pursuant to Chapter 159, Part III, *Florida Statutes*. The Development Authority members are appointed by the Board; however, the Board's accountability for the Development Authority does not extend beyond making the appointments. Accordingly, the Development Authority is considered to be a related organization only, and is not included in the financial reporting entity.
- **Quincy-Gadsden Airport Authority (the Airport Authority)**
The Airport Authority was created by Chapter 88-439, Laws of Florida. The Authority is composed of five members. Two members are appointed by the City of Quincy, Florida, two members are appointed by the Board, and one member is appointed by these four members. The Airport Authority is a local unit of special-purpose government and is not considered a component unit of the County and is not included in the financial reporting entity.
- **Gadsden County Enterprise Zone Development Agency (the Agency)**
The Agency was created by ordinance of the Board pursuant to Chapter 290, *Florida Statutes*, to carry out economic development and redevelopment activities. The Agency Board members are appointed by the Board and the Board retains various powers including approving expenditures, borrowing funds, investing funds and approving assistance to businesses within the enterprise zone. Accordingly, the activities of the Agency are included as a blended component unit in the County's financial statements.

Note 2. Summary of Significant Accounting Policies

The accounting policies of the County conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Note 2. Summary of Significant Accounting Policies (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and, b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The County reports six major governmental funds:

- **General Fund** – The general fund is the County's primary operating fund. It accounts for all resources traditionally associated with governments except those required to be accounted for in another fund.
- **County Transportation Fund No. 1** – This fund accounts for fuel tax revenues to be expended for activities related to the transportation system.
- **General Grants Fund** – This fund accounts for a majority of the federal and state grants received by the County.
- **Emergency Medical Services** – This fund accounts for the activity of the Emergency Ambulance Service.
- **Capital Projects-Road Resurfacing** – This fund accounts for loan funds received and the related expenditures for road resurfacing.
- **Sheriff** – The Sheriff is an elected official of Gadsden County.

The County also reports two types of fiduciary funds, agency funds which are used to account for the collection and disbursement of monies by the County on behalf of other governments and individuals, and a private purpose trust fund to account for the Gadsden County Hospital Trust.

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Note 2. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 30 days at the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Budgets and Budgetary Accounting

The County follows the procedures provided by *Florida Statutes* in establishing budget balances reported on the financial statements.

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law.
- Budgets are generally prepared for the governmental funds on a basis consistent with generally accepted accounting principles.
- Appropriations lapse at year end to the extent that they have not been expended. Budget appropriations may not be legally exceeded on a fund basis.

Investments

Investments consist of monies invested as follows:

- State Board of Administration, stated at fair value.
- Repurchase agreements with a local bank, stated at fair value.
- Investments of the endowment fund consist of monies invested with a local bank and are stated at fair value.

Note 2. Summary of Significant Accounting Policies (continued)

Receivables

Receivables are shown at their net realizable value and reduced by an allowance for uncollectible accounts.

Due From (To) Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

Prepaid Items

Certain payments to vendors are made in advance of the accounting period to which the cost relates. These payments are reported under the purchases method, i.e., expenditures are recorded when payment is made.

Inventories

Inventories shown in the General Fund consist of fuel and office supplies valued at cost. General fund inventory is recorded under the consumption method and, accordingly, expenditures are incurred when inventory is consumed rather than when purchased.

Inventories shown in the County Transportation-No. 1 Fund consist predominately of repair parts and are stated at the lower of cost (determined on a first in, first out basis) or market. These inventories are accounted for under the purchases method; i.e., the cost is recorded as an expenditure when purchased. Accordingly, fund balance is reserved for the amount of inventory existing at year end.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, right of ways, stormwater systems, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Land and buildings acquired prior to October 1, 1980, were recorded at the values stated on the 1979 Gadsden County Property Appraiser's assessment roll. Acquisitions of land and buildings since October 1, 1980, have been recorded at cost. Roads, bridges, and other infrastructure assets constructed prior to October 1, 2002 are reported at estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are expensed as incurred.

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Note 2. Summary of Significant Accounting Policies (continued)

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Improvements Other Than Buildings	50
Machinery and Equipment	5-20
Infrastructure	15-25

Major outlays for capital assets and improvements are capitalized as projects are constructed. For assets constructed with governmental fund resources, interest during construction is not capitalized.

Deferred Revenues

Deferred revenues reported in the government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available, and in accordance with the modified accrual basis of accounting, are reported as deferred revenues.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

Compensated Absences

Upon retirement or resignation, employees may be paid a cash benefit equal to the number of vacation hours accrued up to a maximum amount, based upon the employee's current wage rate.

Upon retirement or resignation in good standing, employees are paid a portion of accumulated sick leave. The portion is payable at various percentages depending on years of service and the governmental office in which the employee worked.

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the Property Appraiser and Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. *Florida Statutes* permit counties to levy property taxes at a rate of up to 10 mills for general operations.

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Note 2. Summary of Significant Accounting Policies (continued)

The tax levy of the County is established by the Board prior to October 1, of each year and the Property Appraiser incorporates the County millages into the total tax levy, which includes the various municipalities, the county school board, and other taxing authorities.

All property is assessed according to its fair market value January 1, of each year. Each assessment roll is submitted to the Executive Director of the Florida Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of *Florida Statutes*.

All taxes become payable on November 1, of each year, or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. Taxes paid in March are without discount.

On or prior to June 1, following the tax year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest of 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold tax certificates are held by the County.

Reserves and Designations of Fund Equity

Reserves indicate that portion of fund balance or net assets that is not available for appropriation or which is legally segregated for a specific future use. The description of each reserve indicates the purpose for which each was intended. Designated portions of fund equity represent management's tentative future spending plans. Such designations should be clearly distinguished from reserves, since managerial plans are subject to change and may never be legally authorized or result in actual expenditures.

Use of Restricted Assets

It is generally the practice of the County to utilize restricted net assets before unrestricted net assets when possible.

Encumbrances

Encumbrances represent commitments in the form of purchase orders which are chargeable to an appropriation and for which a part of the appropriation is reserved. Encumbrances do not represent expenditures or liabilities. The County does not record encumbrances outstanding at year end.

Gadsden County, Florida

Notes to Financial Statements

September 30, 2005

Note 3. Cash and Investments

The County maintains its investments in two separate areas: those which support the County's public purpose and programs of the County, and the Hospital Endowment Trust Fund, for which funds are held in trust for the benefit of the County and the Gadsden County Hospital.

Public Purpose:

As of September 30, 2005, the County's public purpose programs had the following in cash and investments:

	<u>Carrying Amount</u>
Cash on Hand	\$ 2,085
Deposits in Qualified Public Depositories	4,528,782
Overnight Repurchase Agreement	220,826
Local Government Surplus Funds Trust Fund	<u>4,762,003</u>
Total Cash and Investments	<u>\$9,513,696</u>

Credit Risk

In accordance with *Florida Statutes*, Chapter 218.415(1-16), the County adopted a written investment policy on October 1, 1995. The policy includes the objectives of safety, liquidity, and investment income, in order of priority. Authorized investments included in the policy are:

1. The Local Government Surplus Funds Trust Fund administered by the State Board of Administration;
2. Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government, which include, but are not limited to: treasury bills, treasury notes, treasury bonds, and treasury strips.
3. Bonds, debentures, notes or other evidence of indebtedness, issued or guaranteed by United States agencies provided such obligations are backed by the full faith and credit of the United States Government, which include, but are not limited to: Farmers Home Administration, Federal Financing Bank, Federal Housing Administration Debentures, and Government National Mortgage Association.
4. Bonds, debentures, notes or other evidence of indebtedness, issued or guaranteed by United States government agencies (federal instrumentalities), which are not full-faith and credit agencies limited to the following: Federal Farm Credit Bank, Federal Home Land Bank or its district banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Student Loan Marketing Association.

Gadsden County, Florida

Notes to Financial Statements

September 30, 2005

Note 3. Cash and Investments (continued)

5. Non-negotiable interest-bearing time certificates of deposit, money market accounts or savings accounts in banks/savings and loan associations organized under the laws of the United States.
6. Repurchase agreements (for purchase and subsequent sale) for any of the investments authorized above in items 3 and 4.

The Local Government Surplus Funds Trust Fund (LGSF) is administered by the Florida State Board of Administration (SBA). The LGSF is an external investment pool that is not a registrant with the Securities and Exchange Commission (SEC); however, the SBA has adopted operating procedures consistent with the requirements for a SEC Rule 2a-7 fund. The LGSF is governed by Chapter 19-7 of the *Florida Administrative Code*, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the LGSF. Additionally, the Florida Office of the Auditor General performs the operational audit of the activities and investments of the SBA. The County's fair value of their position in the pool approximates their value of the pool shares. Investments with SBA are not evidenced by securities that exist in physical or book entry form. The LGSF is not rated by statistical rating organizations.

The securities used by the financial institution to pledge against the County's overnight repurchase agreement at September 30, 2005, are triple A-rated by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, or the failure of the counterparty, the government's deposits may not be returned to it, or the government may not be able to recover the value of its investments that are in the possession of an outside party.

Qualified public depositories of public funds are required to provide collateral each month pursuant to Chapter 280.04, *Florida Statutes*. The collateral is held by the Florida Division of Treasury or other custodian with full legal rights maintained by the Florida Division of Treasury to transfer ownership. Any loss not covered by the pledged securities and deposit insurance would be assessed by the Florida Division of Treasury and paid by the other public depositories.

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Note 3. Cash and Investments (continued)

The County's deposits are therefore considered fully insured or collateralized. Bank balances at September 30, 2005 were \$7,286,735.

The County's investments in the overnight repurchase agreement are uninsured and unregistered, with securities held by the counterparty or its trust department or agent but not in the County's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County limits interest rate risk for the repurchase agreement by utilizing an overnight sweep agreement to invest excess cash balances.

Hospital Endowment Trust Fund:

As of September 30, 2005, the Hospital Endowment Trust Fund had the following balances in cash and investments:

	<u>Carrying Amount</u>
Cash on Hand	\$ 197,845
 Investment at Capital City Trust Company:	
	<u>Fair Value</u>
Cash	341
Cash Equivalents	486,583
U.S. Government Agencies	1,904,810
Corporate Bonds & Notes	99,029
Mutual Funds-Taxable (Fixed)	891,992
Common Stock	6,019,273
Foreign Equities	55,700
Mutual Funds-Taxable (Equity)	497,361
Mutual Funds-Not Classified	527,408
Total Capital City Trust Company	10,482,497
 Local Government Surplus Trust Fund	<u>1,725,767</u>
Total Investments	<u>\$12,208,264</u>

Note 3. Cash and Investments (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Investing activities for the Hospital Endowment Trust Fund are performed strictly by the members of the Trust committee. The County has no involvement in investment decisions, and there are no written procedures outlining investment policies.

The Corporate Bonds and U.S. Government Agency holdings of the Hospital Endowment Trust Fund are triple A-rated by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the government may not be able to recover the value of its investments that are in the possession of the outside party. Custody of the Hospital Endowment Trust Fund's investments is maintained in the County's name by Capital City Trust Company, the fiduciary of the account.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the investments of the Hospital Endowment Trust Fund in any one issuer that represents 5 percent or more of the total investment. There were no individual investments that represented more than 5% of the investment.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital Endowment Trust Fund includes the following investments on a time-segmented basis:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>1-5 Years</u>
Corporate Bonds	\$ 1,904,810	\$ 298,048	\$1,606,762
U.S. Government Agencies	99,029	0	99,029
Mutual Funds – Taxable (Fixed)	891,992	0	891,992
Non-Classifiable	<u>7,586,666</u>	<u>7,586,666</u>	<u>0</u>
Total	<u>\$10,482,497</u>	<u>\$7,884,714</u>	<u>\$2,597,783</u>

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Note 3. Cash and Investments (continued)

Cash – Loan Proceeds

The unused portion of the loan with the Florida Municipal Loan Council is maintained in an enhanced cash portfolio by Wachovia Bank, the loan administrator. The carrying value and bank balance was \$3,801,488 at September 30, 2005.

The County is authorized by Section 125.31, *Florida Statutes*, to invest surplus public funds in certain securities and institutions including, but not limited to, the local government surplus trust fund administered by the State Board of Administration, negotiable direct obligations of the U.S. Government, and interest-bearing time deposits or savings accounts.

Note 4. Receivables

Receivables at September 30, 2005, consist of the following:

	General Fund	County Transp Fund	Emerg Medical Services	General Grants Fund	Other Govern Funds	Total
Receivables						
Other	\$ 99,862	\$ 0	\$ 0	\$444	\$ 9,103	\$ 109,409
Gross Receivables	50,618	575	1,447,032	161,943	5,838	1,666,006
Allowance for Uncollectibles	0	0	(723,763)	0	(533)	(724,296)
Total Receivables	\$150,480	\$575	\$ 723,269	\$162,387	\$14,408	\$1,051,119

Note 5. Interfund Receivables, Payables and Transfers

Interfund balances at September 30, 2005, consisted of the following:

	Due From	Due To
General Fund	\$144,815	\$ 6,284
Special Revenue Funds		
County Transportation Fund No. 1	1,281,907	0
General Grants Fund	20,109	1,333,733
Sheriff	362,737	75,776
Other Governmental Funds	85,566	453,667
Total Special Revenue Funds	1,750,319	1,863,176
Agency Funds	4,028	29,702
Total	\$1,899,162	\$1,899,162

Note 5. Interfund Receivables, Payables and Transfers (continued)

The General Fund has amounts due to and from Constitutional Officers, which predominately represents the return of the excess due at the end of the fiscal year, from either budget officers or fee officers. Remaining balances resulted from the time lag between the dates that (a) interfund goods and services are provided or reimbursable expenditures occur, (b) transactions are recorded in the accounting system, and (c) payments between funds are made.

Interfund transfers for the year ended September 30, 2005, consisted of the following:

	Interfund	
	Transfers In	Transfers Out
General Fund	\$ 121,966	\$5,873,383
Special Revenue Funds		
County Transportation Fund No. 1	121,308	0
General Grants Fund	77,390	303,076
Emergency Medical Services	176,483	3,914
Capital Projects – Road Resurfacing	0	0
Sheriff	5,410,799	0
Other Governmental Funds	5,921,795	5,615,719
Total Special Revenue Funds	11,707,775	5,922,709
Fiduciary Funds		
Private Purpose Trust Fund	0	33,649
Total Fiduciary Funds	0	33,649
Total Interfund Transfers	\$11,829,741	\$11,829,741

Interfund transfers from the general fund and other governmental funds to the Sheriff and other governmental funds were predominately to transfer the Board's appropriation to the constitutional officers.

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Note 6. Capital Assets

Capital asset activity for the year ended September 30, 2005, was as follows:

	Beginning		Ending	
	Balance	Increases	(Decreases)	Balance
Capital Assets Not Being Depreciated:				
Land	\$ 1,458,634	\$ 0	\$ 0	\$ 1,458,634
Construction in Progress	0	1,448,768	0	1,448,768
Total Capital Assets Not Being Depreciated	1,458,634	1,448,768	0	2,907,402
Capital Assets Being Depreciated:				
Buildings	18,188,252	51,589	0	18,239,841
Improvements Other Than Buildings	1,037,635	82,774	0	1,120,409
Machinery and Equipment				
Board and Clerk	13,662,878	1,335,662	(667,631)	14,330,909
Sheriff	2,879,738	51,008	0	2,930,746
Total Machinery and Equipment	16,542,616	1,386,670	(667,631)	17,261,655
Infrastructure	21,039,873	4,413,797	0	25,453,670
Total Capital Assets Being Depreciated	56,808,376	5,934,830	(667,631)	62,075,575
Less Accumulated Depreciation for:				
Buildings	\$ 5,387,831	\$ 363,737	\$ 0	\$ 5,751,568
Improvements Other Than Buildings	265,388	21,625	0	287,013
Machinery and Equipment	8,093,322	1,178,745	(368,048)	8,904,019
Infrastructure	5,994,532	1,349,061	0	7,343,593
Total Accumulated Depreciation	19,741,073	2,913,168	(368,048)	22,286,193
Total Capital Assets Being Depreciated, Net	37,067,303	3,021,662	(299,583)	39,789,382
Total Capital Assets, Net	38,525,937	4,470,430	(299,583)	42,696,784

Depreciation expense was charged to governmental activities functions/programs of the primary government as follows:

General Government	\$ 226,872
Public Safety	562,330
Physical Environment	74,708
Transportation	1,724,621
Economic Environment	1,300
Human Services	287,693
Culture and Recreation	35,644
Total Depreciation Expense – Governmental Activities	\$2,913,168

Note 7. Long-Term Debt

Summary of Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2005:

	Balance 10/1/04	Additions	Deductions	Balance 9/30/05	Due Within One Year
Estimated landfill postclosure costs.	\$605,521	\$ 0	\$ (30,909)	\$574,612	\$ 0
Employee compensated absences payable.	953,138	871,374	(894,170)	930,342	421,078
Installment purchase, Municipal Services Group, due in four annual installments of \$45,545, commencing in December 2000, including interest at 5.43%, secured by two dump trucks.	43,199	0	(43,199)	0	0
Installment purchase, Leasing 2, Inc., due in five annual installments of \$125,954, commencing in January 2002, including interest at 3.45%, secured by five fire trucks.	353,593	0	(113,953)	239,640	117,821
Installment purchase, Leasing 2, Inc., due in five annual installments of \$140,026, commencing in January 2002, including interest at 3.65%, secured by various machinery.	391,182	0	(125,748)	265,434	130,338
Installment purchase, Capital City Bank, due in five annual installments of \$57,486, commencing in July 2003, including interest at 2.8%, secured by excavator.	214,502	0	(51,419)	163,083	52,832
Installment purchase, Capital City Bank, due in four annual installments of \$34,203, commencing in April 2006, including interest at 3.77%, secured by dump trucks.	0	124,670	0	124,670	29,503

Gadsden County, Florida

Notes to Financial Statements

September 30, 2005

Note 7. Long-Term Debt (continued)

	Balance 10/1/04	Additions	Deductions	Balance 9/30/05	Due Within One Year
Installment purchase, Capital City Bank, due in three annual installments of \$26,863, commencing in April 2006, including interest at 3.63%, secured by tractor.	\$ 0	\$75,000	\$ 0	\$75,000	\$24,141
Installment purchase, ACS, due in four annual payments of \$20,000, commencing in January 2003, plus a payment in the fifth year of \$3,764, including interest at 6.99%, secured by computer equipment.	39,107	0	(17,179)	21,928	18,418
Vehicle purchase, payable in 60 monthly installments of \$567, including interest at 4.0%, commencing December 2003.	26,075	0	(5,868)	20,207	6,107
Installment purchase, Capital City Bank, due in four annual installments of \$56,196, commencing in January 2001, including interest at 5.38%, secured by compactor and water tanker.	53,255	0	(53,255)	0	0
Vehicle purchase, payable in 60 installments of \$499, commencing in December 2003, including interest at 4.0%.	22,921	0	(5,158)	17,763	5,369
Vehicle purchase payable in 48 monthly payments of \$498, commencing October 2005, including interest at 6.5%.	0	24,387	(7,015)	17,372	1,005
Line of credit, Florida Local Government Finance Commission Pooled Commercial Paper Program, monthly interest payments with an annual principal payment of \$21,500 in December of each year, including interest at 1.26%, secured by future half-cent sales tax revenues, funds to be used for the purchase of land and construction of the new library building.	215,000	0	(21,500)	193,500	21,500

Gadsden County, Florida

Notes to Financial Statements

September 30, 2005

Note 7. Long-Term Debt (continued)

	Balance 10/1/04	Additions	Deductions	Balance 9/30/05	Due Within One Year
Line of credit, Florida Local Government Finance Commission Pooled Commercial Paper Program, monthly interest payments with an annual principal payment of \$54,000 in December of each year, including interest at 2.63%, secured by future half-cent sales tax revenues, funds to be used for the acquisition of real property and construction of the new library building.	\$ 0	\$946,943	\$ 0	\$946,943	\$54,000
Loan with the Florida Municipal Loan Council, semi-annual interest payments in May and November, commencing May 2005, interest at 4.53%, principal payment in December for \$460,000 through 2018, funds to be used for infrastructure.	8,850,000	0	(460,000)	8,390,000	490,000
	<u>\$11,767,493</u>	<u>\$2,042,374</u>	<u>\$(1,829,373)</u>	<u>\$11,980,494</u>	<u>\$1,372,112</u>

Interest expense during 2005 on long-term debt totaled \$412,598, none of which was capitalized.

Maturities of Long-Term Debt

Maturities of long-term debt for years ending September 30, are as follows:

Year	Principal	Interest
2006	\$ 1,375,334	\$ 384,849
2007	962,368	358,925
2008	716,250	332,991
2009	741,722	313,873
2010	1,265,943	286,036
2011-2015	2,935,000	1,039,047
2016-2019	2,900,000	390,338
Other Years (Including Compensated Absences after One Year and Estimated Landfill Postclosure Costs)	1,083,877	0
Total	<u>\$ 11,980,494</u>	<u>\$ 3,106,059</u>

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Gadsden County, Florida
Notes to Financial Statements
September 30, 2005

Note 7. Long-Term Debt (continued)

Original Issue Premium and Loan Issue Costs

Unamortized original issue premium and loan issuance costs for the loan with the Florida Municipal Loan Council at September 30, 2005 were \$355,604 and \$131,184, respectively.

Line of Credit

The unused amount of the line of credit as of September 30, 2005 was \$484,557.

Note 8. Defined Benefit Pension Plan

Plan Description – The County contributes to the Florida Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Florida, Department of Administration, Division of Retirement. The System provides retirement, disability or death benefits to retirees or their designated beneficiaries. Chapter 121, *Florida Statutes*, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The System issues financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, 2639 North Monroe Street, Tallahassee, Florida 32399, or by calling (850) 488-5706.

Funding Policy – The System is employee noncontributory. The County is required to contribute at an actuarially determined rate. The contributions required for the years ended September 30, 2005, 2004 and 2003 were \$1,119,505, \$1,093,298 and \$978,247, respectively, which is equal to 100% of the required contribution for each year. The rates for 2005 and 2004 fiscal years were as follows:

Membership Category	Benefit	Vesting	Employer Contribution Rate	
			July 1, 2004	July 1, 2005
Regular Class	Normal retirement at age 62 or at least 30 years of service: 1.60% times average compensation (five highest years) times years of creditable service.	After six years creditable service.	7.39%	7.83%
Senior Management Class	Normal retirement at seven years and age 62: 2.00% times average compensation (five highest years) times years of creditable service.	After six years creditable service.	9.37%	10.45%

Note 8. Defined Benefit Pension Plan (continued)

Membership Category	Benefit	Vesting	Employer Contribution Rate	
			July 1, 2004	July 1, 2005
Special Risk (sworn employees)	Normal retirement at age 55, or 25 years of special risk service: 2% to 3% times average compensation (five highest years) times years of creditable service.	After six years creditable service.	18.53%	18.53%
Elected County Officers' Class (ESCOC) – Non-Judicial	Normal retirement at eight years ESCOC service and age 62: 3.00% times average compensation (five highest years) times years of creditable service.	After six years creditable service.	15.23%	15.23%
Deferred Retirement Option Program (DROP)	Retirement benefit paid to DROP where it earns 6.5% interest, tax deferred, for up to five years while the member continues to work.	Available to vested members at normal retirement age or date.	9.11%	9.33%

Note 9. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; injuries to employees and the public, or damage to property of others. The County obtained commercial insurance against losses for the following types of risk:

- Real and Personal Property Damage
- Public Employees' Bond
- Workers' Compensation
- Automobile Liability

The County participates in the Florida Association of Counties Trust (FACT), a public entity risk pool for risks related to comprehensive general liability. The agreement provides that the financial liability of each participating county is limited to premiums and surplus contributions paid or obligations made to FACT. Aggregate coverage provided is limited to \$1,000,000 for each claim.

Gadsden County, Florida

Notes to Financial Statements

September 30, 2005

Note 10. Subsequent Event

Subsequent to the year ended September 30, 2005, an event happened that may cause changes in the Fiduciary Fund for the Gadsden County Hospital. On November 4, 2005, the Agency for Health Care Administration (AHCA) closed Gadsden Community Hospital, which was leased to and operated by Ashford Healthcare Systems, Inc. (AHS). AHS filed a petition for Chapter 11 bankruptcy on November 14, 2005.

The Gadsden County Board of Commissioners began efforts to reopen the hospital. In doing so, the County established Gadsden Hospital, Inc. (GHI), a non-profit corporation and is making provisions to lease the hospital to GHI. To comply with the licensing requirements of AHCA and to clear debt owed by the former leasing company (AHS), the County entered into an agreement regarding change of ownership and transition of hospital operations. This agreement obligated certain monies from the Hospital Endowment Fund. These costs include:

\$548,089.40 owed to the Agency for Health Care Administration for the Medicaid audit C. I. 04-2349-000 and the federal match portion of the Medicaid rate audit to be repaid monthly over a twenty-four month installment plan.

\$1,190,145.60 payable to the Agency for Health Care for Public Medical Assistance Trust Fund (PMATF). This amount shall be satisfied through cash or improvement credits within eighteen months after the new license has been issued.

\$342,768.00 owed to AHCA for PMATF assessments to be paid upon issuance of the Change Operations.

\$300,000.00 payable to the bankruptcy estate of Ashford due upon the entry of an Order by the Bankruptcy court that may not be appealed.

Note 11. Hospital Endowment Trust Fund

On July 7, 1952, a trust was established with Quincy State Bank (now Capital City Bank) as trustee to accept gifts and bequests for the benefit of the Hospital. The corpus of the trust is unavailable for use except in an emergency, and then only upon the approval of the parties to the trust agreement and the Circuit Court of Gadsden County. The trust is accounted for as a private purpose trust fund in the fiduciary fund financial statements.

Gadsden County, Florida

Notes to Financial Statements

September 30, 2005

Note 12. Landfill Postclosure Costs

The Board has obtained engineering estimates of future costs to monitor the landfill sites as required by U.S. Environmental Protection Agency regulations and the related provisions of GASB Statement No. 18. A long-term liability for accrued landfill postclosure costs at September 30, 2005, has been recorded in the statement of net assets representing the Board's estimated liabilities for such costs. In addition, the Board has established a landfill escrow account to accumulate funds for monitoring and final closure of the landfills. The County does not presently own or operate any open sanitary landfill sites.

Note 13. Commitments and Contingencies

Pending Litigation

The County is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of the County's management, the ultimate disposition of these lawsuits and claims will not have a material adverse effect on the financial position of the County.

Construction Commitments

The following is a summary of major commitments of the County and contracts in progress as of September 30, 2005:

<u>Project</u>	<u>Fund</u>	<u>Contract Amount</u>	<u>Expended as of 9/30/05</u>
Gadsden County Public Library	Culture/Recreation	\$ 1,875,000	\$ 1,269,258
Road Resurfacing	General Grants	<u>18,350,057</u>	<u>16,442,836</u>
		<u>\$ 20,225,057</u>	<u>\$ 17,712,094</u>

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APPENDIX J

Financial Information Regarding City of South Miami

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City of South Miami, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances General Fund
For the Years Ended September 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues:			
Taxes:			
Ad Valorem	\$4,817,516	\$5,896,909	\$6,457,423
Utility taxes	1,685,845	1,645,050	1,633,669
Franchise fees	730,271	791,266	813,035
Licenses and permits	1,162,733	1,285,200	1,101,120
Intergovernmental	1,164,730	1,194,875	2,621,373
Charges for services	2,276,254	2,331,756	2,352,338
Fines and forfeitures	315,398	345,402	303,743
Grants	21,762	62,888	0
Investment earnings	135,240	225,014	337,660
Other	<u>794,080</u>	<u>355,871</u>	<u>448,170</u>
Total revenues	13,103,829	14,134,231	16,068,531
Expenditures:			
Current:			
General government	4,284,629	3,253,090	5,149,598
Public safety	4,523,272	4,189,495	4,269,901
Public works	2,489,845	2,863,023	4,177,910
Culture and recreation	1,219,122	1,033,517	1,151,343
Non-departmental	0	1,137,701	0
Debt service:			
Principal	304,616	500,900	390,807
Interest	369,849	409,501	500,405
Capital outlay	<u>1,069,000</u>	<u>707,098</u>	<u>1,240,482</u>
Total expenditures	14,260,333	14,094,325	16,880,446
Excess (deficiency) of revenues over expenditures	(1,156,504)	39,906	(811,915)
Other financing sources (uses):			
Transfers in	6,858,535	370,000	370,000
Debt Proceeds	0	0	728,449
Proceeds from issuance of capital leases	<u>20,410</u>	<u>546,817</u>	<u>233,000</u>
Total other financing sources (uses)	6,878,945	916,817	1,331,449
Net change in fund balances	5,722,441	956,723	519,534
Fund balances, beginning	3,803,925	9,646,366	10,087,366
Prior period adjustments	<u>120,000</u>	<u>(519,341)</u>	<u>-</u>
Fund Balance - Beginning (restated)	<u>3,923,925</u>	<u>9,127,025</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 9,646,366</u>	<u>\$10,083,748</u>	<u>\$10,606,900</u>

The obligation of the City of South Miami to pay the Loan Payments is limited as described in the Official Statement. Certain of the above revenues may not be legally available to make, nor are any of the above revenues pledged to, the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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**CABALLERO &
CASTELLANOS, P.L.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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TEL (305) 662-7272
FAX (305) 675-8376

Honorable Mayor and Members of the City Council
City of South Miami, Florida

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of South Miami, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Miami, Florida (the City) as of and for the fiscal year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Miami, Florida as of September 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2006 on our consideration of the City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule, listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor fund financial statements, schedules of revenues, expenditures and changes in fund balance- budget and actual, schedules of funding progress and employer contributions and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal 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*, and is also not a required part of the basic financial statements of City of South Miami, Florida. The combining nonmajor fund financial statements, schedules of revenues, expenditures and changes in fund balance- budget and actual, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, schedules of funding progress and employer contributions and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Caballero & Castellanos, P.L.

March 3, 2006
Coral Gables, FL

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of South Miami has included this section in the Comprehensive Annual Financial Report (CAFR) in accordance with the Governmental Accounting Standards Board (GASB) Statement Number 34. It is intended to provide readers of this report the narrative overview and analysis of the financial activities of the City for fiscal year ended September 30, 2005. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, the City's financial statements and the other required supplemental information.

This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. The information contained within this section should be considered only a part of a greater whole.

FINANCIAL HIGHLIGHTS

The following are the highlights of financial activity for the fiscal year ending September 30, 2005:

- The assets of the City of South Miami exceeded its liabilities at the close of the most recent fiscal year by \$22.35 million (net assets). Of this amount, \$5.49 million is un-restricted.
- The City's \$19.48 million in revenues for governmental activities exceeded the \$17.23 million in expenses, providing a \$2.25 million increase in net assets.
- Total cost of all City's programs increased by \$2.69 million or 18.49 percent this year
- At the end of the current year fund balance for the General Fund was \$10.8 million, or 66% of total general fund operating revenues. Of this amount, \$6.29 million is reserved for prepaid costs, encumbrances, public safety, non-current note receivable and debt service. The current year *unreserved* fund balance for the General Fund was \$4.32 million, or 27% of total general fund operating revenues.
- The General Fund's fund balance increased by \$519,534 for the year ended September 30, 2005.
- The City's total debt increased by \$627,049 or six percent with approximately \$961,449 on new capital leases and loans payables net of principal payments.
- The City Community Redevelopment Agency received over \$333,000 from Miami Dade County as part of its tax increment financing revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information* and an additional section that presents *combining statements* for non-major governmental funds and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements show how general government services such as public safety were financed in the short term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of those parties outside of the government.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* which further explains and supports this information. Figure A-1 shows how the required parts of this annual report are arranged and are related to one another. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which is added together and presented in single columns in the basic financial statements.

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*), and from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The government activities of the City of South Miami include police services, public works, culture and recreation, code compliance, planning and zoning, economic development and general administration services. There are no business type activities.

In addition, the City has a single-employer defined benefit pension plan for its general employees and police officers, a 401A plan for the City Manager and senior level staff, and a voluntary Section 457 defined contribution plan for all interested employees. The pension plans are reported as Fiduciary Funds in the fund financial statements of this report, but are not included in the government-wide statements.

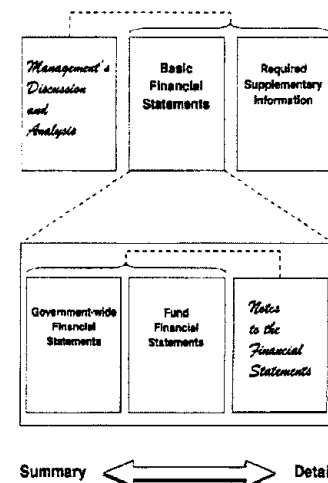
The government-wide financial statements can be found on pages 13 and 14 of this report.

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

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

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

Figure A-1
Required Components of
City's Annual Financial Report



The City of South Miami maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. Budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget. The basic governmental funds financial statements can be found on pages 15 to 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the City of South Miami's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 19 to 20 of this report. Individual fund data for the Fiduciary Funds is provided in the form of combining statements elsewhere in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 to 39 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of South Miami's progress in funding its obligation to provide pension benefits to its employees, and budgetary comparison schedules for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements can be found beginning on page 44 of this report.

Our analysis of the financial statements of the City begins below. The statement of Net Assets and the Statement of Activities report information about the City's activities that will help answer questions about the position of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. There are six basic transactions that will affect the comparability of the Statement of Net Assets summary presentation as reflected below:

- 1) **Net results of activities** will impact (increase/decrease) current assets and unrestricted net assets.
- 2) **Borrowing for capital** will increase current assets and long-term debt.
- 3) **Spending borrowed proceeds on new capital** will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of debt.
- 4) **Spending of non-borrowed current assets on new capital** will reduce current assets and increase capital assets and will reduce unrestricted net assets and increase invested in capital assets, net of debt.
- 5) **Principal payment on debt** will reduce current assets and reduce long-term debt and reduce unrestricted net assets and increase invested in capital assets, net of debt.
- 6) **Reduction of capital assets through depreciation** will reduce capital assets and invested in capital asset, net of debt.

The City's net assets were \$22.35 million in 2005 fiscal year—(see Table 1). This amount came solely from Governmental activities because the City has no Business-Type. Most of these net assets are restricted, the largest portion of the net assets (47 percent) is restricted as to the purpose they can be used for or are invested in capital assets (land, buildings, streets, sidewalks, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another portion of net assets (28 percent) is restricted for debt service or capital projects. The remaining balance of *unrestricted net assets* (\$5.49 million) may be used to meet government's ongoing obligations to citizens and creditors.

Table 1
City of South Miami's Net Assets
(in millions of dollars)

	Governmental Activities		Total Percentage Change
	2004	2005	2004-2005
Current and other assets	\$ 14.4	\$16.4	13.9%
Capital assets	18.2	20.2	11.0%
Total assets	32.6	36.6	12.3%
Long-term debt outstanding	9.8	10.1	3.1%
Other liabilities	2.7	4.1	51.9%
Total liabilities	12.5	14.2	13.6%
Net assets			
Invested in capital assets,			
Net of related debt	9.1	10.6	16.5%
Restricted	6.9	6.3	(8.7)%
Unrestricted	4.1	5.5	34.3%
Total net assets	\$ 20.1	\$ 22.4	11.4%

At the end of the current fiscal year, the City of South Miami is able to report positive balances in all three categories of net assets. The restricted net assets decreased in 2005 by \$0.6 million, while the unrestricted governmental activities net assets increased by \$1.4 million. Capital assets increased during the current year due to additions purchased through grants or debt financing. Increase in Other Liabilities mainly due to increases in vendor payables at year end and deferred revenues totaling approximately \$1 million.

Summary of Changes in Net Assets:

The following information presented is to assist the reader in understanding the different types of normal impacts that can affect revenues:

- 1) Economic Condition can reflect a declining, stable or growing environment and has a substantial impact on property, non-ad valorem assessments, sales, gas, or other tax revenues as well as consumer spending habits for building permits, user fees and consumption.
- 2) The City Commission has significant authority to set increases or decreases in City's rates (stormwater, permitting, user fees, etc.)
- 3) Changing patterns in intergovernmental and grant revenues (both recurring and non-recurring) can significantly change and impact the annual comparisons.
- 4) Market impacts on investment income may cause investment revenues to fluctuate from the prior year.

Some other basic impacts on expenses are reflected below:

- 1) Introduction of new programs can have a substantial impact on property, non-ad valorem assessments, sales, gas, or other tax revenues as well as consumer spending habits for building permits, user fees and consumption.
- 2) Changes in service demand levels can cause the City to increase or decrease authorized staffing.
- 3) Salary increases such as cost of living, performance increases and market adjustments can impact personal service costs.
- 4) While inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as chemicals, supplies, fuels and parts. Some functional expenses may experience unusual commodity specific increases.

Statement of Activities:

As noted earlier, the *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. The following table reflects the City's revenues and expenses for fiscal year 2005 compared to 2004 with the resulting change in net assets:

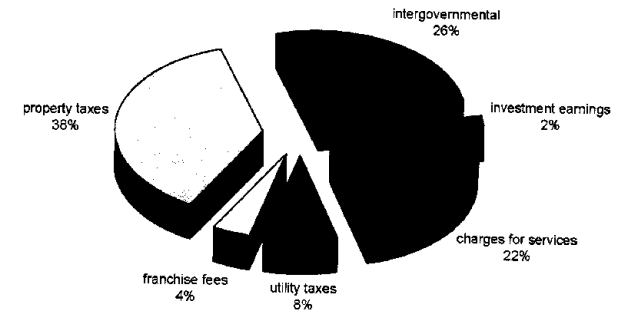
Table 2
Changes in City of South Miami's Net Assets
(In millions of dollars)

	Governmental Activities		Total Percentage Change 2004-2005
	2004	2005	
Revenues			
Program revenues			
Charges for services	\$ 4.4	\$ 4.3	(2.2)%
Operating grants/contributions	.1	1.4	1300%
Capital grants/contributions	1.7	2.6	53%
General revenues			
Property taxes	6.6	7.2	9.1%
Franchise taxes	.8	.8	0%
Utility taxes	1.6	1.6	0%
Investment income	.3	.4	33.3%
Intergovernmental	2.0	1.2	(40.0)%
Total revenues	17.5	19.5	11.4%
Expenses			
General government	4.9	5.8	18.4%
Public safety	4.5	4.4	(2.2)%
Public works	3.6	5.3	47.2%
Culture and Recreation	1.2	1.2	0%
Interest on long-debt	.4	.5	25%
Total expenses	14.6	17.2	17.8%
Increase in net assets	\$3.0	\$2.3	(23.3)%

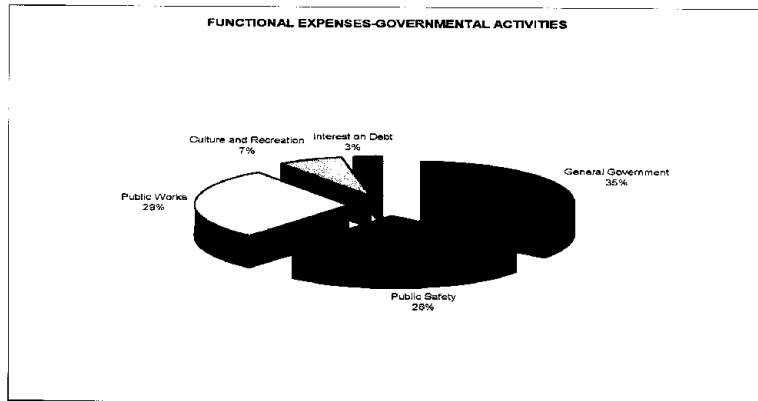
Note: Totals may not add due to rounding.

The City's total revenues increased by 11.4 percent to \$19.5 million (see Table 2), due mainly to an increase in operating and capital grants. Nearly 38 percent of the City's revenues come from property taxes, another 26 percent comes from Intergovernmental, and 22 percent from charges from services. (See chart below) Operating grants and public works include approximately \$1.4 million in Hurricane Katrina clean up expenses and reimbursements from FEMA. At the beginning of the year, the City millage rate was decreased from 7.373 mills to 7.213 mills, however, this was offset by an increase in property values.

REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



The total cost of all programs and services increased by \$2.6 million or 17.8 percent (see Table 2). The City's expenses cover a range of services, with about 35 percent related to General Government. As shown below, governmental expenses are largely weighted in three functions, namely the general government, public works, and public safety. At \$5.8 million, General Government expenditures represent 35% of statement of activities total expenses for the City in 2005. Public Works category expenditures total in 2005 was \$5.3 million, or 29 percent of total expenses. The General Government category includes all other City departments except public safety, culture and recreation, and public works. Lastly, Public Safety expended \$4.4 million, or 26% of expenses. As mentioned before, the increase in expenses was mainly due to approximately \$1.4 million in Hurricane Katrina clean up costs and yearly cost of living salary increases.



The table below presents the cost of each of the City's governmental services. Net cost is the total cost of each service less the program revenue generated, fees by each activity and intergovernmental aid. The net cost shows the financial cost that is placed on the City's taxpayers by each of these services:

Table 3
City of South Miami, Florida
Net Cost of City's Governmental Activities
(millions of \$)

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2004	2005	2004-2005	2004	2005	2004-2005
Public safety	\$ 4.5	4.4	(2.2)%	\$ 4.0	\$ 4.1	2.5%
Recreation/social services	1.2	1.2	0%	.8	1.0	25%
Public works	3.5	5.3	51.4%	1.8	1.2	(33.3)%
General government	4.9	5.8	18.4%	1.4	2.5	78.6%
Interest on long term debt	.4	.5	25%	.4	.5	25%
Total	<u>\$14.5</u>	<u>\$17.2</u>	18.6%	<u>\$ 8.4</u>	<u>\$9.3</u>	10.7%

- The cost of all *governmental* activities this year, including the \$530 thousand in interest expense on long-term debt, was \$17.2 million. Some of that cost was financed by:
 - Those who directly benefited from the programs through charges for services (\$4.3 million), or
 - Other governments and organizations that subsidized certain programs from grants and contributions (\$3.9 million).
- The City financed the remaining \$9.0 million "public benefit" portion of governmental activities from \$7.2 million in property taxes, \$1.6 million in utility taxes and with other revenues, such as interest and unrestricted intergovernmental revenue.

GOVERNMENT FUNDS' FINANCIAL ANALYSIS

As the City completed the year, its governmental funds reported combined fund balances of \$17 million, with the general fund representing \$14.1 million. Of the \$17 million, \$8 million is reserved and \$470 thousand is designated, leaving \$4.43 million in unreserved undesignated fund balance.

The General Fund's fund balance increased by \$520 thousand after transfers of \$370 thousand and debt proceeds totaling \$961 thousand. This increase is attributable to the increase in property tax revenues by approximately \$0.6 million due to increases in property value and increases in operating and capital grants from local and federal agencies. Expenditures were in line with prior year, except for a large increase in public works due to approximately \$1.4 million of Hurricane Katrina clean up and capital outlay expenditures. Please refer to the General Fund Budget Highlights section below for further information.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the General Fund budget once. The budget was amended during the fiscal year, in accordance with the City Charter, to account for rollovers related to capital improvement projects and prior year encumbrances and to account for additional funding for unforeseen expenditures and personnel changes.

Comparing the original budget to the final budget, the fiscal year 2005 amended final budget of \$14.08 million decreased by .13% over the original \$14.10 million budget. Beyond the base revenue budget of \$13.4 million, the amended budget increased to \$13.6 million due to better than expected numbers in some of the revenue categories. Due to the cost savings, and additional unexpected revenue realized at year-end (such as FEMA funds for Hurricane Katrina clean up), the City was able to recognize significant positive variance against the final budget.

The difference between the estimated revenues and the actual revenues in the General Fund was \$2.45 million for fiscal year 2005. Actual revenues, at \$16.07 million came in higher than the final budget of \$13.6 million. The primary reasons for these variances were due to funds received from FEMA of approximately \$1.4 million for Hurricane Katrina clean up.

Expenditures at \$16.5 million were above the final amended budget of \$14.08 million mainly due to Hurricane Katrina clean up costs of approximately \$1.4 million, which were not budgeted and capital outlay purchases and interest payments in the non-departmental and public safety departments in excess of amounts budgeted. Please refer to page 40 for further details.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets:

The City of South Miami's investment in capital assets for its governmental activities as of September 30, 2005 is detailed below:

	Governmental Activities		Total Percentage Change
	2004	2005	2004-2005
Land	\$6.8	7.3	7.35%
Buildings	5.1	5.1	0.00%
Furniture and Equipment	4	4.7	17.50%
Infrastructure	13.1	14.8	12.98%
Total	\$29.0	\$31.9	10.00%

For fiscal year 2005 the City spent \$3.03 million on capital programs, primarily for land, traffic calming projects, street improvements and storm-water improvements. The City also acquired new vehicles for both the public works and police departments. The City used loan proceeds and capital lease financing, as well as grant funding for these capital programs. Additional information on the City's capital assets can be found in Note 5 on page 29 of this report.

Debt Administration:

At year-end the City had \$10.8 million in outstanding debt, as noted below:

**City of South Miami
Outstanding Debt
(In millions of \$)**

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>
	<u>2004</u>	<u>2005</u>	<u>2004-2005</u>
Loans	\$8.4	\$8.3	-1.19%
Notes payable	0.0	0.7	100%
Due to Miami Dade County	0.1	0.1	0.00%
Compensated Absences	1.1	1.2	9.09%
Capital lease payable	0.5	0.5	0.00%
Total	\$10.1	\$10.8	6.93%

Increase in long term debt for 2005 was due to the purchase of land of approximately \$573,000 financed through a loan from a local bank. Also, police vehicles of totaling approximately \$155,000 also financed through a loan from a local bank and capital lease financing of approximately \$233,000 for vehicles of the Public Works department. More detailed information about the City's long-term liabilities is presented in Note 8, beginning on page 30 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATIOS

The State of Florida, by constitution, does not have a state personal income tax and therefore, the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, telecommunication, gasoline, utilities services, etc.) and fees (franchise, building permits, occupational license, etc.) for their governmental activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and federal governments. For the business-type and certain governmental activities (building inspections, recreational programs, etc.) the user pays a related fee or charge associated with the service.

Revenues in fiscal year 2006 adopted General Fund budget are \$14.8 million, an increase of 8.82 percent from fiscal year 2005 total revenues \$13.6 million. Property taxes (benefiting from the increases in assessed valuations), and Building Permits are expected to lead to this increase. The City will use these revenues to fund current services and the expected impact of inflation on salaries and benefits.

The operating millage rate for calendar year 2005—collected in fiscal year 2006 is 6.681 per thousand dollars of taxable value, a reduction of .53 mills from previous fiscal year's rate.

Fiscal year 2006 budgeted expenditures and transfers are expected to be \$15.2 million, or 7.8 percent, over fiscal year 2005. The largest increments are increased salaries and cost-of-living adjustments based on labor agreements with the PBA (Police Union) and AFSCME (General Employees' Union). If estimates are realized, the City's budgetary General Fund balance is expected to increase modestly by the close of 2006. More importantly, however, if insurance premium costs for health, property and worker's compensation and the City's pension contributions continue to rise, the General Fund balance could be significantly impacted.

Other factors that will affect the City's finances are hurricanes and associated clean up costs. Already, in 2006, Hurricane Wilma has affected the City causing damage and clean up costs estimated at over \$1 million. The City will also receive FEMA funds for reimbursement of the Hurricane Wilma clean up costs.

REQUESTS FOR INFORMATION

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact Adriana Hussein, Finance Director, City of South Miami, 6130 Sunset Drive, Miami, Florida 33143.

CITY OF SOUTH MIAMI, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

ASSETS	Governmental Activities
Cash and cash equivalents	\$ 2,258,881
Investments	5,111,621
Accounts receivables - net	2,368,084
Prepays	228,949
Other	8,154
Temporarily restricted assets:	
Cash and cash equivalents	42,759
Investments	3,834,849
Note receivable	2,377,559
Net pension asset	47,615
Capital assets:	
Land	7,267,694
Buildings and improvements	5,131,183
Machinery and equipment	4,743,415
Infrastructure	14,816,328
Total capital assets	31,958,600
Less accumulated depreciation	(11,810,399)
Total capital assets, net	<u>20,148,201</u>
Total assets	<u>36,422,772</u>
LIABILITIES	
Accounts payable	1,070,610
Accrued liabilities	484,261
Accrued interest payable	173,183
Due to other governments	586,848
Other liabilities	273,730
Unearned revenues	621,075
Claims payable	52,000
Noncurrent liabilities:	
Due within one year	727,099
Due in more than one year	10,083,063
Total Liabilities	<u>14,071,869</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,603,833
Restricted for:	
Debt service	5,531,899
Capital projects	723,268
Unrestricted	5,491,903
Total net assets	<u>\$ 22,350,903</u>

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6-1

The notes to the basic financial statements are an integral part of this statement.

CITY OF SOUTH MIAMI, FLORIDA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2005

<u>Functions/programs</u>	<u>PROGRAM REVENUES</u>			<u>REVENUE AND CHANGES IN NET ASSETS</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental activities</u>
Primary Government:					
Governmental activities:					
General government	\$ 5,828,308	\$ 3,338,545			\$ (2,491,783)
Public safety	4,385,721	303,743			(4,081,978)
Public works	5,258,015	325,776	1,376,682	2,554,398	(1,001,159)
Culture and recreation	1,231,423	278,988			(952,435)
Interest on long-term debt	530,665	-	-	-	(530,665)
Total primary government	<u>17,234,132</u>	<u>4,245,052</u>	<u>1,376,682</u>	<u>2,554,398</u>	<u>(9,058,000)</u>
		GENERAL REVENUES:			
					7,237,936
					813,035
					1,633,669
					374,735
					1,244,891
					<u>11,304,066</u>
					2,246,068
					20,104,837
					<u>\$ 22,350,903</u>

The notes to the basic financial statements are an integral part of this statement.

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CITY OF SOUTH MIAMI, FLORIDA
 RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005

CITY OF SOUTH MIAMI, FLORIDA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005

	<u>Major Fund</u>		<u>Other</u>		<u>Total</u>
	<u>General</u>		<u>Governmental</u>		<u>Governmental</u>
			<u>Funds</u>		<u>Funds</u>
ASSETS					
Cash and cash equivalents	\$ 1,721,689	\$	537,292	\$	2,258,981
Investments	4,375,000		1,577,881		5,952,881
Accounts receivables	2,189,454		196,630		2,386,084
Due from other funds	179,521		653,113		832,634
Prepays	226,949		-		226,949
Other	-		8,154		8,154
Temporarily restricted assets:					
Cash and cash equivalents	42,759		-		42,759
Investments	2,993,589		-		2,993,589
Note receivable	2,377,559		-		2,377,559
Total assets	<u>\$ 14,086,520</u>	<u>\$</u>	<u>2,973,070</u>	<u>\$</u>	<u>17,059,590</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,170,117	\$	-	\$	1,170,117
Due to other funds	192,727		639,907		832,634
Due to other governments	586,848		-		586,848
Accrued liabilities	484,261		-		484,261
Compensated absences	146,597		862		147,479
Other liabilities	251,566		22,164		273,730
Claims payable	52,000		-		52,000
Unearned revenues	595,504		25,571		621,075
Total liabilities	<u>3,479,620</u>	<u>\$</u>	<u>688,524</u>	<u>\$</u>	<u>4,168,144</u>
Fund balances:					
Reserved for:					
Prepaid costs	226,949		-		226,949
Encumbrances	520,651		900,560		1,421,211
Public safety	8,076		81,538		89,614
Capital projects	-		723,268		723,268
Note receivable	2,377,559		-		2,377,559
Debt service	3,154,340		-		3,154,340
Unreserved, reported in:					
General fund, designated for:					
Future capital improvements	334,217		-		334,217
Workmen compensation contingency	135,724		-		135,724
General fund, unreserved, undesignated	3,849,384		-		3,849,384
Special revenue fund	-		579,180		579,180
Total fund balances	<u>10,606,900</u>	<u>\$</u>	<u>2,284,546</u>	<u>\$</u>	<u>12,891,446</u>
Total liabilities and fund balances	<u>\$ 14,086,520</u>	<u>\$</u>	<u>2,973,070</u>	<u>\$</u>	<u>17,059,590</u>

Fund balances - total government funds (Page 15)	\$	12,891,446
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		31,958,600
Less accumulated depreciation		(11,810,399)
Bond interest payable not reported in the governmental funds		(173,183)
Net pension asset		47,615
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Governmental bonds payable	(8,270,000)	
Note payables	(707,971)	
Loan payable	(55,649)	
Capital leases	(510,748)	(9,544,368)
Compensated absences		(1,016,808)
Net assets of governmental activities (Page 13)	<u>\$</u>	<u>22,350,903</u>

The notes to the basic financial statements are an integral part of this statement.

The notes to the basic financial statements are an integral part of this statement.

CITY OF SOUTH MIAMI, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2005

	<u>Major Fund</u>		<u>Other</u>		<u>Total</u>
	<u>General</u>		<u>Governmental</u>		<u>Governmental</u>
			<u>Funds</u>		<u>Funds</u>
REVENUES:					
Taxes:					
Ad Valorem	\$ 6,457,423	\$	780,513	\$	7,237,936
Utility taxes	1,633,669		-		1,633,669
Franchise fees	813,035		-		813,035
Licenses and permits	1,101,120		-		1,101,120
Intergovernmental	2,621,373	2,554,398			5,175,771
Charges for services	2,352,338		-		2,352,338
Fines and forfeitures	303,743		-		303,743
Investment earnings	337,660		37,075		374,735
Other	448,170		39,681		487,851
Total revenues	<u>16,068,531</u>		<u>3,411,667</u>		<u>19,480,198</u>
EXPENDITURES:					
Current:					
General government	5,149,598	498,253			5,647,851
Public safety	4,269,901	-			4,269,901
Public works	4,177,910	482,330			4,660,240
Culture and recreation	1,151,343	47,560			1,198,903
Debt service:					
Principal	390,807	-			390,807
Interest	500,405	37,925			538,330
Capital outlay	1,240,482	1,791,841			3,032,323
Total expenditures	<u>16,880,446</u>	<u>2,857,909</u>			<u>19,738,355</u>
Excess (deficiency) of revenues over expenditures and other financing sources	(811,915)	553,758			(258,157)
OTHER FINANCING SOURCES (USES):					
Transfers	370,000	(370,000)			-
Debt proceeds	728,449				728,449
Proceeds from issuance of capital leases	233,000	-			233,000
Total other financing sources (uses)	<u>1,331,449</u>	<u>(370,000)</u>			<u>961,449</u>
Net change in fund balances	519,534	183,758			703,292
Fund balances, beginning	<u>10,087,366</u>	<u>2,100,788</u>			<u>12,188,154</u>
Fund balances, ending	<u>\$ 10,606,900</u>	<u>\$ 2,284,546</u>			<u>\$ 12,891,446</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF SOUTH MIAMI, FLORIDA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2005

Amounts reported for governmental activities in the statement of activities (Page 14) are different because:

Net change in fund balances - total government funds (Page 17)	\$	703,292
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 outlays	\$	3,032,323
Less current year depreciation	<u>(959,586)</u>	2,072,737
Net effect of various miscellaneous transactions involving fixed assets (ie: sales, trade-ins)		(26,475)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
LOANS		
Principal payments		145,000
CAPITAL LEASES		
Proceeds	(233,000)	
Principal payments	<u>225,330</u>	(7,670)
NOTES PAYABLE		
Proceeds	(728,449)	
Principal payments	<u>20,477</u>	(707,972)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that do not require the use of expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Compensated absences	107,105	
Accrued interest on long term debt	<u>7,664</u>	114,769
Change in net pension asset		(47,615)
Change in net assets of governmental activities (Page 14)	\$	<u>2,246,068</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF SOUTH MIAMI, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
SEPTEMBER 30, 2005

	Employee Retirement Fund
<u>ASSETS</u>	
Cash and cash equivalents	\$ 10,878
Receivables:	
Employer	586,848
Employee	19,463
South Miami Police Officers' Retirement Plan	<u>127,689</u>
Total receivables	<u>734,000</u>
Investments, at fair value	
U.S. Government securities	1,855
Corporate bonds	6,295
Common stocks	7,030,089
Mutual funds	<u>7,141,101</u>
Total investments	<u>14,179,340</u>
Total assets	<u>14,924,218</u>
<u>NET ASSETS</u>	
Held in trust for pension benefits	<u>\$ 14,924,218</u>

CITY OF SOUTH MIAMI, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Employee Retirement Fund
ADDITIONS	
Contributions:	
Employer	\$ 879,812
Employees	492,727
State	<u>102,693</u>
Total contributions	<u>1,475,232</u>
Investment income:	
Net increase in fair value of investments	1,175,574
Interest and dividend income	<u>127,202</u>
Total investment income	1,302,776
Less investment expenses	<u>(56,920)</u>
Net investment income	<u>1,245,856</u>
Total additions	<u>2,721,088</u>
DEDUCTIONS	
Benefits paid	432,977
Refunds of contributions	141,361
Administrative expenses	<u>79,615</u>
Total deductions	<u>653,953</u>
Changes in net assets	<u>2,067,135</u>
Net assets- Beginning of year	<u>12,857,083</u>
Net assets- End of year	<u>\$ 14,924,218</u>

J-13

The notes to the basic financial statements are an integral part of this statement.

The notes to the basic financial statements are an integral part of this statement.

CITY OF SOUTH MIAMI, FLORIDA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The City of South Miami is a political subdivision of the State of Florida, located in Miami-Dade County. The City was incorporated in 1927 and has operated since 1978 under the same charter. The City is approximately 2.5 square miles in area. The City is a full service city providing its citizens with a full complement of municipal services, specifically public safety, general government, parks, culture and recreation, sanitation and public works. It also maintains various trust funds in a fiduciary capacity, but does not provide any educational facilities, water, wastewater or fire services. Those services are provided by the Miami-Dade County School Board and Miami-Dade County, respectively.

The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. There are no discretely presented component units.

Blended Component Unit

The South Miami Community Redevelopment Agency (the "Agency"), was established on April 15, 1997 through the adoption of City Ordinance No. 12- 97-1633. The Miami-Dade County Board of County Commissioners approved and adopted the South Miami Community Redevelopment Agency Plan on May 19, 1998 with the adoption of Ordinances 98-79 and 98-80. The Agency began providing services to the City on October 1, 1998. The Agency's main objective is to prevent the spread of and eliminate the existence of slum and blighted conditions within the redevelopment area.

The Agency was deemed to be a separate, distinct and independent legal entity controlled by a board of seven commissioners, which include five members of the City's elected council. The Agency falls under the requirements of Chapter 163 part III of the Florida Statutes.

Individual financial statements for the CRA are available through the Finance Department of the City at 6130 Sunset Drive, South Miami, Florida 33143.

b. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *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 City has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, utility taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The **general fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

The *pension trust funds* accounts for the activities of the General Employees Pension Fund and the Police Pension Fund, which accumulates resources for pension benefit payments to qualified general and public safety employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government 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 no business-type activities and enterprise funds.

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, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, whose purpose has not been restricted to a specific program.

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. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the City, as well as for its component unit, are reported at fair value. The City's investment in the State Board of Administration investment Pool (2A-7 pool) operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

e. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Revenues and the associated receivable balances are accrued for taxes, franchise fees, and other utility services based on collections within 60 days of year-end.

f. Property Taxes

Property values are assessed as of January 1 of each year, at which time taxes become an enforceable lien on property. Tax bills are mailed for the City by Miami-Dade County on or about October 1 of each year and are payable with discounts of up to 4% offered for early payment. Taxes become delinquent on April 1 of the year following the year of assessment and State law provides for enforcement of collection of property taxes by seizure of the personal property or by the sale of interest-bearing tax certificates to satisfy unpaid property taxes.

Assessed values are established by the Miami-Dade County Property Appraiser. In November 1992, a Florida constitutional amendment was approved by the voters which provides for limiting the increases in homestead property valuations for ad valorem tax purposes to a maximum of 3% annually and also provides for reassessment of market values upon changes in ownership. The County bills and collects all property taxes and remits them to the City. Procedures for the collection of delinquent taxes by Miami-Dade County are provided for in the Laws of Florida. There were no material delinquent property taxes at September 30, 2005.

State statutes permit municipalities to levy property taxes at a rate of up to 10 mills (\$10 per \$1,000 of assessed taxable valuation). The tax levy of the City is established by the City Commission and the Miami-Dade County Property Appraiser incorporates the City's millage into the total tax levy, which includes the County and the County School Board tax requirements. The millage rate assessed by the City for the year ended September 30, 2005 was 7.213 mills (\$7.213 per \$1,000 of taxable assessed valuation).

g. Prepaid Costs

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs.

h. Restricted Assets

Certain proceeds from the Florida Municipal Loan Council loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by the applicable loan covenants.

i. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment, and infrastructure assets (e.g., roads, sidewalks, culverts, pump stations, stormwater lines, catch basins, 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 \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as they are completed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-50
Machinery and Equipment	5-20
System Infrastructure	50-65
Public Domain Infrastructure	50-65

j. Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and the department, which the employee serves.

Effective October 1, 1996, the City's vacation and sick leave policy is that earned vacation and sick leave must be taken within one year of the employee's anniversary date, as there is no carryover from one period to another. Unused vacation pay, if any, is paid with the employee's termination or retirement. However, the City continued to accrue vacation leave after the change in policy and discontinued to accrue vacation leave effective October 1, 2004.

The liability for these compensated absences is recorded as a long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. Governmental funds report only the compensated absence liability payable from expendable available financial resources.

k. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize debt proceeds and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. 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.

l. 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 future purpose. The description of each reserve indicates the purpose for which each was intended.

Designations of fund balance represent tentative management plans that are subject to change.

Unreserved undesignated fund balance is the portion of fund equity available for any lawful use.

m. Unearned Revenues

Unearned revenue is a specific type of deferred revenue that does not involve the application of the availability criterion, and therefore applies equally to both accrual and modified accrual financial statements. The unearned items consist primarily of license and permit revenues and grant advances.

n. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts of assets, liabilities, disclosure of contingent liabilities, revenues, and expenditures/expenses reported in the financial statements and accompanying notes. These estimates include assessing the collectibility of receivables, the realization of pension obligations and the useful lives of capital assets. Although those estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

o. New accounting standards adopted

During the year ended September 30, 2005, the City adopted Governmental Accounting Standards Board (GASB) Statement 40, "Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)".

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The City has no material violations of finance-related legal and contractual obligations.

Fund Accounting Requirements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like any other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related requirements, bond covenants, and segregation for management purposes.

Revenue Restrictions

The City has various restrictions placed over certain revenue sources from federal, state, or local requirements. The primary revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gas Tax	Roads, sidewalks, streets
Transportation Tax	Transportation and roads
Federal, State and Local Grants	Grant Program Expenditures
Federal Forfeitures	Law Enforcement

For the year ended September 30, 2005, the City complied, in all material respects, with these revenue restrictions.

Deficit Fund Balance

The Grants fund and Community Development Block Grant fund had a deficit fund balances of \$96,571 and \$4,808, respectively, as of September 30, 2005. The deficits resulted from the funds incurring expenditures that were not fully reimbursed by grants but will be funded by the general fund in future periods.

Excess of expenditures over appropriations

For the year ended September 30, 2005, expenditures exceeded appropriations in the City Manager, City Clerk, Building, Police, Public Works and Non-departmental departments (the legal level of budgetary control) of the general fund by \$86, \$248, \$12,257, \$237,399, \$1,546,389 and \$691,116, respectively. These overexpenditures were funded by greater than anticipated revenues and available fund balance.

3. DEPOSITS AND INVESTMENTS

The City, for accounting and investment purposes, maintains a cash and investment pool for use by all City funds. This gives the City the ability to invest large amounts of idle cash for short periods of time and to maximize earning potential. Each fund's portion of this pool is displayed on the balance sheets as cash and equity in pooled cash and investments. Income earned on pooled cash and investments is allocated to the respective funds based on relative month-end balances.

Custodial credit risk (deposits) - In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. All of the City's deposits are entirely insured by federal depository insurance or collateralized by the multiple financial institution collateral pool pursuant to Florida Statutes, Chapter 280, "Florida Security for Public Deposits Act." Under the Act, all qualified public depositories are required to pledge eligible collateral having a fair value equal to or greater than the average daily or monthly balance of all public deposits, multiplied by the depository's collateral pledging level. The book value of the City's deposits on the balance sheet date was \$2,301,740. The bank balance of the City's deposits as of September 30, 2005 was \$2,415,964.

The City does not have a written investment policy and follows the State of Florida investment policy as set forth in State Statute 218-415. Allowable investments include United States government obligations, guaranteed United States agency short-term issues, the State Board of Administration (SBA) Local Government Surplus Funds Investment Pool, Florida bank certificates of deposit, and investments authorized by City Council.

City administration is authorized to invest in those instruments authorized by the Florida Statutes. At September 30, 2005 all of the City's investments were in certificates of deposit totaling \$5,952,881 and the Florida Municipal Investment Trust Fund totaling \$2,993,359.

The General Employees and Police Officers Pension Plan (the Plan) investments are held separately from those of other City funds. As prescribed by Plan documents, the Plan is authorized to invest in equities, corporate debt securities rated BAA or better from Standard & Poor's and/or Moody's and obligations of the U.S. Government and its fully guaranteed agencies. Investment in foreign bonds is prohibited and investment in foreign securities is limited to 10% of the cost of the Plan's investment.

As of September 30, 2005, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>Investment Maturities (in Years)</u>		
			<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More than 10 Years</u>
Certificates of deposit	\$5,953,111	5,953,111			
Florida Municipal Investment Trust Fund	<u>2,993,359</u>	2,993,359			
Total Fair Value	<u>\$8,946,470</u>				

A reconciliation of deposits and investments as shown by category and the statement of net assets is as follows:

By Category	
Deposits	\$2,301,740
Investments	<u>8,946,470</u>
	<u>\$11,248,210</u>
Statement of Net Assets:	
Cash	\$2,258,981
Restricted cash	42,759
Investments	5,111,621
Restricted Investment	<u>3,834,849</u>
	<u>\$11,248,210</u>

As of September 30, 2005, the General Employees and Police Officers Pension Plan had the following investments:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. Government and agencies	\$ 1,855	1,855	-	-	-
Corporate bonds	6,295	6,295	-	-	-
Bond mutual funds	<u>4,451,557</u>	-	-	574,155	3,877,402
Sub-total	<u>4,459,707</u>				
Common stocks	7,030,089				
Equity mutual funds	<u>4,451,414</u>				
Total Fair Value	<u>\$14,179,340</u>				

Interest Rate Risk – Interest rate risk exists when there is possibility that changes in interest rates could adversely affect an investment's fair value. The City and the Plan do not have a written policy on interest rate risk, however, the City manages its exposure to declines in fair values by limiting the weighed average monthly maturity of its investment portfolio to less than six months (180 days). The Plan limits the duration of the fixed income portfolio to not be greater than 150% of the duration of the market index. The market index is defined as the Merrill Lynch Government/Corporate Bond Index. At September 30, 2005 the portfolio weighed average maturity was 90 days for the City and 12 years for the Plan.

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City's investments in the Florida Municipal Investment Trust Fund (FMIVT) (which has the characteristics of a Money Market Fund) are not required to be categorized as these investments are not evidenced by securities that exist in physical or book entry form. Additionally, these investments are entirely collateralized and insured by the State. The FMIVT is governed by Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the FMIVT. The Local Government Surplus Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2A-7 fund. All FMIVT funds reported by the City are reported at fair value consistent with the valuation similar to a 2A-7 pool. No credit rating is available for this investment.

The Plan's investment policy limits investments to the highest rankings by nationally recognized statistical organizations (NRSPO) – (Standard and Poor's and Moody's Investors Services).

The table below provides a breakdown of the Plan's bond mutual fund investments by credit rating as of September 30, 2005:

Moody's	% of Fair Value
A1	0.96%
A2	2.02%
AA1	0.58%
AA2	0.42%
AA3	2.06%
AAA	1.77%
AGY	13.57%
TSY	78.63%

Concentration of Credit Risk – There are no limits on the amount that may be invested in Certificates of Deposits (CD's) placed with public depositories, funds placed with the FMIVT or securities of the U.S. Government and its agencies. At September 30, 2005, all of the City's investments were in CD's and the FMIVT.

The Plan's investment policy places investment limitations and provides target allocations to its investment managers to limit credit risk due to concentration. See investment guidelines described above. The following are the established target allocations for the Plan:

	Target Allocation
Domestic equity securities	50%
Foreign equity securities	10%
Fixed income securities	40%

The City does not participate in any securities lending transactions nor has it used, held or written derivative financial instruments.

4. RECEIVABLES AND PAYABLES

Receivables at September 30, 2005, were as follows:

	Accounts	Taxes	Grants	Total
Governmental Activities				
General Fund	\$182,369	\$381,962	\$1,625,123	\$2,189,454
Non-major governmental funds	-	194,273	2,357	196,630
Total government activities	<u>\$182,369</u>	<u>\$576,235</u>	<u>\$1,627,480</u>	<u>\$2,386,084</u>

All receivables are expected to be collected within one year.

Payables at September 30, 2005, were as follows:

Governmental Activities:	Vendors
General Fund	\$1,070,810
Non-major governmental funds	-
Total government activities	<u>\$1,070,810</u>

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenues reported in the governmental funds were as follows:

Occupational licenses renewals	\$233,356
Grant drawdowns prior to meeting all eligibility requirements	474,381
Other	<u>65,136</u>
Total government activities	<u>\$772,883</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	Balance			Balance
	October 1, 2004	Increases	Decreases	Sept. 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,788,386	\$ 573,367	\$ 94,059	\$ 7,267,694
Total assets not being depreciated	6,788,386	573,367	94,059	7,267,694
Capital assets being depreciated:				
Buildings and improvements	5,131,163	-	-	5,131,163
Furniture and equipment	4,016,803	726,612	-	4,743,415
Infrastructure	13,110,459	1,705,869	-	14,816,328
Total capital assets being depreciated	22,258,425	2,432,481	-	24,690,906
Less accumulated depreciation for:				
Buildings and improvements	1,359,563	143,500	-	1,503,063
Furniture and equipment	2,670,183	344,719	-	3,014,902
Infrastructure	6,821,067	471,367	-	7,292,434
Total accumulated depreciation	10,850,813	959,586	-	11,810,399
Total capital assets being depreciated, net	11,407,612	1,472,895	-	12,880,507
Governmental activities capital assets, net	\$18,195,998	\$2,046,262	\$ 94,059	\$20,148,201

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General government	\$175,347
Public safety	131,891
Public works	615,315
Culture and recreation	37,032
Total depreciation expense – governmental activities	\$959,586

Construction Commitments

The City has approximately \$2,480,000 in outstanding construction commitments for infrastructure repairs and construction as of September 30, 2005.

6. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2005 consisted of the following:

Due to/from other funds:		
Receivable Fund	Payable Fund	
General Fund	Nonmajor governmental funds	\$179,521
Nonmajor governmental funds	General Fund	192,727
Nonmajor governmental funds	Nonmajor governmental funds	460,386
Total		\$832,634

These interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers for the year ended September 30, 2005, consisted of the following:

- \$370,000 transferred from the Nonmajor Governmental funds represent a \$250,000 transfer from the Stormwater Drain Trust Fund to pay for partial salary and benefits for those employees working on stormwater related activities in the City and \$120,000 was transferred from the CRA to the General Fund for salary and benefits for 1 police officer and 1 code enforcement officer primarily working in the CRA district.

7. RESTRICTED ASSETS

Restricted assets and the related reservations of net assets for Governmental Activities consist of the following:

- \$2,993,589 of investments in the State Treasurer's Investment Pool at September 30, 2005. These amounts relate to the loan received from the Florida Municipal Loan Council (FMLC) and can only be expended on the approved projects.
- \$884,019 of investments in Certificates of Deposit from funds received which are restricted by the granting agency for capital projects and/or debt service.
- \$2,377,559 note receivable from Mark Richmond Properties Inc. for the building of the parking garage (see NOTE 10). Payments of principal and interest on this note receivable can only be used to pay down the FMLC Series 2002A loan.

8. LONG-TERM DEBT

Florida Municipal Loan Council - Loans

On November 15, 2001, the City borrowed \$2,200,000 from the Florida Municipal Loan Council's November 30, 2001 debt issue of \$90,210,000 Series 2001A Revenue Bonds, (the "Series 2001A Loan") to repay borrowings of \$800,000 and finance the construction of a multi-purpose activities center. The loan carries varying interest ranging from 3.25% to 5.25% and includes covenants that include reserves and investment policies, all of which have been complied with by the Trustee and the City. All proceeds and reserves held are invested by the Trustee in accordance with the investment policies. All disbursements to the City for use of loan proceeds are disbursed by the Trustee to the City in accordance with the covenants of the loan agreement. The loans are secured by non-ad valorem revenues from the City. These revenues, specifically investment income earned from the loan proceeds not expended, will be used to repay the loans.

On May 1, 2002, the City borrowed \$6,500,000 from the Florida Municipal Loan Council's May 17, 2001 debt issue of \$49,775,000 Series 2002A Revenue Bonds (the "Series 2002A Loan") to finance the construction of a parking garage (See Note 11). The loan carries varying interest ranging from 3.25% to 5.5% and includes covenants that include reserves and investment policies, all of which have been complied with by the Trustee and the City. All proceeds and reserves held are invested by the Trustee in accordance with the investment policies. All disbursements to the City for use of loan proceeds are disbursed by the Trustee to the City in accordance with the covenants of the loan agreement. The loans are secured by non-ad valorem revenues from the City. Investment income from the note receivable from "MRP" and loan proceeds not expended, future garage revenues, and non-ad valorem revenues will be used to repay the bonds as they become due. During 2005, the City used approximately \$323,479 of loan proceeds not expended for debt service payments of the Series 2002A Loan. As of September 30, 2005, approximately \$757,901 of loan proceeds have been used for debt service payments of the Series 2002A Loan.

Future principal and interest payments for the FMLC Loans are as follows:

	Series 2001A - Loan		Series 2002A- Loan		Total
	Principal	Interest	Principal	Interest	
2006	\$ 40,000	\$ 103,363	\$ 115,000	\$ 311,376	\$ 569,739
2007	40,000	101,563	120,000	305,626	567,189
2008	40,000	99,763	125,000	300,826	565,589
2009	45,000	97,738	130,000	295,826	563,564
2010	45,000	95,487	135,000	290,626	566,113
2011-2015	270,000	439,031	785,000	1,354,402	2,848,433
2016-2020	345,000	359,883	1,010,000	1,118,854	2,833,737
2021-2025	440,000	262,562	1,305,000	827,250	2,834,832
2026-2030	560,000	139,500	1,665,000	465,726	2,830,226
2031-2032	265,000	13,375	790,000	61,244	1,129,619
	<u>\$2,090,000</u>	<u>\$1,712,283</u>	<u>\$6,180,000</u>	<u>\$5,331,756</u>	<u>\$15,314,039</u>

Notes Payable

On April 25, 2005, the City purchased eight police vehicles financed through the issuance of a note payable to a local bank totaling \$155,082. The note calls for monthly payments of principal and interest of \$41,981 at an annual interest rate of 4%. The note matures on November 1, 2008.

On April 20, 2005, the City purchased property located at 7800 S.W. 59th Avenue for \$573,367 financed through the issuance of a note payable to a local bank. The note calls for quarterly payments of principal of \$20,477 and quarterly interest payments of varying amounts at an annual interest rate of 3.95%. The note matures on April 30, 2012.

Future principal and interest payments for the notes payable are as follows:

	Principal	Interest	Total
2006	120,617	23,900	144,516
2007	119,171	22,110	141,281
2008	120,682	17,383	138,066
2009	122,250	12,560	134,810
2010	81,910	7,684	89,594
2011-2015	<u>143,342</u>	<u>5,662</u>	<u>149,004</u>
	<u>\$707,971</u>	<u>\$89,280</u>	<u>\$797,250</u>

Capital Leases

The City has entered into various capital lease agreements for law enforcement and other City vehicles totaling approximately \$825,000. The leases expire at varying intervals through 2009.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2005 were as follows:

Year ending September 30	
2006	\$167,009
2007	166,959
2008	166,959
2009	<u>50,093</u>
Total minimum lease payments	551,019
Less: amount representing interest	<u>(40,271)</u>
Present value of minimum lease payments	<u>\$510,748</u>

Due to Miami-Dade County

The City had entered into an Inter-Local agreement with Miami Dade County in 1995, for the purchase of 800MHz police radios. The cost for the radios was \$247,329 and was to be paid within ten years. As of September 30, 2005, the City owes \$155,155 to the County payable in equal installments of \$24,733.

Non-Commitment Debt - Health Care Facilities Revenue Bonds

In 1995, the City issued \$69,985,000 in Health Facilities Authority ("HFA") Hospital Revenue Refunding Bonds to provide funds to the City of South Miami Health Facilities Authority, a non-profit public benefit corporation, for the purpose of currently refunding the City of South Miami Health Facilities Revenue Bonds (the South Miami Hospital Project) Series 1989 and Series 1991A and to provide financing for the cost of certain additional capital improvements to the health care facility. South Miami Hospital is an independent health care facility located within the geographic boundaries of the City.

In 1998, the City issued \$104,205,000 in City of South Miami Health Facilities Authority Hospital Revenue Bonds, series 1998 (Baptist Health Systems Obligated Group). The bonds were issued for the purpose of financing improvements in renovation, new construction and acquisition of equipment in the health facilities of the borrowers, Baptist Health Systems, Inc., and affiliates, an independent health care facility located near South Miami.

In 2003, the City issued \$150,000,000 in City of South Miami Health Facilities Authority Hospital Revenue Bonds, series 2003 (Baptist Health Systems Obligated Group). The bonds were issued for the purpose of financing improvements in renovation, new construction and acquisition of equipment in the health facilities of the borrowers, Baptist Health Systems, Inc., and affiliates, an independent health care facility located near South Miami.

The City acts solely as a lawful conduit in the issuance of the bonds described above and is not liable in any manner. The amount of debt outstanding as of September 30, 2005 was \$56,845,000 for the 1995 bonds, \$104,205,000 for the 1998 bonds and \$150,000,000 for the 2003 bonds.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
Loans and capital leases:					
Florida Municipal Loan Council Loans	\$ 8,415,000	\$ -	\$145,000	\$ 8,270,000	\$155,000
Notes payable	-	726,449	20,477	707,972	120,617
Capital leases	503,078	233,000	225,330	510,748	148,848
Due to Miami-Dade County	<u>139,122</u>	<u>16,033</u>	-	<u>155,155</u>	<u>155,155</u>
Total loans and capital leases	<u>9,057,200</u>	<u>977,482</u>	<u>390,807</u>	<u>9,643,875</u>	<u>579,620</u>
Other Liabilities:					
Compensated absences	<u>1,125,913</u>	<u>827,573</u>	<u>787,199</u>	<u>1,166,287</u>	<u>147,479</u>
Governmental activity long-term liabilities	<u>\$10,183,113</u>	<u>\$1,805,055</u>	<u>\$1,178,005</u>	<u>\$10,810,162</u>	<u>\$727,099</u>

9. COMMITMENTS AND CONTINGENCIES

Agreement With South Miami Hospital Foundation

In May 1983, the City entered into an agreement with South Miami Hospital Foundation wherein the Foundation voluntarily agreed to undertake certain activities for the beautification and overall improvement of the City through a growth impact assessment. The City receives \$150,000 each year from the South Miami Hospital Foundation to be used solely for the purposes of the beautification of the City and such other purposes as shall directly relate to the health and welfare of the residents of the City. The City has designated \$120,000 per year of this contribution for debt service payments of the Series 2001A Loan.

Lawsuits

The City is currently a defendant in several pending claims and legal proceedings incidental to the operations of the City. The City is aggressively defending each action. The ultimate liability related to these claims is not presently determinable. Furthermore, it is the opinion of the City's management and legal counsel that the final resolution of these claims and legal proceedings would not have a material adverse effect on the financial condition of the City.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the City. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Interlocal Cooperation Agreement with Miami-Dade County

On June 1, 2000, the City of South Miami Community Redevelopment Agency (the CRA); a blended component unit of the City; entered into an Interlocal Cooperation Agreement (the Interlocal Agreement) with the City and the County in order to delineate their areas of responsibilities with respect to the redevelopment of the Redevelopment Area. The Interlocal Agreement requires the CRA to submit a supplement to its original South Miami Community Redevelopment Plan (the Plan) for the second phase of redevelopment by December 1, 2004.

On May 3, 2005, the Board approved Resolution R-466-05 amending the Plan for the second phase of redevelopment and extended the life of the CRA for fifteen (15) years beyond the June 1, 2005 sunset provision of the CRA's Interlocal Agreement with the County. However the renewal included a sunset review within two (2) years of this extension. The CRA must obtain long-term financing supported by tax increment revenues to fund the second phase of the Plan within the two (2) year period ended 6/1/2007.

10. **PARKING GARAGE AND RETAIL BUILDING JOINT PROJECT**

Lease Agreement

The City entered into a lease agreement on November 20, 2001 with Mark Richman Properties, Inc. (MRP) to jointly develop a mixed-use parking garage and retail building in the downtown area on property owned by the two parties (City Property and Richman Property). The City is responsible for the cost of construction of the parking garage and will retain all the revenues from the parking garage. MRP will deed to the City the air rights above the Richman Property and will be responsible for the costs of construction of the retail space on the Richman Property. MRP will also be responsible for the costs of construction, less a \$100,000 credit provided by the City, for the retail space on the City Property. Richman will receive all the revenues for the retail space.

The term of the lease is 50 years commencing when the project is completed. At the end of the 50 years the City retains ownership of the air rights above the Richman Property and will gain control of the retail spaces on the City Property. MRP retains the ownership of the retail space on the Richman Property.

Note Receivable

Also, pursuant to the Lease Agreement the City agreed to loan up to \$3,500,000 to MRP to finance MRP's share of the design and construction costs. On June 12, 2002, the City entered into a loan agreement with Mark Richman Properties, Inc. for the \$3,500,000 which was divided in two payments of \$2,500,000 (the Initial Loan) and \$1,000,000. The term of the loan commences on October 1, 2002 and terminates on April 1, 2032. The net interest cost average is 5.10% through the term of the loan. The note receivable is collateralized by a promissory note, a mortgage on certain land owned by MRP and by a personal guarantee from Mark Richman.

Principal and interest payments due to the City from MRP for the term of this loan are as follows:

Year ending September 30	
2006	\$ 163,728
2007	163,440
2008	163,517
2009	163,517
2010	163,517
Thereafter	<u>3,602,863</u>
	<u>\$4,420,682</u>

Litigation Settlement

In December 2002, the City commission elected not to proceed with the development of the Project. MRP brought action against the City and both parties were able to reach a tentative settlement agreement that generally consisted of the following terms:

- (i) MRP lease agreement dated March 5, 2002 will be cancelled and each party will release the other from any and all obligations there under and all claims of any kind and causes of action related in any manner to the cancelled lease agreement and/or related in any manner to the lawsuit bearing Case Number 03-07056-CA-24
- (ii) The lawsuit will be dismissed with prejudice by MRP immediately upon the execution of the new Lease Agreement and the issuance of the building permit.
- (iii) The City would contribute \$1,000,000 towards the design and construction of the project. The City will receive credit for project costs expended.
- (iv) The project would consist of 5 levels. Approximately 24,500 square feet of retail space and 380 parking spaces.
- (v) MRP would pay the city a minimum guaranteed rent equal to \$76,000 per year and a 12.5% of the annual gross parking revenue in excess of \$150,000.
- (vi) MRP would assume full responsibility for repaying the entire project financing less the City's share of \$1,000,000.
- (vii) The City authorizes an additional \$2.5 million in project funding in addition to the \$8.5 million previously authorized to cover increased costs of construction.
- (viii) MRP guarantees the cost of construction to complete the project. The debt service shall be guaranteed by the Lease and Mark Richman's Property.
- (ix) MRP is required to complete construction and obtain a temporary or permanent certificate of occupancy no later than 18 months from the date of issuance of the building permit. In the event MRP fails to meet this deadline, MRP shall pay the city \$26,916 per month until the certificate(s) of occupancy are issued.
- (x) MRP agrees that it will not perform any site work that interferes with the operation of the existing city parking lot prior to dismissing the lawsuit referenced in this paragraph. The City and MRP shall join in a formal stay of Case Number 03-07058-CA-24 pending the execution of the Lease Agreement and the issuing of the building permit or the termination of this Agreement.

The settlement agreement was approved by MRP and adopted by the City commission on February 15, 2005. At such time as the building permit is issued, MRP shall file and dismiss its action and the litigation will be concluded. The building permit had not been issued as of the date of the audit report.

11. EMPLOYEE RETIREMENT SYSTEMS

Plan Description

The City maintains the City of South Miami Pension Plan, a single -employer defined benefit pension plan administered by the Public Employment Retirement System (PERS) established to provide pension benefits, which cover police officers and other full-time employees by Ordinance No. 528 dated December 7, 1985. The City reports the Plan as pension trust fund. The Plan does not issue a stand-alone financial report.

Plan Membership

At October 1, 2004, Plan membership consisted of:

	<u>General</u>	<u>Police</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	16	8
Active Participants	63	50
Total	<u>79</u>	<u>58</u>

Eligibility

Under the Plan, all full-time, permanent employees upon completion of six months of credited service and attainment of age 20 are eligible. General employees who retire at or after age 55 and completion of 10 years of credited service are entitled to a retirement benefits ranging from 2.5% to 2.75% of final average compensation times years of credited service. Police employees who retire at or after age 60 and completion of 10 years of credited service or completion of 25 years of credited service regardless of age are entitled to the same retirement benefits as the general employees with a retirement benefit percentages ranging from 1.8% to 2.90% of average compensation times years of service.

Funding Policy

General employees are required to contribute 7% of their salaries and police officers are required to contribute 7.5% of their salaries to the Plan. The employer's annual required contributions for the current year were determined as part of the most recent actuarial valuations. However, should the City contribution for General Employees be actuarially determined to exceed 12% (9.5% for Police Officers), both the City and the General Employees will share equally in the amount in excess of 12% (9.5% for Police Officers). Contribution requirements of the Plan members and the City are established and may be amended by City Ordinance.

Eligibility for Retirement

The normal retirement date with full unreduced pension benefits for a participant, excluding those participants who are classified as policemen, shall be the first day of the calendar month coincident with or, otherwise, next following the later of his/her sixtieth birthday and the date on which he/she has completed ten (10) years of credited service. The normal retirement date (the earliest date) a police officer may retire with full unreduced pension benefits is the completion of twenty-five (25) years of credited police service, regardless of age, or attainment of age sixty (60) and completion of ten (10) years of credited police service.

Early retirement is available to vested employees at or after age 60 for general employees after 15 years of service and age 50 for police after 15 years of service. Benefits are established by the pension board, subject to City Commission approval, and may be amended only by the City Commission.

Summary of Significant Accounting Policies

The City's defined benefit pension plan for both general and police employees, utilizes the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Net appreciation or depreciation in fair value of investments, realized and unrealized gains and losses are determined on the basis of specific cost. Investments are accounted for on the trade-date basis.

Within certain limitations as specified in the Plan, investment policy is determined by the Plan's Board of Trustees and is implemented by the Plan's investment advisor.

There were no investments in any one organization that represented 5% or more of Plan net assets, nor were there any investments in, loans to, with any City official, Plan Trustee or other related parties.

Administrative Costs

Administrative costs incurred by the Plan are paid with plan assets.

Annual Pension Cost and Net Pension Obligation

The annual required contributions for the current year were determined as part of the October 1, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increases of 6% per year including an inflation component of 3.5% (c) amortization method used is, level payment closed, the amortization period is 28 years. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using fair values.

The City's annual pension costs and net pension obligations/asset of the City's pension plans for the current year were as follows:

	<u>General Employees</u>	<u>Police</u>
Annual required contribution	\$ 316,403	\$ 441,036
Interest on net pension asset	(2,438)	(1,409)
Adjustment to annual required asset	<u>2,729</u>	<u>1,564</u>
Annual pension cost	316,696	441,191
Contributions made	<u>(316,403)</u>	<u>(441,036)</u>
Increase (decrease) in net pension obligation	293	155
Net pension (asset), beginning of year	<u>(30,452)</u>	<u>(17,611)</u>
Net pension (asset), end of year	<u>\$(30,159)</u>	<u>\$(17,456)</u>

Six-Year Trend Information

<u>General Employees</u>			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
9/30/99	78,408	111%	-
9/30/00	116,317	100%	-
9/30/01	194,701	114%	(26,394)
9/30/02	293,294	101%	(30,722)
9/30/03	361,355	100%	(30,452)
9/30/04	316,696	100%	(30,159)

J-21

Police Officers

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
9/30/99	87,874	112%	-
9/30/00	122,632	100%	-
9/30/01	127,172	108%	(10,568)
9/30/02	328,941	102%	(18,880)
9/30/03	391,453	100%	(17,611)
9/30/04	441,191	100%	(17,456)

Risks and Uncertainties

The City's General Employees and Police Pension Plans (the Plans) have investments in a combination of stocks, bonds, government securities and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect balances and the amounts reported in the statement of fiduciary net assets and the statement of changes in fiduciary net assets. The Plans, through its investment advisors, monitors the Plans' investments and the risks associated therewith on a regular basis, which the Plans believe minimizes these risks.

The General Employee and Police Pension Plan financial statements as of September 30, 2005 are presented below.

CITY OF SOUTH MIAMI, FLORIDA
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	<u>General Employees Pension Fund</u>	<u>Police Pension Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$5,047	\$5,831	\$10,878
Receivables:			
Employer	272,250	314,598	586,848
Employee	10,926	8,537	19,463
South Miami Police Officers' Retirement Plan	-	127,689	127,689
Total receivables	283,176	450,824	734,000
Investments, at fair value			
U.S. Government securities	861	994	1,855
Corporate bonds	2,920	3,375	6,295
Common stocks	3,261,389	3,768,700	7,030,089
Mutual funds	3,312,889	3,828,212	7,141,101
Total investments	6,578,059	7,601,281	14,179,340
Total assets	6,866,282	8,057,936	14,924,218
NET ASSETS			
Held in trust for pension benefits	\$6,866,282	\$8,057,936	\$14,924,218

CITY OF SOUTH MIAMI, FLORIDA
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	<u>General Employees Pension Fund</u>	<u>Police Pension Fund</u>	<u>Total</u>
ADDITIONS			
Contributions:			
Employer	\$ 415,027	\$ 484,785	\$ 879,812
Employees	202,847	289,880	492,727
State	-	102,693	102,693
Total contributions	617,874	857,358	1,475,232
Investment income:			
Net increase in fair value of investments	542,664	632,910	1,175,574
Interest and dividend income	58,718	68,484	127,202
Total investment income	601,382	701,394	1,302,776
Less investment (expenses)	(26,275)	(30,645)	(56,920)
Net investment income	575,107	670,749	1,245,856
Total additions	1,192,981	1,528,107	2,721,088
DEDUCTIONS			
Benefits paid	232,050	200,927	432,977
Refunds of contributions	46,041	95,320	141,361
Administrative expenses	38,752	42,863	79,615
Total deductions	314,843	339,110	653,953
Changes in net assets	878,138	1,188,997	2,067,135
Net assets- Beginning of year	5,879,120	6,977,963	12,857,083
Prior period adjustment	109,024	(109,024)	-
Net assets- Beginning of year (restated)	5,988,144	6,868,939	12,857,083
Net assets- End of year	\$ 6,866,282	\$ 8,057,936	\$ 14,924,218

During 2005, management noted that beginning net assets of the pension plans had not been properly allocated. A prior period adjustment was recorded of approximately \$109,024 to correct the beginning net asset balances of the individual pension plans. The adjustment had no effect on the overall net asset balance of the fiduciary funds.

12. **DEFINED CONTRIBUTION PLANS**

South Miami Police Officers' Retirement Trust Fund

The City maintains the South Miami Police Officers' Retirement Trust Fund (the Fund), which accounts for the financial activity of the separate plan for police officers established under the provisions of Chapter 185 of the Florida Statutes. The City and Fund members do not contribute to the Fund. A Board of Trustees administers this account, which includes a limited number of appointments by the City Commission with three members elected by the Fund's participants. Statutory authority vests with the Board of Trustees with autonomy in the administration and control over the trust account. Inquiries concerning financial condition and related information for this Fund should be directed to the South Miami Police Officers' Retirement Trust Fund, c/o Board of Trustees, City of South Miami, Florida. The Fund received \$119,826 in state contributions during the fiscal year ended September 30, 2005.

City Manager and Senior Employees 401(a) Money Purchase Plans

The City of South Miami 401(a) Money Purchase Plan is a defined contribution plan established by the City to provide benefits at retirement for certain employees of upper management. At September 30, 2005, there were three plan members, the City Manager, Parks and Recreation Director and the Finance Director. The City is required to contribute on behalf of each participant up to 7% of earnings for the plan year. Participants are not permitted to make contributions. City contributions fully vest in the year they are contributed. Plan provisions and contribution requirements are established and may be amended by the City Council.

The plan assets are administered by ICMA Retirement Corp. The City does not exercise any control over the plan assets. Contributions were approximately \$31,202 for the year ended September 30, 2005.

III. STATISTICAL SECTION

13. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the City carries commercial insurance. The City has not had a significant reduction in insurance coverage from coverage in the prior year by major categories of risk, and settled claims have not exceeded the City's retention and excess coverage in force for each of the past three years.

14. **SUBSEQUENT EVENT**

On December 1, 2005, the City purchased land totaling \$2,750,000 from the YMCA of Greater Miami, Inc. financed through loans totaling \$2,775,000. The City also obtained a grant from Miami Dade County of approximately \$1,343,000, which will be used to pay off a portion of the loans.

J-23

CITY OF SOUTH MIAMI, FLORIDA
GOVERNMENT-WIDE REVENUES BY SOURCE ⁽¹⁾
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Property Taxes</u>	<u>Franchise Fees</u>	<u>Utility Taxes</u>	<u>Unrestricted Investment Earnings</u>	<u>Inter-governmental</u>	<u>Transfers</u>	<u>Total</u>
1996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1997	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-	-	-
2003	4,795,883	405,881	3,787,885	4,817,516	730,271	1,718,271	157,697	2,426,721	64,016	18,904,141
2004	4,361,104	140,398	1,715,635	6,632,234	815,168	1,645,050	248,488	1,991,839	-	17,549,716
2005	4,245,052	1,376,682	2,402,589	7,237,936	813,035	1,633,669	374,735	1,244,691	-	19,328,389

(1) Information for fiscal years ended September 30, 1995 to 2002 are unavailable.

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CITY OF SOUTH MIAMI, FLORIDA
GOVERNMENT-WIDE EXPENSES BY FUNCTION ⁽¹⁾
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Culture and Recreation</u>	<u>Interest on Long Term Debt</u>	<u>Total</u>
1996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1997	-	-	-	-	-	-
1998	-	-	-	-	-	-
1999	-	-	-	-	-	-
2000	-	-	-	-	-	-
2001	-	-	-	-	-	-
2002	-	-	-	-	-	-
2003	4,847,215	4,989,997	2,821,450	1,399,409	380,416	14,438,487
2004	4,919,431	4,445,835	3,540,916	1,221,823	416,271	14,544,076
2005	5,828,308	4,385,721	5,258,015	1,231,423	530,665	17,234,132

(1) Information for fiscal years ended September 30, 1995 to 2002 are unavailable.

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CITY OF SOUTH MIAMI, FLORIDA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTIONS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Culture and Recreation</u>	<u>Debt Service</u>	<u>Capital Outlay</u>	<u>Other Expenditures</u>	<u>Total</u>
1996	\$ 3,333,172	\$ 3,030,387	\$ 1,312,751	\$ 354,066	\$ 144,513	\$ 385,186	\$ -	\$ 8,560,075
1997	3,633,307	2,916,797	1,193,931	479,541	93,201	411,806	-	8,728,683
1998	3,573,361	3,218,943	1,211,908	561,254	92,488	312,896	-	8,970,850
1999	4,807,060	4,027,010	1,248,007	661,781	91,313	544,544	-	11,379,715
2000	5,495,645	4,529,580	1,341,486	815,070	31,635	48,070	-	12,261,486
2001	5,063,476	4,812,272	1,242,457	857,544	230,160	1,145,652	497,178	13,351,561
2002	5,189,450	4,872,234	1,362,515	940,102	949,499	1,759,219	1,466,942	15,073,019
2003	4,768,453	4,877,166	2,489,845	1,296,482	708,517	4,964,952	-	19,105,415
2004	4,735,497	4,280,650	3,116,513	1,176,479	951,749	2,362,760	-	16,623,648
2005	5,647,851	4,269,901	4,660,240	1,198,903	929,137	3,032,323	-	19,738,355

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CITY OF SOUTH MIAMI, FLORIDA
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Fines and Forfeitures</u>	<u>Licenses and Permits</u>	<u>Inter-Governmental</u>	<u>Charges for Services</u>	<u>Investment Earnings</u>	<u>Other</u>	<u>Totals</u>
1996	\$ 5,362,521	\$ 273,745	\$ 585,601	\$ 1,469,232	\$ 905,272	\$ 174,443	\$ 407,082	\$ 9,177,896
1997	5,519,541	96,172	529,684	1,521,412	840,145	217,675	290,529	9,015,158
1998	5,473,949	143,971	616,994	1,395,374	789,618	322,165	393,763	9,135,834
1999	5,779,219	200,394	627,874	1,815,232	1,698,808	319,707	999,159	11,440,393
2000	6,165,566	431,533	653,724	2,454,077	1,787,564	263,797	636,993	12,393,254
2001	7,111,315	538,566	646,189	1,462,387	1,618,174	276,668	643,576	12,296,875
2002	7,787,497	282,254	694,426	3,856,335	1,818,925	159,487	436,763	15,035,687
2003	7,266,058	762,919	1,162,733	6,390,516	2,276,254	157,697	823,948	18,840,125
2004	9,092,452	355,350	1,285,200	3,847,672	2,331,756	248,488	388,796	17,549,714
2005	9,684,640	303,743	1,101,120	5,023,962	2,352,338	374,735	487,851	19,328,389

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CITY OF SOUTH MIAMI, FLORIDA
PROPERTY TAX LEVIES AND COLLECTION
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Tax Roll</u>	<u>Assessed Valuation</u>	<u>Total Tax Levy</u>	<u>Amount of Current Taxes Collected *</u>	<u>Ratio of Total Taxes Collected Total Current Levy</u>
1996	1995	559,198,218	3,647,364	3,533,769	97%
1997	1996	570,794,478	3,746,798	3,602,281	96%
1998	1997	592,821,408	3,666,836	3,533,079	96%
1999	1998	760,220,408	3,791,209	3,638,939	96%
2000	1999	780,391,617	4,668,436	4,368,994	94%
2001	2000	814,899,878	4,834,325	4,517,065	93%
2002	2001	848,500,973	5,071,765	4,848,208	96%
2003	2002	910,143,511	5,259,439	5,025,038	96%
2004	2003	1,003,503,408	6,489,213	6,146,913	95%
2005	2004	1,212,098,850	7,033,332	6,849,260	97%

Source: Miami-Dade County Property Appraiser's Office.

CITY OF SOUTH MIAMI, FLORIDA
ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Tax Roll</u>	<u>Net Real Property</u>	<u>Net Personal Property</u>	<u>Net Total Assessed Valuation</u>
1996	1995	489,680,193	69,518,025	559,198,218
1997	1996	500,403,194	70,391,284	570,794,478
1998	1997	516,066,781	66,754,627	582,821,408
1999	1998	680,655,192	79,565,216	760,220,408
2000	1999	688,563,757	91,807,860	780,391,617
2001	2000	723,957,198	90,942,680	814,899,878
2002	2001	754,481,173	94,019,500	848,500,973
2003	2002	821,612,454	88,531,057	910,143,511
2004	2003	919,791,499	83,711,909	1,003,503,408
2005	2004	1,125,390,885	86,707,965	1,212,098,850

Source: Miami-Dade County Property Appraiser's Office.

CITY OF SOUTH MIAMI, FLORIDA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
 (Per \$1,000 of Assessed Valuation)

<u>Fiscal Year</u>	<u>Tax Roll</u>	<u>Total City Operations</u>	<u>Miami-Dade County Operations</u>	<u>Miami-Dade County Schools</u>	<u>Total City Wide</u>
1996	1995	6.8000	10.9370	10.4660	28.2030
1997	1996	6.8000	10.9370	10.4660	28.2030
1998	1997	6.5900	10.7400	10.4620	27.7920
1999	1998	6.5900	9.7240	10.1600	26.4740
2000	1999	6.3730	10.4390	9.6440	26.4560
2001	2000	6.3730	10.3020	9.6170	26.2920
2002	2001	6.3730	10.2040	9.3760	25.9530
2003	2002	6.3730	10.3416	9.2520	25.9666
2004	2003	7.3730	10.6370	9.1000	27.1100
2005	2004	7.2130	10.5440	8.6900	26.4470

Property tax millage rates: Per \$1,000 of taxable value
 Source: Miami-Dade County Property Appraiser's Office.

Tax millage rates are limited by State Statute to ten mills (\$10.00 per \$1,000 of taxable value) for general operations.

Additional information:

Tax rate limits for general operations and discount allowed:

City	10 mills	November	4%
County	10 mills	December	3%
SFVMD**	1 mill	January	2%
		February	1%

Taxes assessed	January 1,
Taxes levied	November 1,
Taxes delinquent	April 1,

** South Florida Water Management District

CITY OF SOUTH MIAMI, FLORIDA
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Property Values</u>	<u>Number of Total Permits</u>	<u>Value of Construction</u>	<u>Bank Deposits (1) for County (in thousands)</u>
1996	559,198,218	1,190	12,887,447	26,748,125
1997	570,794,478	1,255	59,300,000	28,302,263
1998	582,821,408	1,346	201,004,825	36,659,805
1999	760,220,408	1,990	322,824,740	37,537,626
2000	780,391,617	1,277	31,016,958	40,543,000
2001	814,899,878	1,388	16,818,531	35,233,941
2002	848,500,973	1,317	25,388,850	51,297,297
2003	910,143,511	1,294	79,033,619	67,100,000
2004	1,003,503,408	1,742	1,586,462,886	69,300,000
2005	1,212,098,850	1,754	56,414,512	73,100,000

Source: (1) State of Florida, Division of Banking. The information presented is for Miami-Dade County as a whole which includes the City of South Miami.

**CITY OF SOUTH MIAMI, FLORIDA
SPECIAL REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Utility Tax Revenue	Principal	Interest	Total Debt Service	Coverage (1)
1996	\$ 1,230,872	\$ 85,000	\$ 6,919	N/A	\$ 13
1997	1,213,873	90,000	3,201	31,000	13.02
1998	N/A	N/A	N/A	N/A	N/A
1999	N/A	N/A	N/A	N/A	N/A
2000	N/A	N/A	N/A	N/A	N/A
2001	N/A	N/A	N/A	N/A	N/A
2002	N/A	N/A	N/A	N/A	N/A
2003	N/A	N/A	N/A	N/A	N/A
2004	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A

N/A- Debt was paid during fiscal year ended September 30, 1997.

Revenue Bond Series 2001A and 2002A

Fiscal Year	Non-Advalorem Tax Revenue (*)	Principal	Interest	Total Debt Service	Coverage (1)
1996	N/A	N/A	N/A	N/A	N/A
1997	N/A	N/A	N/A	N/A	N/A
1998	N/A	N/A	N/A	N/A	N/A
1999	N/A	N/A	N/A	N/A	N/A
2000	N/A	N/A	N/A	N/A	N/A
2001	N/A	N/A	N/A	N/A	N/A
2002	7,323,225	-	173,729	173,729	42.15
2003	5,215,665	145,000	440,587	585,587	8.91
2004	4,791,974	140,000	436,260	576,260	8.32
2005	6,225,975	155,000	411,862	566,862	10.98

(1) Revenue divided by annual debt service

(*) Utility, Franchise and Intergovernmental revenues

J-30

**CITY OF SOUTH MIAMI, FLORIDA
PRINCIPAL TAXPAYERS**

Taxpayer	Type of Business	Square Feet	Taxable Valuation
Bakery Associates, Ltd.	Shopping Center	\$ 1,278,682	\$ 110,000,000
South Miami Corp.	Banking	40,444	11,347,946
J.W. Advance Development Corp.	Real Estate	202,673	10,837,500
Health South Doctor's Hospital	Hospital	244,231	7,325,600
America's Capital Partners	Real Estate	151,797	7,000,000
A. Grover Mathney	Real Estate	89,030	6,440,619
John Hancock-Gannon Joint Venture	Real Estate	415,959	5,886,770
Sunset Associates, Ltd.	Real Estate	105,127	5,879,600
Larkin Community Hospital	Hospital	95,150	5,303,747
KIMCO South Miami	Shopping Center	68,720	5,300,000
			<u>\$ 175,321,782</u>

Source: Miami-Dade County Property Appraiser's Office.

Source: Broward County Tax Records

CITY OF SOUTH MIAMI, FLORIDA
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2005

Assessed valuation 2005 roll		\$	<u>1,212,098,850</u>
Bonded debt limit - 15% of assessed value		\$	181,814,828
Total bonded debt- FMLC	\$ 8,415,000		
Amount of debt applicable			<u>8,415,000</u>
Legal debt margin		\$	<u>173,399,828</u>

Note: City Charter sets limit of bond indebtedness at 15% of assessed valuations.

CITY OF SOUTH MIAMI, FLORIDA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
GENERAL OBLIGATION DEBT
SEPTEMBER 30, 2005

		Net Debt	Percent Applicable**	Overlapping Net Debt
City of South Miami	\$	8,270,000	100%	\$ 8,270,000
Miami Dade County School Board (1)	\$	1,180,289,001	0.700%	8,122,023
Miami-Dade County (2)	\$	221,553,560	0.700%	<u>1,550,875</u>
Total Direct and Overlapping Debt				\$ <u>17,942,898</u>

* Percentage based on assessed valuations.

Sources: (1) Miami-Dade County Schools, General Finance Department
(2) Miami-Dade County, Finance Department (includes General Obligation, Special
Obligation Bonds)

CITY OF SOUTH MIAMI, FLORIDA
 DEMOGRAPHIC AND MISCELLANEOUS STATISTICS
 SEPTEMBER 30, 2005

Date of Incorporation	1927		
Form of Government	Commission-Manager		
Area	2.5 Square Miles		
Miles of Streets	47		
Number of Street Lights	780		
Fire Protection:			
Number of Stations:	N/A		
Number of Firefighters and Officers on Site (Exclusive of Volunteer Firefighters)	N/A		
Police Protection:			
Number of Stations:	1		
Number of Police Officers and Officials	51		
Education (Public Only):			
Attendance Centers	3		
Number of Classrooms	97		
Number of Teachers	118		
Number of Students	1,708		
Building Permits Issued:	1,749		
Recreation and Culture:			
Number of Parks and Recreational Areas	8		
Number of Libraries	1		
Number of Volumes	60,000+		
Employees:			
Full Time Employees	134	23(Exempt)	51 (PO)
Part Time Employees	25		

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J-32

City of South Miami and Miami Dade County Population (2000 Census Count)

Years	South Miami	Miami-Dade	
0-18	2,438	558,834	
18-64	6,842	1,394,831	
65+	1,461	289,697	
	<u>10,741</u>	<u>2,253,362</u>	Source: U.S. Bureau of the Census

APPENDIX K

Financial Information Regarding City of St. Pete Beach

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City of St. Pete Beach, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the Fiscal Years Ended September 30,

	<u>2003</u>	<u>2004</u>	<u>2005</u>
REVENUES			
Taxes	\$6,903,161	\$7,452,833	\$8,184,086
Licenses and permits	404,891	775,716	807,856
Intergovernmental revenue	1,916,151	1,951,017	2,080,502
Charges for services	1,005,112	1,021,452	984,805
Fines and forfeitures	283,321	213,399	202,300
Miscellaneous	<u>204,588</u>	<u>227,003</u>	<u>501,663</u>
TOTAL REVENUES	10,717,224	11,641,420	12,761,212
EXPENDITURES			
CURRENT			
General government	1,884,933	1,645,426	2,040,786
Public safety	5,241,211	5,619,307	5,967,789
Public works	1,996,652	2,159,677	2,389,585
Leisure services	1,483,136	1,514,680	1,655,771
CAPITAL OUTLAY			
General government	89,287	28,640	10,975
Public safety	100,111	125,188	275,208
Public works		78,090	16,488
Leisure services	26,021	18,539	--
DEBT SERVICE			
Principal reductions	77,111	82,853	27,921
Interest and fiscal charges	<u>16,136</u>	<u>8,628</u>	<u>2,357</u>
TOTAL EXPENDITURES	\$10,914,598	\$11,281,028	\$12,386,880
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(197,374)	360,392	374,332
OTHER FINANCING SOURCES (USES)			
Loan proceeds - new loan	--		
Capital lease obligation incurred	--		
Sale of surplus capital assets proceeds	22,654	13,318	5,098
Transfers in	--		
Transfers out	--	(112,759)	(225,518)
TOTAL OTHER FINANCING SOURCES (USES)	22,654	(99,441)	(220,420)
NET CHANGE IN FUND BALANCES	(174,720)	260,951	153,912
FUND BALANCES - BEGINNING OF YEAR	<u>3,122,426</u>	<u>2,947,706</u>	<u>3,208,657</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,947,706</u>	<u>\$ 3,208,657</u>	<u>\$ 3,362,569</u>

The obligation of the City of St. Pete Beach to pay the Loan Payments is limited as described in the Official Statement. Certain of the above revenues may not be legally available to make, nor are any of the above revenues pledged to, the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, Members of
the City Commission and City Manager
City of St. Pete Beach, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of St. Pete Beach, Florida (the City) as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the City's 2004 financial statements and, in our report dated January 19, 2005, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2006, on our consideration of the City's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 to 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the management's discussion and analysis. However, we did not audit the information and, accordingly, express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The required supplementary budgetary information is not a required part of the basic financial statements but is required by accounting principles generally accepted in the United States of America. The combining financial statements and other supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are also not a required part of the basic financial statements of the City. Such information, including the required supplementary 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.

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, Houser & Schatzel, P.A.

September 18, 2006

K-3

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of St. Pete Beach's (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Transmittal Letter (beginning on page v) and the City's financial statements (beginning on page 12).

Management's Discussion and Analysis

HIGHLIGHTS

Financial Highlights

- The City's net assets increased by \$1,281,924 (or 3.9%) to \$34,053,446 in 2005 compared to a net increase in 2004 of \$2,229,067 (7.3%).
- Total governmental fund revenues increased \$506,222 (or 2.9%) in 2005 with an overall decrease in governmental fund balances of \$1,200,944 compared to a \$373,517 increase in governmental fund balances for 2004.

City Highlights

- A significant portion of the Blind Pass Road beautification project was completed in fiscal year 2005 at a cost of \$401,449.
- The Don Vista Center renovation was completed during the fiscal year at a cost of \$796,000. The City received a \$200,000 grant from the Department of Housing and Urban Development to assist in completing this project.
- The City continued engineering and other preparatory work on the new Master Lift Station site at a cost of \$298,000 during the fiscal year.
- A total of \$426,000 was expended during the fiscal year on street resurfacing, street improvements, and sidewalk and curb improvements.

USING THIS ANNUAL REPORT

The financial statement's focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the City's accountability.

Government-wide Financial Statements

The government-wide financial statements (see pages 12-15) are designed to be corporate-like in that all governmental activities are consolidated into one column for the primary government.

The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to be similar to a bottom line for the City. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long term obligations.

The Statement of Activities (see page 15) is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services.

The Governmental Activities reflects the City's basic services, including fire, police, public works, leisure services as well as water pollution control for sewer and reclaimed water.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than (the previous model's) fund types.

The Governmental Major Funds (see pages 16-19) presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the Fund Financial Statement allows the demonstration of sources and uses and/or budgeting compliance associated therewith (beginning on page 47).

Infrastructure Assets

This is the fourth year that the City has reported its infrastructure assets in accordance with GASB Statement #34. Historically, a government's largest group of assets (infrastructure – buildings, roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. This statement requires that these assets be valued and reported within the Government-wide Statements.

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GOVERNMENT-WIDE STATEMENT

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to the prior year.

**Table 1
Statement of Net Assets
As of September 30,**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Current assets	\$ 8,544,826	\$ 9,746,755
Non current other assets	3,911,041	4,344,147
Capital assets	32,175,792	30,228,267
Total assets	44,631,659	44,319,169
Current liabilities	2,188,940	2,576,620
Long-term debt outstanding less current portion of \$876,210 and \$826,995, respectively.	8,344,494	8,909,787
Other non-current liabilities	44,779	61,240
Total liabilities	10,578,213	11,547,647
Net assets:		
Invested in capital assets, net of debt	23,823,782	21,383,617
Restricted	4,677,706	5,026,731
Unrestricted	5,551,958	6,361,174
Total net assets	\$ 34,053,446	\$ 32,771,522

For more detailed information see the Statement of Net Assets (pages 12-13).

Normal Impacts

There are six basic (normal) transactions that will affect the comparability of the Statement of Net Assets summary presentation.

Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net assets.

Borrowing for Capital – which will increase current assets and long-term debt.

Spending Borrowed Proceeds on New Capital – which will reduce current assets and increase capital assets with a corresponding increase in investment in capital assets that is offset by the increase in debt.

Spending of Non-Borrowed Current Assets on New Capital – which will (a) reduce current assets and increase capital assets and (b) will reduce unrestricted net assets and increase investment in capital assets, net of debt.

Principal Payment on Debt – which will (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net assets and increase investment in capital assets, net of debt.

Reduction of Capital Assets through Depreciation – which will reduce capital assets and investment in capital assets, net of debt.

Current Year Impacts

The remaining basic transactions directly/indirectly affect the unrestricted net assets as indicated in the following schedule. The adjusted results of operations, current assets used for capital acquisitions, bond principal payments, and long-term debt repayment clearly demonstrate the change in unrestricted net assets. In governmental activities, unrestricted net assets decreased by \$809,216 in 2005 and increased by \$722,098 in 2004.

Table 2
Change in Unrestricted Net Assets
For the Year Ended September 30,

	Governmental Activities	
	2005	2004
Unrestricted Net Assets – beginning of year	\$ 6,361,174	\$ 5,639,076
Results of Operations	1,281,924	2,229,067
Adjustments:		
Restricted debt service	413,192	343,990
Restricted law enforcement	5,556	17,645
Restricted transportation improvements	(69,723)	(8,405)
Depreciation	1,372,338	1,236,601
Disposal of capital assets – net	50,001	67,679
Adjusted Results of Operations	3,053,288	3,886,577
Capital expenditures	(3,369,864)	(2,365,381)
Debt proceeds – capital assets	307,480	-
Debt principal repayment	(800,120)	(799,098)
Unrestricted Net Assets – end of year	\$ 5,551,958	\$ 6,361,174

Statement of Activities

The table on the following page presents the government-wide revenues and expenses for the years ended September 30, 2005 and 2004.

Table 3
Changes in Net Assets
For the Year Ended September 30,

	Governmental Activities	
	2005	2004
REVENUES		
Program Revenues:		
Charges for services	\$ 5,420,833	\$ 5,504,383
Operating grant – Public Safety - Police	5,185	10,000
Operating grant – Pinellas County Emergency Medical Services	833,463	790,617
Operating grants –State and Local Leisure Services – Library	218,190	202,725
Operating grants – Public Works	412,610	20,134
Capital grants and contribution Public Works		681,145
Leisure Services - Parks	388,287	561,827
General Revenues:		
Property taxes	5,514,840	4,898,802
Franchise fees	961,157	885,027
Utility services taxes	1,880,502	1,841,342
Impact fees	187,896	107,867
Sales and use tax	572,134	558,141
State revenue sharing	269,947	234,436
Infrastructure tax	927,344	847,225
Local option gas tax	91,964	91,080
Other taxes	48,494	48,707
Investment Income	302,017	253,640
Miscellaneous	94,739	49,037
Total Revenues	18,129,602	17,586,135
EXPENSES		
Program Activities		
Primary Government:		
Governmental Activities:		
General government	2,229,939	1,821,046
Public safety - police	3,665,002	3,439,816
Public safety - fire	2,595,777	2,465,313
Public works	2,808,846	2,497,075
Leisure services	1,818,392	1,665,900
Water pollution control - sewer	2,732,414	2,504,303
Water pollution control - reclaimed water	652,864	583,852
Interest on long term debt	344,444	379,763
Total Expenses	16,847,678	15,357,068
NET INCREASE	\$ 1,281,924	\$ 2,229,067

Normal Impacts

There are nine basic impacts on revenues and expenses as reflected below.

Revenues

Economic Condition – which can reflect a declining, stable or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue as well as public spending habits for building permits, elective user fees and volumes of consumption.

Increase/Decrease in City Commission approved rates – while certain tax rates are set by statute, the City Commission has significant authority to impose, and periodically increase/decrease rates (wastewater, reclaimed water, permitting, impact fee, recreation user fees, etc.)

Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring) – certain recurring revenues, such as state revenue sharing, may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.

Contribution from the Sewer and Reclaimed Water Fund – the City owns and operates the Sewer and Reclaimed Water Utility system and provides administrative and support services for the utility. In return, the City receives payments from the utility. Therefore, the ongoing competitiveness and vitality of the utility is important to the City's well being.

Market Impacts on Investment income – due to varying maturities on the City's investments and the varying nature of the market in general, City investment income may fluctuate from year to year.

Expenses

Introduction of New Programs – within the functional expense categories (General Government, Police, Fire Protection, Public Works, Leisure Services, etc.) individual programs may be added or deleted to meet changing community needs.

Increase in Authorized Personnel – changes in service demand may cause the Commission to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent nearly two-thirds of the City's total budget.

Salary Increases (cost of living, merit and market adjustment) – the ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.

Inflation – while overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as chemicals and supplies, fuels and parts. Some functions may experience unusual commodity specific increases.

Current Year Impacts

Revenues

The local economy has remained stable as is demonstrated in Table XII Statistical Section. The City's property tax grew based on a 13% taxable value increase. The City's millage rate for fiscal year 2005 was 2.9954 mils compared to 3.006 for fiscal year 2004.

Revenues increased \$543,467 on a government – wide basis. This is primarily as a result of the receipt of FEMA reimbursements of \$212,917 received from costs incurred during the 2004 hurricane season, the \$200,000 HUD grant for the Don Vista renovation, and an increase in property tax revenues.

Expenses

Expenses increased on a government – wide basis by \$1,490,610. Personnel costs increased \$763,000 accounting for 52% of the increase; waste treatment and disposal cost increased \$239,000, legal expenses increased \$166,000 and capital asset depreciation increased \$136,000 over the prior year.

The City Funds

Governmental Funds

The fund balance of the General Fund increased \$153,912 because of revenue increases. General Fund revenues increased \$1,119,792 from the prior year, with an overall increase of 9.62%. This is primarily as a result of an increase in property taxes.

The fund balance of the Sewer Revenue Fund increased by \$145,453. This increase is comparable to the 2004 increase of \$166,725.

The fund balance of the Reclaimed Water Revenue Fund increased \$52,678. This increase was \$59,884 less than the 2004 increase and is as a result of increased professional and contract costs.

Budgetary Highlights – General Fund

The following is a brief review of the budgeting changes from the original to the final budget for the General Fund (please see budget to actual comparisons starting on page 47).

There were no significant budgetary changes made to the General Fund revenues. Building, sign and other permits actual revenues exceeded budget as a result of the continuing strong real estate market. Court fines and cost were less than budgeted as a result of an increase in fees charged by Pinellas County.

The only significant budgetary change made to the General Fund expenditures was an increase in legal operating expenditures of \$100,000 as a result of a settlement entered into for this amount during the year. Police department debt expenditures are less than budgeted as the debt service payments are paid out of the Debt Service Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year-end, the City had a value of \$32.2 million, net of accumulated depreciation, invested in a variety of capital assets, which represents a net increase of \$1.947 million or 6.4% from the end of last year. Before depreciation, buildings and other land improvements had a net increase of \$1,152,834; furniture, machinery and equipment had a net increase of \$119,091, and infrastructure capital assets decreased \$1,558,671. Please refer to Note E to the financial statements on page 35 for more detailed information regarding capital assets.

Debt Outstanding

As of year-end, the City had \$9,220,704 in debt (bonds, notes, loans, capital leases and compensated absences) outstanding compared to \$9,736,782 last year, a 5.3% decrease. Reductions were of the nature of normal debt payments. Please refer to Note F to the financial statements beginning on page 36 for more detailed information regarding debt outstanding.

ECONOMIC FACTORS

The State of Florida, by Constitution, does not have a state personal income tax and, therefore, the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, utilities services, etc.) and fees (franchise, occupational license, etc.) for their governmental activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and federal governments.

The physical make-up of the City of St. Pete Beach is mixed use, balanced between residential and tourist accommodation. St. Pete Beach works closely with Pinellas County to provide an economic environment to attract new businesses to our community.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, contact the City's Finance Director at City Hall at 155 Corey Avenue, St. Pete Beach, Florida 33706, telephone number (727) 363-9251.

Basic Financial Statements

The basic financial statements include the government-wide financial statements, fund financial statements, and notes to the financial statements. The government-wide financial statements present financial information about the reporting government as a whole, except for fiduciary activities. The fund financial statements present financial information about major funds individually, non-major funds in the aggregate for the governmental funds, and for the fiduciary funds in the aggregate. The notes to the financial statements present information essential for a fair presentation of the financial statements that is not displayed on the face of the financial statements.

CITY OF ST. PETE BEACH, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2005
With Comparative Amounts for September 30, 2004

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	Governmental Activities	
	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	\$ 25,675	\$ 25,675
Pooled cash and investments and cash equivalents	3,869,023	5,280,183
Investments, at fair value	2,620,544	2,556,217
Restricted assets - State Revolving Loans:		
Pooled cash and investments	64,598	60,828
Investments, at fair value	500,000	500,000
Receivables		
Customer service charges	546,939	651,699
Other	388,721	216,700
Due from other governments	420,568	363,643
Supplies inventory	66,518	55,411
Prepaid items	42,240	36,399
Total current assets	<u>8,544,826</u>	<u>9,746,755</u>
NON-CURRENT ASSETS		
Restricted assets - State Revolving Loans:		
Pooled cash and investments	246,875	242,225
Investments, at fair value	3,646,805	4,079,250
Land	2,696,941	2,696,941
Buildings and other land improvements	14,334,340	13,181,506
Furniture, machinery and equipment	3,559,018	3,439,917
Infrastructure	25,901,872	24,343,201
Less: accumulated depreciation	(14,316,379)	(13,433,298)
Un-amortized debt costs	17,361	22,672
Total non-current assets	<u>36,086,833</u>	<u>34,572,414</u>
TOTAL ASSETS	\$ 44,631,659	\$ 44,319,169

	Governmental Activities	
	2005	2004
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 696,936	\$ 530,449
Accrued liabilities	161,928	425,508
Due to fiduciary funds	-	18,475
Due to other governments	199,728	516,921
Current portion of:		
Deferred revenue	122,021	115,139
Compensated absences	60,809	61,379
Revenue bonds payable	215,000	210,000
General obligation bonds payable	115,000	110,000
Capital lease obligations	52,920	27,921
Payable from restricted assets:		
Accrued interest payable - State Revolving Loans	132,117	143,133
State Revolving Loans - current portion	432,481	417,695
Total current liabilities	<u>2,188,940</u>	<u>2,576,620</u>
NON-CURRENT LIABILITIES		
Deferred revenue	44,779	61,240
Compensated absences	807,885	830,753
Revenue bonds payable	1,525,000	1,740,000
General obligation bonds payable	975,000	1,090,000
Capital lease obligations	175,302	28,309
State Revolving Loans	4,861,307	5,220,725
Total non-current liabilities	<u>8,389,273</u>	<u>8,971,027</u>
TOTAL LIABILITIES	<u>10,578,213</u>	<u>11,547,647</u>
NET ASSETS		
Investment in capital assets, net of related debt	23,823,782	21,383,617
Restricted:		
Debt service	4,326,328	4,739,520
Library	198,063	198,063
Law enforcement	24,266	29,822
Transportation improvements	129,049	59,326
Unrestricted	<u>5,551,958</u>	<u>6,361,174</u>
TOTAL NET ASSETS	<u>34,053,446</u>	<u>32,771,522</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,631,659</u>	<u>\$ 44,319,169</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF ST. PETE BEACH, FLORIDA

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2005
With Comparative Total Amounts for the Year Ended September 30, 2004

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2005	2004
GOVERNMENTAL ACTIVITIES						
General government	\$ 2,229,939	\$ 950,401			\$ (1,279,538)	\$ (819,110)
Public safety - police	3,665,002	237,425	5,185		(3,422,392)	(3,185,639)
Public safety - fire	2,595,777		833,463		(1,762,314)	(1,674,696)
Public works	2,808,846	714,049	412,610		(1,682,187)	(1,103,250)
Leisure services	1,818,392	214,464	218,190	388,287	(997,451)	(704,794)
Water pollution control - sewer	2,732,414	2,755,062			22,648	303,166
Water pollution control - reclaimed water	652,864	549,432			(103,432)	(22,151)
Interest on long-term debt	344,444				(344,444)	(379,763)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 16,847,678	\$ 5,420,833	\$ 1,469,448	\$ 388,287	(9,569,110)	(7,586,237)
General Revenues						
Taxes:						
Ad valorem					5,514,840	4,898,802
Franchise fees					961,157	885,027
Utility taxes					1,880,502	1,841,342
State sales tax					572,134	558,141
Infrastructure tax					927,344	847,225
Local option gas tax					91,964	91,080
Impact fees					187,896	107,867
Other taxes					48,494	48,707
State revenue sharing					269,947	234,436
Investment income					302,017	253,640
Miscellaneous					94,739	49,037
Total general revenues					10,851,034	9,815,304
Change in net assets					1,281,924	2,229,067
Net assets - beginning of year					32,771,522	30,542,455
Net assets - end of year					<u>\$ 34,053,446</u>	<u>\$ 32,771,522</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ST. PETE BEACH, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2005
With Comparative Total Amounts for September 30, 2004

ASSETS	2005						2004	
	General	Debt Service	Capital Improvement Projects	Sewer Revenue	Reclaimed Water Revenue	Other Governmental Funds	Total Governmental Funds	
							Total	Total
ASSETS								
Cash	\$ 25,600	\$ -	\$ -	\$ 75	\$ -	\$ -	\$ 25,675	\$ 25,675
Pooled cash and investments and cash equivalents	2,796,468	734	154,137	700,539		217,145	3,869,023	5,280,183
Investments, at fair value			2,620,544				2,620,544	2,556,217
Receivables								
Customer service charges				453,696	93,243		546,939	651,699
Other	250,327			128,873	9,521		388,721	216,700
Due from other funds	469,391						469,391	548,026
Due from other governments	286,009		134,539				420,568	363,643
Supplies inventory	14,553			51,965			66,518	55,411
Prepaid items	7,538						7,538	7,538
Restofied assets:								
Pooled cash and investments		311,473					311,473	303,053
Investments, at fair value		4,146,805					4,146,805	4,579,250
TOTAL ASSETS	\$ 3,849,886	\$ 4,459,012	\$ 2,909,240	\$ 1,335,148	\$ 102,764	\$ 217,145	\$12,873,195	\$14,587,395
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 228,882	\$ -	\$ 397,321	\$ 6,002	\$ 901	\$ 63,830	\$ 696,936	\$ 530,449
Accrued liabilities	122,423	131,950	34,825	4,008	839		294,045	568,641
Due to other funds				3,000	466,391		469,391	566,501
Due to other governments	30,452			149,029	20,247		199,728	516,921
Deferred revenue	105,560						105,560	96,404
TOTAL LIABILITIES	487,317	131,950	432,146	162,039	488,378	63,830	1,765,660	2,278,916
FUND BALANCES								
Fund balances								
Reserved:								
Debt service		4,326,328					4,326,328	4,739,520
Prepaid items	7,538						7,538	7,538
Supplies inventory	14,553			51,965			66,518	55,411
Compensated absences	817,377			39,164	12,154		868,695	892,132
Library	198,063						198,063	198,063
Law enforcement						24,266	24,266	29,822
Transportation improvements						129,049	129,049	59,326
Unreserved - designated:								
Capital improvement projects	190,741		1,916,915				2,107,656	2,171,797
Undesignated, reported in								
General fund	2,134,297						2,134,297	1,926,610
Debt service		734					734	734
Special revenue funds				1,081,980	(397,768)		684,212	509,918
Capital projects fund			560,179				560,179	1,717,608
TOTAL FUND BALANCES	3,362,569	4,327,062	2,477,094	1,173,109	(385,614)	153,315	11,107,535	12,308,479
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,849,886	\$ 4,459,012	\$ 2,909,240	\$ 1,335,148	\$ 102,764	\$ 217,145	\$12,873,195	\$14,587,395

The notes to the financial statements are an integral part of this statement.

CITY OF ST. PETE BEACH, FLORIDA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS

September 30, 2005

Fund Balances - total governmental funds		\$ 11,107,535
Amounts reported for governmental activities in the statement of net assets are different because:		
The Negative Net Pension Obligation pertaining to the Firefighters' Pension represents a prepaid expense. This prepayment is not recognized as an asset in the governmental funds as it is not a financial resource.		34,702
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets	46,492,171	
Less: Accumulated depreciation	<u>(14,316,379)</u>	32,175,792
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capitalized debt issuance costs	22,672	
Less: current year amortization	<u>(5,311)</u>	17,361
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	(868,694)	
Revenue bonds payable	(1,740,000)	
General obligation bonds payable	(1,090,000)	
Capital lease obligations	(228,222)	
State Revolving Loans	<u>(5,293,788)</u>	(9,220,704)
Premium received on revenue bonds issued in prior year that was a financial resource in the governmental funds in the year received but is reported as deferred revenue net of amortization in the statement of net assets.		
Premium received in current year	(79,975)	
Less current year amortization	<u>18,735</u>	(61,240)
Net assets of governmental activities.		<u>\$ 34,053,446</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ST. PETE BEACH, FLORIDA

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

For the Year Ended September 30, 2005

With Comparative Total Amounts for the Year Ended September 30, 2004

	2005						2004	
	General	Debt Service	Capital Improvement Projects	Sewer Revenue	Reclaimed Water Revenue	Other Governmental Funds	Total Governmental Funds	Total
REVENUES								
Taxes	\$ 8,184,086	\$ 172,413	\$ -	\$ -	\$ -	\$ -	\$ 8,356,499	\$ 7,625,170
Licenses and permits	307,856						307,856	775,716
Intergovernmental revenue	2,080,502		1,471,330				3,551,832	4,054,678
Charges for services	984,805			2,755,062	539,341		4,279,208	4,366,235
Fines and forfeitures	202,300					2,555	204,855	218,029
Miscellaneous	501,663	75,974	121,705	68,181	18,691	139,306	925,520	579,720
TOTAL REVENUES	<u>12,761,212</u>	<u>248,387</u>	<u>1,593,035</u>	<u>2,823,243</u>	<u>558,032</u>	<u>141,861</u>	<u>18,125,770</u>	<u>17,619,548</u>
EXPENDITURES								
CURRENT								
General government	2,040,786						2,040,786	1,645,426
Public safety	5,967,789					4,021	5,971,810	5,636,732
Public works	2,389,585					63,831	2,453,416	2,167,072
Water pollution control				2,630,141	408,253		3,038,394	2,737,135
Leisure services	1,655,771						1,655,771	1,514,680
CAPITAL OUTLAY								
General government	10,975						10,975	28,640
Public safety	275,208		63,337			9,842	348,387	133,892
Public works	16,488		838,098				854,586	1,309,619
Water pollution control			612,045	258,297			870,342	698,174
Leisure services			1,285,574				1,285,574	195,056
DEBT SERVICE								
Principal reductions	27,921	516,723	210,000	45,476			800,120	799,099
Interest and fiscal charges	2,357	241,957	86,578	8,241			339,133	373,824
TOTAL EXPENDITURES	<u>12,386,880</u>	<u>738,680</u>	<u>3,095,632</u>	<u>2,942,155</u>	<u>408,253</u>	<u>77,694</u>	<u>19,669,294</u>	<u>17,259,349</u>
EXCESS OF REVENUES OVER (UNDRR) EXPENDITURES	<u>374,332</u>	<u>(510,293)</u>	<u>(1,502,597)</u>	<u>(118,912)</u>	<u>149,779</u>	<u>64,167</u>	<u>(1,543,524)</u>	<u>360,199</u>
OTHER FINANCING SOURCES (USES)								
Loan proceeds - new loan			73,117				73,117	-
Capital lease obligation incurred				234,365			234,365	-
Sale of surplus capital assets proceeds	5,098			30,000			35,098	13,318
Transfers in		97,101	225,518				322,619	209,860
Transfers out	(225,518)				(97,101)		(322,619)	(209,860)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(220,420)</u>	<u>97,101</u>	<u>298,635</u>	<u>264,365</u>	<u>(97,101)</u>	<u>-</u>	<u>342,580</u>	<u>13,318</u>
NET CHANGE IN FUND BALANCES	<u>153,912</u>	<u>(413,192)</u>	<u>(1,203,962)</u>	<u>145,453</u>	<u>52,678</u>	<u>64,167</u>	<u>(1,200,944)</u>	<u>373,517</u>
FUND BALANCES - BEGINNING OF YEAR	<u>3,208,657</u>	<u>4,740,254</u>	<u>3,681,056</u>	<u>1,027,656</u>	<u>(438,282)</u>	<u>89,148</u>	<u>12,308,479</u>	<u>11,934,962</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,362,569</u>	<u>\$ 4,327,062</u>	<u>\$ 2,477,094</u>	<u>\$ 1,173,109</u>	<u>\$ (385,604)</u>	<u>\$ 153,315</u>	<u>\$ 11,107,535</u>	<u>\$ 12,308,479</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ST. PETE BEACH, FLORIDA

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

For the Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$ (1,200,944)
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 are depreciated over their useful lives.	
Expenditures for capital assets	3,369,864
Less: Current year depreciation	<u>(1,372,338)</u>
	1,997,526
In the statement of activities, a gain or loss is reported on the disposal of capital assets based on the sale price less the remaining un-depreciated cost, whereas in the governmental funds the proceeds from the sale of capital assets increase financial resources. The remaining un-depreciated cost of assets disposed of results in a decrease in net assets.	
Un-depreciated cost of capital assets sold as surplus or disposed of.	(50,001)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	800,120
Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.	
Amortization of premium received on Revenue Bonds	18,735
State Revolving Loan proceeds provide current resources to governmental funds but increase long-term liabilities in the statement of net assets.	(73,117)
Capital lease obligations incurred are recorded as other financing sources in the governmental funds as they enable the City to purchase capital assets, but these obligations increase long-term liabilities in the statement of net assets.	(234,365)
Certain prepaid expenses recorded in governmental activities do not represent financial resources and are not reported in the governmental funds.	
Negative Net Pension Obligation - Firefighters' Pension	5,841
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 the governmental funds.	
Amortization of current year debt issuance costs	(5,311)
Change in compensated absences	<u>23,440</u>
	18,129
Change in net assets of governmental activities.	<u>\$ 1,281,924</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ST. PETE BEACH, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

September 30, 2005

With Comparative Amounts for September 30, 2004

	Totals	
	2005	2004
ASSETS		
Cash	\$ 7,874	\$ -
Investments, at fair value		
Money market funds	280,838	383,168
Common stock	-	6,279,447
Trustee institution's mutual equity funds	15,226,308	6,463,539
Trustee institution's mutual bond funds	9,631,113	8,452,284
Trustee institutions' mutual funds	1,558,388	2,605,176
	<u>26,696,647</u>	<u>24,183,614</u>
Receivable	-	12,528
Due from general fund	-	18,475
	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>26,704,521</u>	<u>24,214,617</u>
LIABILITIES	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
NET ASSETS HELD IN TRUST		
Held in trust for pension benefits and other purposes	<u>\$ 26,704,521</u>	<u>\$ 24,214,617</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ST. PETE BEACH, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Year Ended September 30, 2005
With Comparative Amounts for the Year Ended September 30, 2004

	Totals	
	2005	2004
ADDITIONS		
Contributions		
Employer	\$ 1,178,907	\$ 774,233
Plan members	732,428	660,662
Plan members purchase of prior service	67,420	140,129
	<u>1,978,755</u>	<u>1,575,024</u>
Intergovernmental revenue		
State excise tax rebate	169,718	151,821
Supplemental Compensation Trust Fund	7,874	-
	<u>177,592</u>	<u>151,821</u>
Investment income		
Net appreciation		
in fair value of investments	2,083,548	1,703,829
Interest and dividends	159,561	120,212
Total investment earnings	<u>2,243,109</u>	<u>1,824,041</u>
Less investment expense	128,092	104,645
Net investment earnings	<u>2,115,017</u>	<u>1,719,396</u>
TOTAL ADDITIONS	<u>4,271,364</u>	<u>3,446,241</u>
DEDUCTIONS		
Benefits	1,243,216	1,282,875
Lump sum Deferred Retirement		
Option Plan (DROP) payments	316,705	192,410
Refunds of contributions	135,011	42,975
Administrative expenses	86,528	82,334
TOTAL DEDUCTIONS	<u>1,781,460</u>	<u>1,600,594</u>
CHANGE IN NET ASSETS	<u>2,489,904</u>	<u>1,845,647</u>
NETS ASSETS - BEGINNING OF YEAR	<u>24,214,617</u>	<u>22,368,970</u>
NET ASSETS - END OF YEAR	<u>\$ 26,704,521</u>	<u>\$ 24,214,617</u>

K-14

The notes to the financial statements are an integral part of this statement.

CITY OF ST. PETE BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared to conform with the standards set forth by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting and reporting policies.

1. Defining the Reporting Entity

The City of St. Pete Beach, Florida (the City) is a municipal corporation established pursuant to the laws of Florida and operates under applicable provisions of Florida Statutes, Chapter 166.

The City follows the principles of Section 2100, "Defining the Reporting Entity" of GASB "Codification of Governmental Accounting and Financial Reporting Standards", which established standards for defining and reporting on the "Financial Reporting Entity". 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 displays 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. Basic Financial Statements - GASB Statement #34

The City early implemented the provisions of Governmental Accounting Standards Board Statement #34 - "Basic Financial Statements - and - Management's Discussion and Analysis - for State and Local Governments", for the fiscal year ended September 30, 2002, which establishes new financial reporting requirements for state and local governments. GASB Statement #34 establishes specific standards for basic financial statements, management's discussion and analysis (MD&A), and certain required supplementary information. As part of GASB Statement #34, there is a new reporting requirement regarding infrastructure; that is roads, sidewalks, curbing, and drainage improvements, etc. All major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980, are required to be retroactively reported. All newly acquired or improved infrastructure assets must be prospectively reported effective as of the date of implementation of GASB Statement #34. The City early implemented this requirement effective October 1, 2001, and has included infrastructure assets acquired prior to June 30, 1980 that still have remaining useful lives.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements are presented using a full accrual, economic resource basis, which incorporates long-term assets and receivables and long-term liabilities. Government activities include the General Fund, Sewer Revenue Fund, Reclaimed Water Fund, Capital Improvement Projects Fund, Debt Service Fund, Police Confiscation Fund, and the Transportation Impact Fee Fund. The City's Fiduciary Funds are not included in the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the City.

The government-wide Statement of Activities reports the gross and net cost for the various functional categories (general government, police, fire, etc.) 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, and operating and capital grants that specifically relate to a specific program function. Charges for services include revenue arising from charges to customers or applicants, who purchase, use or directly benefit from the goods, services, or privileges provided. Operating and capital grants consist of revenues received from 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 the specific program.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The fund financial statements are similar to the financial statements presented in the previous reporting model. The emphasis in the new model is on major funds in the governmental activities and non-major funds are summarized into a single column.

3. Basis of Presentation

The accounts of the City are organized on the basis of funds, each of which is considered an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The accompanying basic financial statements present each major fund as a separate column on the fund financial statements and all non-major funds are aggregated and presented in a single column:

Governmental Funds: This fund category accounts for the acquisition, use, and balances of the City's expendable financial resources and the related current liabilities. It is through these funds that most governmental functions typically are financed. The City has presented the following major governmental funds:

General Fund: The General Fund is the main operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City, non-ad valorem revenues and from sewer and reclaimed water revenues. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Capital Improvement Projects Fund: The Capital Improvement Projects Fund is used to account for intergovernmental revenue that is restricted in use for infrastructure improvements or police and fire vehicles, as well as other funds received and expended for construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

Special Revenue Fund: This fund is used to account for specific revenue sources (other than major capital projects or special assessments) that are restricted by law or administrative action to expenditure for specific purposes. The Sewer Revenue Fund is used to account for sewer service charges and sewer impact fees. The Reclaimed Water Fund is used to account for reclaimed water charges. The Police Confiscation Fund, a non-major fund, is used to account for the proceeds from the sale of confiscated property. The Transportation Impact Fee Fund, also a non-major fund, is used to account for transportation impact fees and transportation related expenditures.

The sewer system and reclaimed water system are accounted for in special revenue funds, and not as proprietary fund types (enterprise funds) as management of the City has decided not to recover the cost of these systems through depreciation. It is management's intent to preserve the systems through an ongoing maintenance program. (A proprietary fund, of which an enterprise fund is one type, is used to account for an activity or operation in a manner similar to a private enterprise where the intent of the governing body is that the costs, including depreciation, of providing services to the public on a continuing basis be recovered through user charges.)

Fiduciary Fund: This fund category accounts for assets held by the City in a trustee capacity or as agent for individuals, private organizations, other governmental units, and/or other funds.

Trust Fund: This fund is used to account for assets held by the City in a trustee capacity. The Pension Trust Funds are used to account for the Police, Firefighters' and General Pension Funds. The Deferred Compensation Trust Fund is used to account for the Deferred Compensation Plan.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus: This concept refers to the accounting emphasis of the various funds. The following is a summary of the measure and focus of each fund type:

Governmental Fund Types: General, Capital Improvement, Special Revenue, and Debt Service Funds are accounted for on a "spending" or "financial flow" measurement focus with an emphasis on determination of financial position and changes in financial position rather than on net income determination. Accordingly, reported undesignated fund balances represent available, spendable or appropriate resources.

Fiduciary Fund Types: Pension Trust Funds are accounted for on a cost of services or "economic resources" measurement focus. Accordingly, all assets and liabilities are included on their balance sheets, and the reported fund equity (total reported assets less total reported liabilities) provides an indication of the economic net worth of the fund. Operating statements for Pension Trust Funds use an income determination measurement focus and, therefore, report increases (revenues) and decreases (expenses) in total economic net worth.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses and the related assets and liabilities 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.

Modified Accrual: The modified accrual basis of accounting is utilized for the governmental fund types. Under this basis, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues collected within sixty days after year-end to be available. Substantially all intergovernmental revenues, utility taxes, franchise fees, infrastructure surtax and interest are susceptible to accrual. Property taxes are billed and substantially collected within the same fiscal year. Revenues that are received as reimbursement of grant expenditures are recognized as the expenditures are incurred, up to the grant award amount.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt are recognized when due.

Accrual: The accrual basis of accounting is utilized for the government-wide financial statements and the Fiduciary Fund - Pension Trust Funds. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period that the liability is incurred.

5. Budget and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- (a) By the end of June, the City Manager and Finance Director submit to the Finance and Budget Review Committee (a citizen advisory committee) a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed expenditures and the sources of receipts to finance them.
- (b) By August 1, the City Manager, Finance Director, and Finance and Budget Review Committee submit budget recommendations to the City Commission.
- (c) Public hearings are conducted in September to obtain taxpayer comments.
- (d) By mid September, the budget is approved by the Commission and becomes the basis for the millage levied by the Commission.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (e) The budget is adopted at the departmental level. The City Manager is authorized to approve transfers between line items within any department. Transfers between departments and increases or decreases in total budget for a fund must have prior approval of the Commission.
- (f) Budgets for funds that have formal budgetary integration are adopted on a basis consistent with generally accepted accounting principles.
- (g) Appropriations lapse at year-end. Encumbrances outstanding at year-end are re-appropriated and charged against the ensuing years budget and thus are not reflected in budget to actual presentations.
- (h) Budgeted amounts are as originally adopted, or as amended in accordance with City ordinance.
- (i) The General Fund, Sewer Revenue Fund and Reclaimed Water Revenue Fund are budgeted by the City. The budget serves as legal authorization for all expenditures. The following supplemental budget appropriations, in total, were made: General Fund – increase of \$198,784.

6. Assets, Liabilities and Fund Equity

Cash, Pooled Cash and Investments and Cash Equivalents: Cash balances of each fund, except for the Pension Trust Fund, are pooled for investment purposes. Cash in excess of each fund's immediate needs (including restricted cash equivalents) are invested in an interest bearing account with the Florida State Board of Administration. The interest earned is allocated to each fund based on the fund's average balance in the pooled cash account.

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Deposits with the State Board of Administration, which are investments, are considered to be a cash equivalent (except for the Capital Improvement Projects separately administered deposits) and are reported at historical cost or amortized cost. The amortized cost value of the State Board of Administration approximates fair value.

Investments: Investments in the Capital Improvement Projects Fund consist of non – pooled deposits with the State Board of Administration that represent the proceeds from the Florida Municipal Loan Council Revenue Bonds, Series 2001A. These investments are segregated as they are administered by the Florida Municipal Loan Council's trustee. Investments held in the Debt Service Fund consist of U.S. Treasury obligations. These investments are reported at fair value.

Investments in the Pension Trust Funds consist of commingled mutual equity funds, commingled bond funds, and money market funds. These investments are recorded at fair value. Investments held in the Deferred Compensation Trust Fund consist of mutual funds. These investments are accounted for at fair value.

Accounts Receivable: Sewer Revenue Fund and Reclaimed Water Revenue Fund revenues are generally recognized on the basis of cycle billings rendered bimonthly. No provision has been made for an allowance for doubtful accounts as the City considers all accounts to be collectible.

Supplies Inventory: Inventory is valued using the average cost basis and consists of expendable supplies held for consumption. The cost of the supplies is recorded as an expenditure at the time the inventory is consumed.

Prepaid Items: Prepaid items consist of insurance premiums paid in advance for the following fiscal year at the fund level, as well as the Negative Net Pension Obligation at the government – wide level.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets: Assets are restricted to indicate that they are legally segregated for a specific future use. Pooled cash and investments have been restricted in the Debt Service Fund to meet loan escrow and sinking fund requirements.

Capital Assets: Capital assets, which include land; buildings and other land improvements; furniture, machinery and equipment; and infrastructure assets are reported as governmental activities in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. These assets are capitalized at historical cost, or estimated historical cost if actual cost information is not available. Donated fixed assets are capitalized at their fair market value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of the asset are also capitalized.

Depreciation, which is computed on a straight-line basis, is provided for in amounts sufficient to charge the cost of depreciable assets to operations over their estimated useful lives. Depreciation is not provided for construction in progress. Interest cost incurred on construction in process is not capitalized as part of the cost of assets acquired in the governmental funds. The estimated useful lives of the assets are as follows:

Category	Useful Life
Buildings and other land improvements	15 – 50 years
Furniture machinery and equipment	3 – 20 years
Infrastructure	12 – 40 years

Un-amortized Debt Costs: In governmental funds, bond issuance costs are recognized as an expenditure in the current period. In the government-wide financial statements, debt issuance costs are deferred and amortized over the life of the bonds using an effective interest rate method.

Deferred Revenues: Revenues which are measurable, but not available or earned, are reported as deferred revenue. In the governmental funds, deferred revenues include occupational license fees collected prior to September 30, which are for licenses of the subsequent fiscal year. In the government-wide financial statements, deferred revenue also includes the premium received on the issuance of the revenue bonds. The premium is amortized into income over the life of the bonds using an effective interest rate method. The non-current portion of the un-amortized bond premium is recorded as a non-current liability. In the governmental funds, the bond premium received is recorded as an other financing source in the current year.

Accumulated Unused Compensated Absences: In accordance with GASB 16, "Accounting for Compensated Absences", the City records the "vested" portion of accumulated unused compensated absences at year-end based on each employee's accumulated hours and rate of pay at the balance sheet date. An additional liability has also been accrued for related payroll taxes and retirement benefit costs. Generally, employees use their compensated absences as they are earned. The payment of compensated absences is charged to the General Fund, Sewer Revenue Fund or Reclaimed Water Fund, depending upon the department in which the individual being paid is employed.

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. The invested in capital assets component consists of capital assets less accumulated depreciation and any related long-term debt. Restricted assets consist of net assets that have constraints placed on them either externally by third parties (grantors and contributors) or by law through provisions of enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets" or "restricted". Designations of net assets made by the City's management are included in this component because these constraints are internal and management can remove or modify them.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reserves: Governmental Fund reserves indicate that a portion of the fund balance is not appropriate for expenditure or is legally segregated for a specific future use.

- (a) **Reserve for debt service:** funds legally restricted for the payment of principal and interest on long-term bonded debt or to satisfy loan covenant requirements.
- (b) **Reserve for prepaid items:** indicates a portion of fund balance that has been segregated for prepaid expenditures.
- (c) **Reserve for supplies inventory:** indicates a portion of fund balance that has been segregated for inventories and does not represent available, spendable resources even though it is an asset.
- (d) **Reserve for compensated absences:** indicates that a portion of the fund balance has been segregated for future payments for compensated absences.
- (e) **Reserve for library:** indicates a portion of fund balance that has been segregated for library expenditures pursuant to the request of the donor of the funds.
- (f) **Reserve for law enforcement:** indicates a portion of fund balance that is restricted by Florida statute for police education expenditures.
- (g) **Reserve for transportation improvements:** funds legally restricted for transportation projects.

Designations: A designation is used in Governmental Funds to indicate tentative plans for utilizing financial resources in a future period. Such plans or intent are subject to change and may never be legally authorized or result in expenditures. City management has made the following fund balance designations:

Vehicle acquisition	\$ 156,377
Bridge replacement	888,864
Equipment acquisition	34,364
Capital improvements	<u>1,028,051</u>
	<u>\$ 2,107,656</u>

Encumbrances: Encumbrances represent contractual commitments in the form of purchase orders and contracts. Encumbrances are not recorded as expenditures, but rather as reservations of fund balance. They will become expenditures upon vendor performance and will be charged against the ensuing year's budget. At September 30, 2005, the City canceled all outstanding purchase orders and, accordingly, no encumbrances are reported in the accompanying financial statements.

Postretirement Health and Life Insurance Benefits: The City does not provide any postretirement health and life insurance benefits.

7. Revenues and Expenditures

Property Taxes: The amount of taxes receivable at year-end is immaterial and, therefore, not accrued. Under Florida law, the assessment of all properties and the collection of all county, municipal and School Board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State regulating tax assessment are also designed to assure a consistent property valuation method statewide. State statutes permit cities to levy property taxes at a rate of up to 10 mills. The millage rate in effect for the fiscal year ended September 30, 2005, was 2.9954.

K-17

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 rolls meet all of the appropriate requirements of State statutes.

The tax levy of the City is established by the City Commission prior to October 1 of each year and the Pinellas County Property Appraiser incorporates the millage into the total tax levy, which includes the municipalities, independent districts and the County School Board tax requirements.

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. The Pinellas County Tax Collector bills and collects all property taxes levied within the County. All unpaid taxes become delinquent 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 of 18% per year. 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.

Delinquent taxes on personal property bear interest of 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations.

The City does not accrue its portion of the County-held certificates due to the immaterial amount.

Grants: Amounts received are restricted as to use in accordance with applicable grant requirements. Generally, these funds are subject to compliance requirements and must be returned to the grantors if they exceed the cost of the program or are used in violation of the grant regulations.

8. Deficiency of Resources over Appropriations and Deficit Fund Balances

As reflected in the final budgets for September 30, 2005, the City budgeted deficits in the General Fund and Sewer Revenue Fund in the amounts of \$452,036 and \$48,652, respectively. However, the General Fund and the Sewer Revenue Fund did not produce the projected deficits. The General Fund reported a surplus of \$153,912 due to greater than expected building, sign, and other permit revenues and franchise tax revenues. The Sewer Revenue Fund surplus of \$145,453 resulted from a reduction in personal and contractual / other services.

9. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivable and payables and are subject to elimination in the government-wide financial statements. Services provided are deemed to be at market or near market rates and are treated as revenues and expenditures/expenses and are not eliminated in the consolidation of the government-wide financial statements. Reimbursements occur when one fund incurs a cost and charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Amounts reported in the funds as payable to the Fiduciary Funds are not eliminated.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Comparative Data and Reclassifications

The financial statements include summarized prior year comparative information that does not include, in all instances, 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, 2004, from which such summarized information has been derived.

NOTE B - CASH, POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS

Pooled Cash

The City maintains a cash pool that is available for all funds except the Fiduciary Fund types. The investments for each fund (except a pooled account invested with the State Board of Administration) are held separately and are not pooled.

Deposits

Florida Statutes and City policy require that all City demand accounts be in financial institutions that pledge collateral with the State Treasurer pursuant to Chapter 280, Florida Statutes. The City is required to verify that monies are on deposit with "qualified public depositories" as defined in Florida Statutes Section 280.02. Florida Statutes require that all qualified public depositories provide collateral each month equal to a least 50 percent of the public funds on deposit with the institution that are in excess of deposit insurance amounts. The carrying amount of the City's deposits as of September 30, 2005 was \$1,304,785, excluding \$25,675 of petty cash and cash on-hand funds that are maintained.

The State Treasurer may assess other qualified public depositories for a pro rata share of any loss suffered by a public depositor in excess of its depository's collateral. Since the City uses only authorized public depositories, all funds, including time deposits, deposited with financial institutions are in compliance with the City's policies.

Investments

Florida Statutes (218.415) authorize municipalities to invest excess funds in time deposits or savings accounts of financial institutions approved by the State Treasurer, obligations of the U. S. Government, U. S. Government Instrumentalities, State of Florida Local Government Surplus Trust Fund (State Board of Administration), and mutual funds investing in U. S. Government Securities.

The City adopted its own investment policy that also authorizes the City to invest in the following: a) Florida Municipal Investment Trust Fund; b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; c) Certificates, notes, bonds, or bills of the United States, or other obligations of the United States or its Agencies which are backed by the full faith and credit of the U. S. and include, but are not limited to: Government National Mortgage Association (GNMA), Farmers Home Administration, Small Business Administration (SBA), General Services Administration (GSA), Federal Housing Administration, and Housing and Urban Development (HUD); d) Obligations of government-sponsored corporations (Instrumentalities) which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve (Instrumentalities are usually AAA rated, but have no explicit government guarantee) and include, but are not limited to: Federal National Mortgage Association (FNMA), Federal Farm Credit Banks, Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Student Loan Marketing Association, and Tennessee Valley Authority (TVA); e) Collateralized Mortgage Obligations with very accurately defined maturities issued by Federal Agencies and their Instrumentalities that are rated AAA by a nationally recognized rating agency; (f) Non-negotiable Certificates of Deposit, which can be insured, collateralized at the Federal Reserve or qualify as State Public Deposits, as defined by Florida Statutes; g) Taxable or Tax Exempt Government bonds, notes or other obligations of investment grade quality (as established by a nationally recognized rating agency), municipal corporation, special district, and authority or political subdivision thereof; h) Repurchase Agreements with primary dealers or with the City's primary state qualified public depository that are evidenced by a Master Agreement to engage in this investment option and are fully collateralized by U. S. Government Obligations or any Agency or Instrumentality thereof (Reverse Repurchase Agreements are prohibited); and i) Securities in, or other interests in, any open-ended or closed-end management type investment company or investment trust registered under the Investment Company Act

NOTE B - CASH, POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

of 1940, provided the portfolio is limited to obligations of the U. S. Government or any agency or instrumentality thereof (Mutual Funds).

The City's investment policy states that, to the extent possible, investment maturities and liquidity shall be matched to anticipated cash flow requirements and unless an investment is matched to a specific cash flow such as a reserve requirement or other longer-term investment horizon, investments shall not have a maturity date of more than five (5) years from the date of purchase.

The Local Government Surplus Trust Fund (State Board of Administration) 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 State Board of Administration consist of federal agency obligations, treasury bills, repurchase agreements, floating/variable rate notes, and commercial paper. Investment income is recognized as earned and is allocated to participants based on their equity participation.

The State Board of Administration is a "2a - 7like" pool and as such is permitted to report its investments at amortized cost. Therefore, the amounts reported in these financial statements as being invested with the SBA are stated at amortized cost. The amortized cost amount approximates fair value; the fair value of the City's investment in the SBA pool is the same as the fair value of the SBA pool shares. A 2a - 7 like pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940.

Amounts invested with the State Board of Administration are reported as cash equivalents. These amounts may be withdrawn by the City upon demand.

The City's investments are carried at fair value (except for the State Board of Administration that is carried at amortized cost) as of September 30, 2005, are:

Investment	Maturity	Fair Value	Rating
State Board of Administration	N/A	\$ 2,875,711	N/A
U. S. Treasury Strips with a face value of \$5,000,000, Zero coupon bonds, maturing at dates annually through November 15, 2014 in \$500,000 increments for debt sinking fund purposes.	2005-2014	4,146,805	N/A
Florida Municipal Investment Trust enhanced cash portfolio	N/A	<u>2,620,544</u>	N/A
Total investments		<u>\$ 9,643,060</u>	

The City does not participate in any securities lending transactions nor has it used, held or written derivative financial instruments.

Interest Rate Risk – In compliance with the City's investment policy, as of September 30, 2005, the City minimized the interest rate risk, related to the decline in value of securities due to rising interest rates, by limiting the effective duration of security types not to exceed five years, except for required debt sinking fund purposes, and investing in short-term securities or similar investment pools so that securities mature to meet the cash requirements for ongoing operations, thereby avoiding the need to sell securities in the secondary market prior to maturity.

NOTE B - CASH, POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

Credit Risk – In compliance with the City's investment policy, as of September 30, 2005, the City minimized credit risk due to default of a security issuer or backer, by limiting investments to the safest types of securities and government investment pools, and by pre-qualifying the financial institutions with which the City does business.

A reconciliation of the amount of petty cash, deposits and investments reported as cash equivalents to the Statement of Net Assets as of September 30, 2005, is as follows:

Petty cash	\$ 25,675
Deposits	1,304,785
Investments	9,643,060
Total	\$ 10,973,520
As reported in Statement of Net Assets:	
Cash	\$ 25,675
Pooled cash and investments and cash equivalents	3,869,023
Investments, at fair value	2,620,544
Restricted Assets - Current:	
Pooled cash and investments	64,598
Investments, at fair value	500,000
Restricted Assets – Non-Current	
Pooled cash and investments	246,875
Investments, at fair value	3,646,805
Total	\$ 10,973,520

K-19

Police Officers Retirement System

Deposits
 SunTrust periodically holds un-invested cash in its capacity as custodian of the Police Officers Retirement System (the Police Pension). These funds exist as cash in the process of collection from the sale of securities. The cash is deposited into the SunTrust Retirement Reserve, a money market type account.

Investments
 The Board of Trustees of the Police Pension are authorized to invest and reinvest in: annuities; life insurance contracts; time deposits or savings accounts; obligations of the United States or its instrumentalities; bonds issued by the State of Israel; stocks; commingled stock or bond funds administered by a national or state bank; mutual stock or bond funds, and real estate. Stocks and the individually held securities of commingled or mutual funds must be issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States or the District of Columbia, except that ten (10) percent of the assets of the Police Pension assets may be invested in foreign securities. The Board of Trustees shall not invest more than five (5) percent of its assets in any one issuing company nor shall more than sixty-five (65) percent of the aggregate assets of the Police Pension be invested in common stocks or convertible securities. The cost of real estate investments is limited to not more than ten (10) percent of the Police Pension assets, including real estate investment trusts.

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NOTE B - CASH, POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

The Police Pension held the following deposits and investments as of September 30, 2005:

SunTrust Retirement Funds:	Fair Value	Rating
Deposits		
Reserve Fund	\$ 102,551	N/A
Investments		
Bond Funds		
High Grade Fund	2,583,224	N/A
High Grade Intermediate Fund	646,855	N/A
Common Stock Funds		
High Grade Active Allocation Fund	5,115,363	N/A
Total Deposits and Investments	\$ 8,447,993	

Credit Risk and Interest Rate Risk – The Police Pension minimizes credit risk and interest rate risk by investing in mutual type funds.

Firefighters' Retirement System

Deposits
 SunTrust periodically holds un-invested cash in its capacity as custodian of the Firefighters' Retirement System (the Firefighters' Pension). These funds exist as cash in the process of collection from the sale of securities. The cash is deposited into the SunTrust Retirement Reserve, a money market type account. The Firefighters' Pension also had \$7,874 of cash in the City's cash account as of September 30, 2005 that had just been received and not yet transferred to SunTrust.

Investments
 The Board of Trustees of the Firefighters' Pension are authorized to invest and reinvest in: annuities; life insurance contracts; time deposits or savings accounts; obligations of the United States or its instrumentalities; bonds issued by the State of Israel; stocks; commingled stock or bond funds administered by a national or state bank; mutual stock or bond funds, and real estate. Stocks and the individually held securities of commingled or mutual funds must be issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States or the District of Columbia, except that ten (10) percent of the assets of the Firefighters' Pension assets may be invested in foreign securities. The Board of Trustees shall not invest more than five (5) percent of its assets in any one issuing company nor shall more than sixty-five (65) percent of the aggregate assets of the Firefighters' Pension be invested in common stocks or convertible securities. The cost of real estate investments is limited to not more than ten (10) percent of the Firefighters' Pension assets, including real estate investment trusts.

The Firefighters' Pension held the following deposits and investments as of September 30, 2005:

SunTrust Retirement Funds:	Fair Value	Rating
Deposits		
Reserve Fund	\$ 78,517	N/A
Investments		
Bond Funds		
High Grade Fund	2,340,529	N/A
High Grade Intermediate Fund	586,067	N/A
Common Stock Funds		
High Grade Active Allocation Fund	4,609,023	N/A
Total Deposits and Investments	\$ 7,614,136	

NOTE B - CASH, POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

Credit Risk and Interest Rate Risk – The Firefighters’ Pension minimizes credit risk and interest rate risk by investing in mutual type funds.

General Employees’ Retirement System

Deposits

SunTrust periodically holds un-invested cash in its capacity as custodian of the General Employees’ Retirement System (the General Pension). These funds exist as cash in the process of collection from the sale of securities. The cash is deposited into the SunTrust Retirement Reserve, a money market type account.

Investments

The Board of Trustees of the General Pension are authorized to invest and reinvest in: annuities; life insurance contracts; time deposits or savings accounts; obligations of the United States or its instrumentalities; bonds issued by the State of Israel; stocks; commingled stock or bond funds administered by a national or state bank; mutual stock or bond funds, and real estate. Stocks and the individually held securities of commingled or mutual funds must be issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States or the District of Columbia, except that fifteen (15) percent of the assets of the General Pension assets may be invested in foreign securities. The Board of Trustees shall not invest more than five (5) percent of its assets in any one issuing company nor shall more than sixty-five (65) percent of the aggregate assets of the General Pension be invested in common stocks or convertible securities. The cost of real estate investments is limited to not more than ten (10) percent of the General Pension assets, including real estate investment trusts.

The General Pension held the following deposits and investments as of September 30, 2005:

SunTrust Retirement Funds:	Fair Value	Rating
Deposits		
Reserve Fund	\$ 99,770	N/A
Investments		
Bond Funds		
High Grade Fund	2,778,621	N/A
High Grade Intermediate Fund	695,817	N/A
Common Stock Funds		
High Grade Active Allocation Fund	5,501,922	N/A
Total Deposits and Investments	<u>\$ 9,076,130</u>	

Credit Risk and Interest Rate Risk – The General Pension minimizes credit risk and interest rate risk by investing in mutual type funds.

Employees’ Deferred Compensation Plan

Investments

Employees can elect to defer a portion of their compensation and invest these amounts with the following investment companies: ICMA Retirement Corporation, Great West or Nationwide. Investments consist of fixed income and equity funds that employees can select from.

The fair value of the investments held as of September 30, 2005, was: ICMA Retirement Corporation \$312,184, Great West \$1,040,597 and Nationwide \$205,607, for a total of \$1,558,388.

Credit Risk and Interest Rate Risk – The Employees’ Deferred Compensation Plan minimizes credit risk and interest rate risk by investing in mutual type funds.

NOTE C - DUE FROM AND TO OTHER GOVERNMENTS

Due from and to other governments consists of the following as of September 30, 2005:

	Due From	Due To
General Fund		
Pinellas County		
Utility taxes	\$ 30,327	\$
Intergovernmental revenues	89,877	
Fines and parking tickets	17,430	
Parking meter		18,608
Sheriff’s Department		1,067
Utilities		7,124
Other municipalities - various		3,653
State of Florida		
Intergovernmental revenue	148,375	
	<u>286,009</u>	<u>30,452</u>
Capital Improvement Projects Fund		
Pinellas County		
Intergovernmental revenue	134,559	
Sewer Revenue Fund		
City of St. Petersburg - Wastewater Treatment		124,533
City of St. Petersburg - Capital Improvement		23,473
Pinellas County - utilities		1,023
		<u>149,029</u>
Reclaimed Water Fund		
Pinellas County – utilities		20,247
	<u>\$ 420,568</u>	<u>\$ 199,728</u>

These amounts are unsecured and represent concentrations of credit risk in the event that any one of the entities was unable to remit the amounts due the City.

NOTE D – INTER-FUND TRANSACTIONS

Inter-fund receivable and payable balances consist of the following as of September 30, 2005. These amounts have been eliminated in the government-wide financial statements.

	Receivable	Payable
General Fund	\$ 469,391	\$
Sewer Fund		3,000
Reclaimed Water Fund		466,391
Total - Governmental Funds	<u>\$ 469,391</u>	<u>\$ 469,391</u>
Firefighters’ Pension Fund	\$ 5,244	\$ 4,746
Police Pension Fund	4,746	5,244
Total - Fiduciary Funds	<u>\$ 9,990</u>	<u>\$ 9,990</u>

The General Fund has advanced funds to the Sewer and Reclaimed Water Funds for the purpose of funding operations. The Firefighters’ and Police Pension Funds have corresponding inter-fund receivables and payables due to deposits being made to the incorrect trust accounts.

CITY OF ST. PETE BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE D – INTER-FUND TRANSACTIONS (continued)

Inter-fund transfers consist of the following for the year ended September 30, 2005:

	Transfers In	Transfers Out
General Fund	\$ 97,101	\$ 225,518
Debt Service Fund	225,518	
Capital Improvement Projects Fund		97,101
Reclaimed Water Revenue Fund		322,619
	<u>\$ 322,619</u>	<u>\$ 322,619</u>

The General Fund transferred funds to the Capital Improvement Projects Fund for capital project funding purposes. The Reclaimed Water Revenue Fund transferred funds pledged on the 1992 State Revolving Loan to the Debt Service Fund for current year debt payment purposes.

The General Fund received administrative fees from the Sewer Revenue Fund and the Reclaimed Water Fund in the amounts of \$168,376 and \$100,845, respectively. The fees, which have not been eliminated in the consolidation of the government-wide financial statements, have been recorded as revenue in the General Fund (charges for services) and as expenditures in the Sewer Revenue Fund and Reclaimed Water Fund (contractual/other services).

NOTE E- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005, was as follows:

	Beginning Balance 10-1-04	Additions	Deletions	Ending Balance 9-30-05
Governmental Activities				
<u>Non-depreciable assets:</u>				
Land	\$ 2,696,941	\$	\$	\$ 2,696,941
<u>Depreciable assets:</u>				
Buildings and other land improvements	13,181,506	1,167,829	14,995	14,334,340
Furniture, machinery and equipment	3,439,917	636,302	517,201	3,559,018
Infrastructure	24,343,201	1,565,733	7,062	25,901,872
Total at historical cost	<u>43,661,565</u>	<u>3,369,864</u>	<u>539,258</u>	<u>46,492,171</u>
<u>Less accumulated depreciation for:</u>				
Buildings and other land improvements	2,850,188	339,572	6,097	3,183,663
Furniture, machinery and equipment	2,308,936	385,164	480,687	2,213,413
Infrastructure	8,274,174	647,602	2,473	8,919,303
Total accumulated depreciation	<u>13,433,298</u>	<u>1,372,338</u>	<u>489,257</u>	<u>14,316,379</u>
Capital assets, net	<u>\$ 30,228,267</u>	<u>\$ 1,997,526</u>	<u>\$ 50,001</u>	<u>\$ 32,175,792</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 167,936
Public safety – police	173,210
Public safety – fire	167,116
Public works	361,133
Leisure services	162,526
Water pollution control - sewer	96,569
Water pollution control – reclaimed water	243,848
	<u>\$ 1,372,338</u>

CITY OF ST. PETE BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE F- LONG-TERM DEBT

Long-term debt activity for the fiscal year ended September 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General Obligation Bonds, Series 1993	\$ 1,200,000	\$	\$ 110,000	\$ 1,090,000	\$ 115,000
Revenue Bonds, Series 2001A	1,950,000		210,000	1,740,000	215,000
State Revolving Loan (1992)	5,359,518		406,723	4,952,795	421,169
State Revolving Loan (2003)	278,902		11,026	267,876	11,312
State Revolving Loan (2005)		73,117		73,117	-
Capital leases	56,230	234,365	62,373	228,222	52,920
Accumulated unused Compensated absences	892,132	27,779	51,217	868,694	60,809
	<u>\$ 9,736,782</u>	<u>\$ 335,261</u>	<u>\$ 851,339</u>	<u>\$ 9,220,704</u>	<u>\$ 876,210</u>

Long-term debt for the governmental activities is comprised of the following as of September 30, 2005:

General Obligation Bonds, Series 1993: General Obligation Bonds in the amount of \$2,125,000 were issued to finance the construction and equipping of a new police station. The bonds mature in various amounts annually, ranging from \$115,000 to \$125,000, through October 1, 2008 and \$730,000 of term bonds mature October 1, 2013. Interest on the bonds accrues at rates ranging from 5.0% to 5.25% and is payable semi-annually on April 1 and October 1. The bond principal and interest is payable from ad valorem taxes levied and collected on all taxable property within the City. The full faith, credit and taxing power of the City are pledged as security for the payment of the bond principal and interest. \$ 1,090,000

Revenue Bonds, Series 2001A: Revenue Bonds in the amount of \$2,350,000 were issued through the Florida Municipal Loan Council to finance the construction of a new City Hall. The bonds mature in various amounts annually, ranging from \$215,000 to \$285,000, through November 1, 2011. Interest on the bonds accrues at rates ranging from 4.50% to 5.00% and is payable semi-annually on May 1 and November 1. The bond principal and interest is secured by and payable from non – ad valorem revenues. 1,740,000

State Revolving Loan (1992): The City entered into a revolving loan agreement with the State of Florida, Department of Environmental Protection (DEP), on September 29, 1992, whereby the DEP agreed to finance a portion of the Reclaimed Water Project. The total amount drawn on the loan is \$8,541,335 and is to be repaid in annual installments of \$597,101 including interest of 3.57% and 3.16%, through December 31, 2014. The loan is secured by a lien on pledged revenues derived from the reclaimed water system after payment of operation and maintenance expenses. 4,952,795

State Revolving Loan (2003): The City entered into a revolving loan agreement with the State of Florida Department of Environmental Protection (DEP) on November 5, 2001, whereby DEP agreed to finance a sanitary sewer and reclaimed water relocation – reconstruction project. The final amended agreement provided for a total amount of available loan proceeds of \$492,549. The total amount drawn on the loan, including capitalized interest and excluding service fees, was \$287,004. The loan is to be repaid in semi-annual installments of \$9,725, including interest at 3.05%. The first payment was due March 15, 2004. The loan is secured by a lien on pledged revenues from the sewer system after payment of operation and maintenance expenses. 267,876

CITY OF ST. PETE BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2005

NOTE F – LONG-TERM DEBT (continued)

State Revolving Loan (2005): The City entered into a revolving loan agreement with the State of Florida Department of Environmental Protection (DEP) on May 14, 2004, whereby DEP agreed to finance a new master lift station. The final amended agreement provided for a total amount of available loan proceeds of \$3,630,146. The total amount due on the loan, including capitalized interest and service fees, as of September 30, 2005, is \$73,117. The loan is scheduled to be repaid in semi-annual installments of \$121,314, including interest at 2.60%. The scheduled first payment will be due March 15, 2007. The loan is secured by a lien on pledged revenues from the sewer system after payment of operation and maintenance expenses. 73,117

Capital Leases: The City currently leases an EMS ambulance and a sewer flusher apparatus vehicle under capital lease-purchase agreements which expire at various dates through July 2012. The leases generally provide that the City pay the taxes, insurance and maintenance expenses related to the leased vehicles. The present value of future minimum lease payments is: 228,222

Accumulated unused compensated absences: represents the vested portion of accumulated vacation and sick pay benefits due employees. 868,694

Total Long-Term Debt \$ 9,220,704

Interest expense and fiscal charges for all indebtedness in the amount of \$344,444 has been separately reported in the Statement of Activities as interest on long-term debt for the year ended September 30, 2005.

Funding Requirements of State Revolving Loan (1992)

The loan agreement provides that the City shall establish an escrow account in the amount of \$4,342,334, which shall be reserved (Reserved Escrow Account), along with the earnings thereon, and dedicated solely for the repayment of the loan. This Escrow account has been established and is accounted for in the Debt Service Fund as a restricted asset. Additionally, the City was required to establish a pledged revenue escrow account in the amount of \$100,000, which shall be reserved, along with the earnings thereon, as pledged security for the loan. A loan repayment reserve account is also required to be established in the amount of 15% of the annual loan payment. The escrow account and loan repayment reserve account are accounted for in the Debt Service Fund as restricted assets. The required balances and the amount of restricted assets as of September 30, 2005, is as follows:

Reserved escrow account	\$ 4,146,832
Pledged Reserve escrow account	205,914
Loan repayment reserve account	89,565
Total restricted assets	<u>\$ 4,442,311</u>

The City has used the Reserved Escrow Account funds to purchase \$4,342,417 of U.S. Treasury Zero Coupon Bonds with an original face value of \$10,000,000. The U.S. Treasury bonds mature in \$500,000 increments annually for twenty years through November 15, 2014. This maturity schedule coincides with the annual loan repayment terms requiring annual payments through December 31, 2014. The face value of unmatured bonds as of September 30, 2005 is \$5,000,000.

Funding Requirements of State Revolving Loan (2002)

The loan agreement provides that the City shall establish a Loan Repayment Reserve Account in the amount of \$14,346 by September 15, 2003 which shall be dedicated solely for the repayment of the loan. Additionally, a Loan Debt Service Account shall be established by September 15, 2003 into which shall be deposited monthly 1/6th of the semi-annual loan payment of \$9,725. These Escrow accounts have been established and are accounted for in the Debt Service Fund as a restricted asset. The required balances and the amount of restricted assets as of September 30, 2005, is as follows:

CITY OF ST. PETE BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2005

NOTE F – LONG-TERM DEBT (continued)

Loan Repayment reserve account	\$ 14,346
Loan Debt Service account	1,621
Total restricted assets	<u>\$ 15,967</u>

Total funding requirements for the State Revolving Loans:

State revolving Loan (1992)	\$ 4,442,311
State Revolving Loan (2003)	15,967
Total restricted assets	<u>\$ 4,458,278</u>

The restricted assets pertaining to the funding requirements for the State Revolving Loans are presented in the accompanying Statement of Net Assets as of September 30, 2005 as follows:

Current assets – Pooled cash and investments	\$ 64,598
Investments, at fair value	500,000
Non-current assets – Pooled cash and investments	246,875
Investments, at fair value	3,646,805
Total restricted assets	<u>\$ 4,458,278</u>

The annual requirements to amortize the long-term debt for governmental activities as of September 30, 2005, is as follows:

	Principal	Interest	Total
General Obligation Bonds, Series 1993			
2006	\$ 115,000	\$ 56,325	\$ 171,325
2007	120,000	50,575	170,575
2008	125,000	44,575	169,575
2009	-	38,325	38,325
2010	-	38,325	38,325
	<u>360,000</u>	<u>228,125</u>	<u>588,125</u>
2011-13	730,000	114,975	844,975
	<u>\$ 1,090,000</u>	<u>\$ 343,100</u>	<u>\$ 1,433,100</u>

Revenue Bonds, Series 2001A

	Principal	Interest	Total
2006	\$ 215,000	\$ 78,787	\$ 293,787
2007	225,000	68,888	293,888
2008	235,000	58,537	293,537
2009	245,000	47,125	292,125
2010	260,000	34,500	294,500
	<u>1,180,000</u>	<u>287,837</u>	<u>1,467,837</u>
2011-2012	560,000	28,250	588,250
	<u>\$ 1,740,000</u>	<u>\$ 316,087</u>	<u>\$ 2,056,087</u>

K-22

CITY OF ST. PETE BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2005

NOTE F – LONG-TERM DEBT (continued)

	Principal	Interest	Total
State Revolving Loan (1992)			
2006	\$ 421,169	\$ 175,932	\$ 597,101
2007	436,128	160,973	597,101
2008	451,619	145,482	597,101
2009	467,660	129,441	597,101
2010	484,272	112,829	597,101
	2,260,848	724,657	2,985,505
2011-2015	2,691,947	293,558	2,985,505
	<u>\$ 4,952,795</u>	<u>\$ 1,018,215</u>	<u>\$ 5,971,010</u>
State Revolving Loan (2003)			
2006	\$ 11,312	\$ 8,137	\$ 19,449
2007	11,661	7,788	19,449
2008	12,022	7,427	19,449
2009	12,394	7,055	19,449
2010	12,777	6,672	19,449
	60,166	37,079	97,245
2011-2015	70,065	27,180	97,245
2016-2020	81,593	15,652	97,245
2021-2023	56,052	3,083	59,135
	<u>\$ 267,876</u>	<u>\$ 82,994</u>	<u>\$ 350,870</u>
Capital Leases			
2006	\$ 52,920	\$ 11,039	\$ 63,959
2007	25,824	8,625	34,449
2008	27,095	7,354	34,449
2009	28,428	6,021	34,449
2010	29,827	4,622	34,449
	164,094	37,661	201,755
2011-2012	64,128	4,770	68,898
	<u>\$ 228,222</u>	<u>\$ 42,431</u>	<u>\$ 270,653</u>
Total Annual Requirements Excluding Accumulated Unused Compensated Absences			
2006	\$ 815,401	\$ 330,220	\$ 1,145,621
2007	818,613	296,849	1,115,462
2008	850,736	263,375	1,114,111
2009	753,482	227,967	981,449
2010	786,876	196,948	983,824
	4,025,108	1,315,359	5,340,467
2011-2015	4,116,140	468,733	4,584,873
2016-2020	81,593	15,652	97,245
2021-2023	56,052	3,083	59,135
State Revolving Loan – 2005 – in process	73,117		73,117
	<u>\$8,352,010</u>	<u>\$1,802,827</u>	<u>\$10,154,837</u>

K-23

CITY OF ST. PETE BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2005

NOTE F – LONG-TERM DEBT (continued)

The following is an analysis of the leased property under capital lease:

	Cost	Accumulated Depreciation	Book Value
EMS Vehicle	\$ 136,140	\$ 40,842	\$ 95,298
Sewer Flusher Apparatus	234,365	11,718	222,647
	<u>\$ 370,505</u>	<u>\$ 52,560</u>	<u>\$ 317,945</u>

NOTE G - PENSIONS

Defined Benefit Plans

The City administers three defined benefit pension plans (the Plans): the Police Officers' Retirement System (Police Pension), the Firefighters' Retirement System (Firefighters' Pension) and the General Employees' Retirement System (General Pension). All three of the Plans are single employer defined benefit plans. The Plans are administered pursuant to the following laws: Police Pension - Florida Statutes Chapter 185; Firefighters' Pension - Florida Statutes Chapter 175, and General Pension - City Code of Ordinances Chapter 16, Article III. The Plans are reported herein as Fiduciary Funds as part of the City's reporting entity. The financial statements of each Plan are included in the Comprehensive Annual Financial Report of the City. The Plans do not issue stand-alone financial reports.

The investments of the Plans are held by the City in a trustee capacity and are maintained in segregated trust accounts for each Plan. The trust accounts are managed by a professional trustee pursuant to trust agreements with the City. The costs of administering the pension funds, including professional fees, are paid by each respective pension plan.

1. The Plans' significant accounting policies are as follows (several of these policies are briefly disclosed in Note A to the financial statements):

Basis of Accounting: The Plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

Method Used to Value Investments: Investments are reported at fair value. Short-term money market type investments are reported at cost, which is equal to fair value. Securities traded on a national exchange are valued at the last reported sales price. The Trustee Bank's mutual funds are reported using the net asset values of each fund's investments.

2. Plan Description: Each of the Plans provides retirement, disability, death benefits and deferred retirement option plans (DROP) to plan members and their beneficiaries. Each Plan has early retirement provisions and cost of living increase provisions.
3. Funding Policy: The City is required to contribute to each Plan at actuarially determined rates that provide for payment of current costs plus amounts to amortize unfunded past service costs, if any, over 30 years. Plan members contribute to their respective plan as follows: Police - 8.3% of earnings, Firefighters' - 10.3% of earnings and General - 7.6% of earnings.

CITY OF ST. PETE BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE G - PENSIONS (continued)

4. Membership of the Plans: Membership of each plan consisted of the following at September 30, 2005. The date of the latest actuarial valuation is October 1, 2005.

	Police Pension	Firefighters' Pension	General Pension
Retirees and beneficiaries receiving benefits	12	13	44
Terminated plan members entitled to but not yet receiving benefits	5		42
Active plan members	28	27	63
DROP plan members (active)	1	3	5
	<u>46</u>	<u>43</u>	<u>154</u>

5. Annual Pension Cost: The City's annual pension cost for the current year and other related information for each plan is as follows:

	Police Pension	Firefighters' Pension	General Pension
Annual pension cost	\$370,601	\$179,076	\$623,216
Contributions made	\$370,601	\$185,090	\$623,216
Actuarial valuation date	October 1, 2005	October 1, 2005	October 1, 2005
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization method	Level percentage of pay, closed	Level percentage of pay, closed	Level percentage of pay, closed
Remaining amortization period	26 years	30 years	25 years
Asset valuation method	4 year smooth (market)	4 year smooth (market)	4 year smooth (market)
Actuarial assumptions:			
Investment rate of return	8.5%	8.5%	8.5%
Projected salary increases	6% per year	6% per year	6% per year
Payroll growth	3% per year	3% per year	3% per year
Inflation rate	3%	3%	3%
Cost of living adjustments (Police & General - 10 Years after retirement, Fire 7 years after retirement)	3%	3%	3%

CITY OF ST. PETE BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE G - PENSIONS (continued)

6. Three Year Trend Information:

	Year Ending September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation *
Police Pension	2003	\$187,222	100	0
	2004	200,719	100	0
	2005	370,601	100	0
Firefighters' Pension	2003	\$119,770	111	(23,790)
	2004	127,015	104	(28,861)
	2005	179,076	103	(34,702)
General Pension	2003	\$416,308	100	0
	2004	441,286	100	0
	2005	623,216	100	0

* The Annual Pension Cost is composed entirely of the employer Annual Required Contribution.

The development of the Firefighters' Net Pension Obligation (NPO) to date is as follows:

	2003	2004	2005
Actuarially determined contribution (A)	\$ 119,770	\$ 127,015	\$ 179,076
Interest on NPO	(707)	(2,022)	(2,453)
Adjustment to (A)	1,008	2,164	2,626
Annual Pension Cost	120,071	127,157	179,249
Contributions made	132,778	132,228	185,090
Increase in NPO	(12,707)	(5,071)	(5,841)
NPO beginning of year	(11,083)	(23,790)	(28,861)
NPO end of year	\$ (23,790)	\$ (28,861)	\$ (34,702)

7. Other Required Supplementary Information Schedules of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Police Pension	10/01/05	\$7,978,376	\$11,272,174	\$3,293,798	70.78%	\$1,647,322	199.95%
	10/01/04	7,440,106	10,512,023	3,071,917	70.78%	1,502,882	204.40%
	10/01/03	7,360,610	9,073,059	1,712,449	81.13%	1,436,604	119.20%
	10/01/02	7,283,680	9,033,851	1,750,171	80.63%	1,232,726	141.98%
	10/01/01	7,226,630	9,005,608	1,778,978	80.25%	1,464,283	121.49%
	10/01/00	6,971,696	8,734,965	1,763,269	79.81%	1,373,992	128.33%
Firefighters' Pension	10/01/05	\$7,130,369	\$10,516,279	\$3,385,910	67.80%	\$1,369,469	247.24%
	10/01/04	6,841,677	9,667,079	2,825,402	70.77%	1,315,034	214.85%
	10/01/03	6,698,851	8,272,126	1,573,275	80.98%	1,230,912	127.81%
	10/01/02	6,523,375	8,101,463	1,578,088	80.52%	1,257,009	125.54%
	10/01/01	6,432,149	8,009,684	1,577,535	80.30%	1,011,608	155.94%
	10/01/00	6,232,078	7,774,313	1,542,235	80.16%	994,710	155.04%
General Pension	10/01/05	\$8,920,788	\$12,602,393	\$3,681,604	70.79%	\$2,474,731	148.77%
	10/01/04	8,180,363	11,781,744	3,601,381	69.43%	2,521,958	159.22%
	10/01/03	7,905,654	9,671,805	1,766,151	81.74%	2,513,772	70.26%
	10/01/02	7,562,153	9,325,839	1,763,686	81.09%	2,431,921	72.52%
	10/01/01	7,255,215	9,013,051	1,757,836	80.50%	2,343,760	75.00%
	10/01/00	6,906,864	8,655,438	1,748,574	79.80%	2,143,318	81.58%

NOTE G – PENSIONS (continued)

8. Schedules of Contributions from the Employer and Other Contributing Entities

	Year Ended September 30,	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
Police Pension	2005	\$408,333	\$370,601	* 37,732	100.00%
	2004	238,451	200,719	* 37,732	100.00%
	2003	224,954	187,222	* 37,732	100.00%
	2002	172,790	135,058	* 37,732	100.00%
	2001	121,949	84,217	* 37,732	100.00%
	2000	135,969	98,237	* 37,732	100.00%
Firefighters' Pension	2005	\$278,161	\$185,090	\$99,085	102.16%
	2004	220,086	132,228	93,071	102.37%
	2003	207,628	132,778	87,858	106.26%
	2002	128,486	64,719	74,850	108.63%
	2001	93,306	23,586	69,720	100.00%
	2000	43,060	0	74,062	172.00%
General Pension	2005	\$623,216	\$623,216	0	100.00%
	2004	441,286	441,286	0	100.00%
	2003	416,308	416,308	0	100.00%
	2002	305,718	305,718	0	100.00%
	2001	216,259	216,259	0	100.00%
	2000	233,036	233,036	0	100.00%

* - The State contribution is 'frozen' pursuant to the provisions of Chapter 185, Florida Statutes.

9. The financial statements for each of the Retirement Funds as of and for the year ended September 30, 2005 are as follows:

Statement of Net Assets
September 30, 2005

	Police	Firefighters'	General
Assets			
Cash	\$ -	\$ 7,874	\$ -
Investments, at fair value	8,447,993	7,614,136	9,076,130
Due from other fiduciary fund	4,746	5,244	-
Total assets	8,452,739	7,627,254	9,076,130
Liabilities			
Due to other fiduciary fund	5,244	4,746	-
Total Liabilities	5,244	4,746	-
Net Assets			
Held in Trust for Pension Benefits	\$ 8,447,495	\$ 7,622,508	\$ 9,076,130

NOTE G – PENSION PLANS (continued)

Statement of Changes in Net Assets
For the year Ended September 30, 2005

	Police	Firefighters'	General
Additions			
Contributions			
Employer	\$ 370,601	\$ 185,090	\$ 623,216
Plan member	132,056	137,552	192,438
Plan members purchase of prior service	67,420		
Total contributions	570,077	322,642	815,654
Intergovernmental revenue			
State excise tax rebate	70,634	99,084	
Supplemental Compensation Trust Fund		7,874	
	70,634	106,958	
Investment earnings			
Net increase in fair value of investments	646,396	600,367	708,160
Interest and dividends	51,563	48,935	59,063
Total investment earnings	697,959	649,302	767,223
Less investment expense	42,113	38,999	45,741
Net investment earnings	655,846	610,303	721,482
Total additions	1,296,557	1,039,903	1,537,136
Deductions			
Benefits	392,629	321,964	465,646
Lump sum Deferred Retirement Option			
Plan payments		226,672	90,033
Refunds of contributions	28,776	5,842	100,393
Administrative expenses	29,787	25,103	31,638
Total deductions	451,192	579,581	687,710
Change in Net Assets	845,365	460,322	849,426
Net Assets – October 1, 2004	7,602,130	7,162,186	8,226,704
Net Assets – September 30, 2005	\$ 8,447,495	\$ 7,622,508	\$ 9,076,130

Defined Contribution Plan

1. Plan Description: The City implemented a defined contribution - money purchase - retirement plan (the Plan) during fiscal year 2005. Eligible participants consist of the city manager and department directors that have opted out of the General Employees' Retirement System. The Plan is administered by ICMA Retirement Corporation. The Plan provides retirement benefits to plan members and beneficiaries. ICMA Retirement Corporation issues financial statements and reports as well as required supplementary information regarding the Plan. This information can be obtained by writing ICMA Retirement Corporation at 777 North Capitol Street NE, Washington, D.C. 20002-4240 or by calling 800-326-7272.

2. Funding Policy: The City contributes 12% of eligible wages pursuant to the Plan agreement. The City's contribution for the year ended September 30, 2005 was \$14,285. The City contributed the required amount during fiscal year 2005.

CITY OF ST. PETE BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE H - RISK FINANCING

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. The City has purchased commercial insurance to protect against property loss as a result of flooding and employee health losses. The City is insured through Public Risk Management of Florida for purposes of protecting against workers' compensation losses, real and personal property losses, automobile damage, and general liability, including malpractice and errors and omissions.

The City does not self-insure against any risks. To the extent that the City has purchased commercial insurance, all risk of loss has been transferred to the insurance underwriter.

Public Risk Management of Florida is a risk pool that assumes the risk of loss for all participating members. The members are subject to additional premium assessments in the event that the risk pool requires additional funding to satisfy all claims. The City has not been assessed any additional insurance premiums for the year ended September 30, 2005, nor is the City aware of any contingent assessments. The City has not reduced insurance coverage from the prior year for any category of insurance risk. Settlement claims, if any, have not exceeded insurance coverage at any time for each of the past three fiscal years.

NOTE I - OPERATING LEASE OBLIGATION

Lease Commitments: The City is committed for five copier leases and four vehicle leases with remaining lease terms of a partial year to two years. Future lease commitments are as follows:

September 30, 2006	\$ 16,921
2007	3,025
	\$19,946

The leases are non-cancelable. Rental expense for the years ended September 30, 2005 and 2004 was \$91,762 and \$137,721 respectively.

NOTE J - DEFERRED COMPENSATION PLAN

The City offers certain employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The City is trustee of the Plan. The Plan, which is managed by independent plan administrators, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, are held in trust for the exclusive benefit of the participants and their beneficiaries. The deferred compensation plan is reported as a Fiduciary Fund of the City.

NOTE K - COMMITMENTS AND CONTINGENCIES

Sewer Service: On November 29, 2001, the City entered into a new contract with the City of St. Petersburg to treat wastewater. This contract will be in effect as long as the City of St. Petersburg's Northwest Treatment Plant is in operation. The rates paid are set by the City of St. Petersburg, using a rate formula containing the following factors: Operation and Maintenance Charge and Capital Charge. The Capital Charge for improvements made to the wastewater system before April 1, 2001 will be a net annual amount of \$247,129 paid in monthly installments for the period October 1, 2001 to September 30, 2006; \$274,375 for fiscal year 2007; \$301,621 for fiscal year 2008, and for fiscal years after 2008 annual amounts beginning at \$99,467 and declining until full payment has been made in fiscal year 2025. The City's allocable share of new capital improvements to the wastewater system will be billed based upon the indebtedness incurred by the City of St. Petersburg to construct the improvements or an agreed upon pay-as-you-go basis.

CITY OF ST. PETE BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE K - COMMITMENTS AND CONTINGENCIES (continued)

Contingent Liability: As of September 30, 2005, the City is involved in legal matters that are incidental to its routine operations. It is the opinion of management, based upon the advice of legal counsel, that the likely outcomes of these matters will not be material in nature to the overall operating results of the City.

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K-26

Statistical Section

Statistical tables differ from financial statements because they usually cover more than one fiscal year and may present non-accounting data. These schedules reflect social and economic data, and financial trends of the government.

The following required Statistical Tables are not applicable to the City of St. Pete Beach:

Computation of Legal Debt Margin - The City Charter makes no provision for a general obligation legal debt margin.

K-27

TABLE I

CITY OF ST. PETE BEACH, FLORIDA

GENERAL FUND - EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

September 30, 2005

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Leisure Services</u>	<u>Non-departmental</u>	<u>Total</u>
2005	\$ 2,277,279	\$ 6,273,275	\$ 2,406,073	\$ 1,655,771	\$ -	\$ 12,612,398
2004	1,786,825	5,835,976	2,237,767	1,533,219	-	11,393,787
2003	1,974,220	5,434,569	1,996,652	1,509,157	-	10,914,598
2002	1,762,523	5,401,820	2,033,707	1,432,849	-	10,630,899
2001	1,253,451	4,752,463	1,762,503	1,384,199	543,485	9,696,101
2000	913,975	5,404,681	1,371,842	1,216,620	666,369	9,573,487
1999	836,405	4,965,658	1,232,851	1,219,020	506,865	8,760,799
1998	824,466	4,590,930	1,211,091	1,131,218	974,751	8,732,456
1997	1,022,824	4,570,406	1,364,512	1,045,762	1,894,880	9,898,384
1996	847,811	4,601,363	1,264,792	1,131,404	1,719,343	9,564,713

TABLE II

CITY OF ST. PETE BEACH, FLORIDA

GENERAL FUND - REVENUES BY SOURCE
LAST TEN FISCAL YEARS

September 30, 2005

Fiscal Year	Taxes	Licenses and Permits	Inter-Governmental	Charges For Services	Fines and Forfeitures	Miscellaneous	Total
2005	\$ 8,184,086	\$ 807,856	\$ 2,080,502	\$ 984,805	\$ 202,300	\$ 501,663	\$12,761,212
2004	7,452,833	775,716	1,951,017	1,021,452	213,399	240,321	11,654,738
2003	6,903,161	404,891	1,916,151	1,005,112	283,321	227,242	10,739,878
2002	6,420,124	399,703	1,852,751	966,830	262,566	400,427	10,302,401
2001	5,934,099	371,711	1,786,051	895,818	233,979	333,163	9,554,821
2000	5,533,711	358,410	1,780,578	864,861	204,202	538,941	9,280,703
1999	5,409,851	351,743	1,810,143	973,246	264,863	420,755	9,230,601
1998	5,215,645	359,699	2,463,421	1,023,457	243,490	469,799	9,775,511
1997	5,067,422	318,423	2,813,100	1,056,270	277,119	632,151	10,164,485
1996	4,968,811	310,370	2,366,182	974,451	309,372	412,032	9,341,218

K-28

TABLE III

CITY OF ST. PETE BEACH, FLORIDA

PROPERTY TAX LEVIES AND TAX COLLECTIONS
LAST TEN FISCAL YEARS

September 30, 2005

Fiscal Year	Taxed Assessed Valuation (1)	Tax Rate In Mills	Total Tax Levy (1)	Tax Collections	Percent Of Levy Collected
2005	\$ 1,903,899,460	2.9954	\$ 5,702,940	\$ 5,514,840	96.70%
2004	1,681,651,480	3.0060	5,055,044	4,898,802	96.91%
2003	1,493,428,060	3.0198	4,509,854	4,365,962	96.81%
2002	1,344,937,290	2.9378	3,951,157	3,820,808	96.70%
2001	1,218,198,330	2.9458	3,588,569	3,483,568	97.07%
2000	1,128,636,530	2.9573	3,337,717	3,230,629	96.79%
1999	1,097,859,200	2.9581	3,247,577	3,148,594	96.95%
1998	1,038,169,010	2.9647	3,077,860	2,986,052	97.02%
1997	1,023,331,230	2.9707	3,040,010	2,953,566	97.16%
1996	980,619,340	2.9145	2,858,015	2,776,595	97.15%

(1) Pinellas County Property Appraiser's Office

TABLE IV

CITY OF ST. PETE BEACH, FLORIDA

ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

September 30, 2005

Fiscal Year	Real Property (1)	Personal Property (1)	Total (1)	Percentages Assessed Valued To Estimated Market (2)
2005	\$ 1,865,291,000	\$ 38,608,460	\$ 1,903,899,460	100%
2004	1,641,654,400	39,997,080	1,681,651,480	100%
2003	1,453,055,130	40,372,930	1,493,428,060	100%
2002	1,297,990,030	46,947,260	1,344,937,290	100%
2001	1,171,675,540	46,522,790	1,218,198,330	100%
2000	1,084,246,450	44,390,080	1,128,636,530	100%
1999	1,053,101,560	44,757,640	1,097,859,200	100%
1998	996,200,230	41,968,780	1,038,169,010	100%
1997	979,357,940	43,973,290	1,023,331,230	100%
1996	936,164,560	44,454,780	980,619,340	100%

K-29

(1) Pinellas County Property Appraiser's Office

(2) The City is not provided with an estimated market value by the Pinellas County Property Appraiser's Office. For purposes of this table, the assessed valuation of property has been deemed to be equal to the estimated market value.

TABLE V

CITY OF ST. PETE BEACH, FLORIDA

PROPERTY TAX RATES - ALL DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$1,000 OF ASSESSED VALUATION)
LAST TEN FISCAL YEARS

September 30, 2005

Fiscal Year	City	County (1)	School (1)	Other (2)	Total
2005	2.9954	6.141	8.122	2.3157	19.5741
2004	3.0060	6.141	8.243	2.3162	19.7062
2003	3.0198	6.141	8.449	2.3162	19.9260
2002	2.9378	6.141	8.487	2.3162	19.8820
2001	2.9458	6.004	8.433	2.4032	19.7860
2000	2.9573	5.854	8.666	2.3042	19.7815
1999	2.9581	5.538	9.110	2.3691	19.9752
1998	2.9647	5.538	9.133	2.3691	20.0048
1997	2.9707	5.510	9.176	2.3971	20.0538
1996	2.9145	5.514	9.329	2.4081	20.1656

(1) Pinellas County Tax Assessor's Office

(2) "Other" includes Emergency Medical Services, Pinellas County Planning Council, Juvenile Welfare Board, Southwest Florida Water Management District, and Pinellas Anclote River Basin.

TABLE VI

CITY OF ST. PETE BEACH, FLORIDA
SPECIAL ASSESSMENT COLLECTIONS
LAST TEN FISCAL YEARS

September 30, 2005

Fiscal Year	Balance Beginning Of Year	Levied During Year	Collected During Year	Balance End Of Year
2005	\$ -	\$ -	\$ -	\$ -
2004	-	-	-	-
2003	-	-	-	-
2002	-	-	-	-
2001	-	-	-	-
2000	-	-	-	-
1999	-	-	-	-
1998	3,361	-	3,361	-
1997	17,982	-	14,621	3,361
1996	31,686	-	13,794	17,982

Detail of Assessments Levied

1991 - Corey Avenue improvements \$ 176,074

TABLE VII

CITY OF ST. PETE BEACH, FLORIDA

RATIO OF NET GENERAL BONDED DEBT TO
ASSESSED VALUE AND NET BONDED DEBT PER CAPITA

September 30, 2005

Fiscal Year	Population	Taxable Assessed Value	General Bonded Debt	Net Bonded Debt	Net Bonded Debt Per Capita	Net Bonded Debt Per Taxable Assessed Value
2005	9,989	\$ 1,903,899,460	\$ 1,090,000	\$ 1,090,000	\$ 109.12	0.06%
2004	9,985	1,681,651,480	1,200,000	1,200,000	120.18	0.07%
2003	9,978	1,493,428,060	1,305,000	1,305,000	130.79	0.09%
2002	9,960	1,344,937,290	1,405,000	1,405,000	141.06	0.10%
2001	9,932	1,218,198,330	1,500,000	1,500,000	151.03	0.12%
2000	9,718	1,128,636,530	1,590,000	1,590,000	163.61	0.14%
1999	9,700	1,097,859,200	1,675,000	1,675,000	172.68	0.15%
1998	9,611	1,038,169,010	1,760,000	1,760,000	183.12	0.17%
1997	9,597	1,023,331,230	1,835,000	1,835,000	191.21	0.18%
1996	9,490	980,619,340	1,910,000	1,910,000	201.26	0.19%
1995	9,487	962,398,650	1,980,000	1,980,000	208.71	0.21%

K-30

TABLE VIII

CITY OF ST. PETE BEACH, FLORIDA

COMPUTATION OF DIRECT AND OVERLAPPING DEBT

September 30, 2005

Type of Debt	Net General Obligation Bonded Debt Outstanding	City	
		Percent	Share of Debt
City of St. Pete Beach	\$ 1,090,000	100%	\$ 1,090,000
Pinellas County School Board *	\$ 39,327,874	3.47%	\$ 1,364,699
Total overlapping debt	\$ 1,364,699		
2004 Population	9,989		
Total overlapping debt per capita	\$ 137		

* The City's share is calculated based on the ratio of the County taxable value of \$54,866,545,238 to the City's taxable value of \$1,903,899,460.

K-31

TABLE IX

CITY OF ST. PETE BEACH, FLORIDA

RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO TOTAL GOVERNMENTAL EXPENDITURES

September 30, 2005

Fiscal Year	Debt Service Expenditures			Total General Fund Expenditures	Ratio of Debt Service Expenditures to Total General Fund Expenditures
	Principal	Interest	Total		
2005	\$ 110,000	\$ 61,605	\$171,605	\$ 12,612,398	1.36%
2004	105,000	66,540	171,540	11,393,787	1.51%
2003	100,000	71,140	171,140	10,914,598	1.57%
2002	95,000	76,117	171,117	10,630,899	1.61%
2001	90,000	79,789	169,789	9,696,101	1.75%
2000	85,000	83,359	168,359	9,573,487	1.76%
1999	85,000	86,848	171,848	8,760,799	1.96%
1998	75,000	89,162	164,162	8,732,456	1.88%
1997	75,000	93,033	168,033	9,898,384	1.70%
1996	70,000	94,878	164,878	9,564,713	1.72%

TABLE X

CITY OF ST. PETE BEACH, FLORIDA
 LISTING OF CITY'S TEN LARGEST TAXPAYERS
 September 30, 2005

Taxpayer (1)	Valuation (1)	Percentage To Total Assessed Value
1. Don Cesar Resort Hotel	\$ 48,120,070	2.53%
2. Resort Inns of America, Inc.	38,500,000	2.02%
3. Nicklaus Florida, Inc.	25,500,000	1.34%
4. Resort Industries, Inc.	15,200,000	0.80%
5. Kevin D. Hughes	14,500,000	0.76%
6. Tony Land Associates, LLC	12,163,400	0.64%
7. National Realty Holdings, Inc.	11,600,000	0.61%
8. I C I G Dolphin Village	11,320,800	0.59%
9. Dolphin Holdings Ltd.	8,900,000	0.47%
10. Alden Enterprises, Inc.	8,422,700	0.44%
Total taxable assessed value of ten largest taxpayers	194,226,970	10.20%
Total taxable assessed value of all other taxpayers	1,709,672,490	89.80%
Total taxable assessed value of all taxpayers	\$ 1,903,899,460	100%

(1) Pinellas County Property Appraiser's Office

TABLE XI

CITY OF ST. PETE BEACH, FLORIDA
 REVENUE BOND COVERAGE
 LAST TEN FISCAL YEARS
 September 30, 2005

Fiscal Year	Gross Revenues Available (2)	Operating Expenses (3)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2004	\$14,354,247	\$12,053,931	2,300,316	\$ 210,000	\$ 84,327	\$ 294,327	7.82
2003	13,809,267	10,939,090	2,870,177	200,000	92,568	292,568	9.81
2003	11,677,569	11,638,276	39,293	200,000	101,775	301,775	0.13
2002	11,184,181	10,145,000	1,039,181	-	92,165	92,165	11.28
2001	(1)						
2000	(1)						
1999	(1)						
1998	(1)						
1997	(1)						
1996	(1)						

(1) There were no revenue bonds outstanding from 1996 to 2001.

(2) General Fund and Capital Improvement Projects Fund revenues excluding other financing sources.

(3) General Fund and Capital Improvement Projects Fund expenses excluding capital outlay and debt service costs.

TABLE XII

CITY OF ST. PETE BEACH, FLORIDA

DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

September 30, 2005

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Per Capita Income (County) (2)</u>	<u>Median Age (County) (2)</u>	<u>Labor Force (County) (2)</u>	<u>Unemployment Rate (County) (2)</u>
2005	9,989	\$ 39,513	44.0	455,790	3.9%
2004	9,985	35,938	43.6	503,751	4.7%
2003	9,978	32,408	43.0	498,500	4.4%
2002	9,960	31,321	43.6	497,508	4.3%
2001	9,932	34,539	43.0	504,984	3.5%
2000	9,718	30,633	44.2	471,280	2.7%
1999	9,700	30,088	42.1	494,565	2.8%
1998	9,611	27,311	43.6	473,448	3.5%
1997	9,597	24,696	43.1	441,900	3.5%
1996	9,490	24,696	43.1	440,030	4.1%

(1) City of St. Pete Beach
(2) Pinellas County Planning Council

TABLE XIII

CITY OF ST. PETE BEACH, FLORIDA

PROPERTY VALUES, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS

September 30, 2005

<u>Fiscal Year Ending</u>	<u>Total Assessed Property Value (1)</u>	<u>Number of Permits (2)</u>	<u>Cost of Construction (2)</u>	<u>Pinellas County Bank Deposits (In Thousands) (3)</u>
2005	\$ 1,903,899,460	1,677	\$ 46,324,567	\$ 17,987,000
2004	1,681,651,480	1,714	44,713,797	17,828,000
2003	1,493,428,060	1,589	25,802,124	15,006,694
2002	1,344,937,290	1,853	20,163,289	14,075,197
2001	1,218,198,330	2,111	22,580,584	13,314,203
2000	1,128,636,530	1,868	17,354,720	14,862,938
1999	1,097,859,200	2,007	18,654,000	13,415,480
1998	1,038,169,010	1,983	16,939,872	13,617,174
1997	1,023,331,230	1,964	15,357,999	12,522,122
1996	980,619,340	1,881	13,041,665	12,786,549

(1) Pinellas County Property Appraiser's Office
(2) City of St. Pete Beach Planning and Development Department
(3) Florida Bankers Association (as of June 30)

TABLE XIV

CITY OF ST. PETE BEACH, FLORIDA

POPULATION COUNT - CITY, COUNTY, STATE

September 30, 2005

Year	City of St. Pete Beach		Pinellas County		State of Florida	
	Count	% Increase (Decrease)	Count	% Increase (Decrease)	Count	% Increase (Decrease)
1960	6,268		374,665		4,951,560	
1970	8,024	28.0%	522,329	39.4%	6,791,418	37.2%
1980	9,354	16.6%	728,409	39.5%	9,739,992	43.4%
1985	9,279	(0.8%)	799,933	9.8%	11,278,500	15.8%
1990	9,200	(0.9%)	847,143	5.9%	12,896,000	14.3%
2000	9,718	5.6%	983,444	16.1%	14,670,500	13.8%

Sources: City of St. Pete Beach
 Pinellas Planning Council
 Bureau of Economic and Business Research, University of Florida

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TABLE XV

CITY OF ST. PETE BEACH, FLORIDA

MISCELLANEOUS STATISTICAL DATA

September 30, 2005

DATE OF INCORPORATION

Municipal Corporation 1957
 Present Charter adopted June 13, 1976

FORM OF GOVERNMENT

City Commission - City Manager

FISCAL YEAR

October 1 to September 30

POPULATION

U.S. Census
 2000 - 9,718
 1990 - 9,200
 1980 - 9,354
 1970 - 8,024
 1960 - 6,628

BUILDING AND OTHER PERMIT FEES IN FISCAL YEAR 2003/2004

\$ 701,419

AREA

Land 1,303 acres

STREETS

Paved 45.73 miles

SEWERS

Miles of sanitary sewer lines (approximate) 37 miles
 Pump stations 17
 Average daily flow 2.8 MGD

WATER

Owned and operated by Pinellas County

RECLAIMED WATER

Miles of water lines (approximate) 40 miles
 Booster pump station 1

POLICE PROTECTION

Stations 1
 Employees 43

FIRE PROTECTION

Stations 2
 Employees 32

TOTAL MUNICIPAL EMPLOYEES

140

LIBRARIES

Main 1
 Volumes 42,560

PUBLIC SCHOOLS

Gulf Beaches Elementary 390 students

RECREATION FACILITIES

Parks 34.7 acres
 Beaches 39.8 acres
 Playgrounds 5
 Picnic areas 5
 Fishing piers 2
 Fishing areas 5
 Boat ramps 2
 Tennis 9 courts
 Ball fields 3 diamonds
 Basketball 3 courts

K-35

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APPENDIX L

Financial Information Regarding City of Valparaiso

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CITY OF VALPARAISO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GENERAL FUND
For the Years Ended September 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>
REVENUES:			
Property taxes	\$ 522,850	\$ 544,368	\$ 570,290
Franchise taxes	281,906	318,172	332,621
Communication taxes	165,855	182,315	171,944
Gasoline taxes	0	0	0
Sales taxes	481,012	545,343	563,036
Excise taxes	32,600	29,081	34,516
Utility taxes	210,379	217,103	221,350
Licenses and Permits	39,576	57,439	119,733
Intergovernmental	165,144	177,232	233,642
Federal and state grants	251,357	90,616	203,669
Fines and forfeits	67,901	48,461	66,229
Charges for services	158,386	177,025	171,651
Interest	12,940	9,431	16,269
Rents	10,105	42,232	39,307
Sales of fixed assets	48,235	4,831	27,847
Miscellaneous	<u>5,838</u>	<u>28,137</u>	<u>63,565</u>
Total revenues:	2,454,084	2,471,786	2,835,669
EXPENDITURES:			
Current:			
General Government	\$ 589,519	576,116	692,224
Public safety	842,215	877,896	1,040,914
Public works	0	102,010	118,208
Transportation	0	0	0
Health Services	1,073	0	0
Cemetery	0	66,039	76,864
Culture and recreation	358,225	383,196	447,957
Physical Environment	64,817	0	0
Debt Service:			
Principal	0	111,203	115,201
Interest	0	7,545	5,290
Public Safety	116,249	0	0
Capital outlay	183,773	104,485	350,679
Grants	<u>194,486</u>	<u>0</u>	<u>0</u>
Total expenditures	2,350,357	2,228,490	2,847,337
Excess of revenues over (under) expenditures	103,727	243,296	(11,668)
OTHER FINANCING SOURCES (USES)			
Proceeds of Capital Leases	45,005	0	0
Transfers out	<u>(48,000)</u>	<u>(48,000)</u>	<u>(48,000)</u>
Total other financing sources (uses)	(2,995)	(48,000)	(48,000)
Net change in fund balance	\$ 100,732	195,296	(59,668)
Fund balances - beginning	<u>1,424,369</u>	<u>1,359,588</u>	<u>1,554,884</u>
Residual Equity Transfer	<u>(165,513)</u>	<u>0</u>	<u>0</u>
Fund balances - ending	<u>\$ 1,359,588</u>	<u>\$ 1,554,884</u>	<u>\$ 1,495,216</u>

The obligation of the City of Valparaiso to pay the Loan Payments is limited as described in the Official Statement. Certain of the above revenues may not be legally available to make, nor are any of the above revenues pledged to, the Loan Repayments. No representation is made as to the amount of revenues that are legally available to make the Loan Repayments.

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McAbee & Scott

CERTIFIED PUBLIC ACCOUNTANT

Donn G. Scott, CPA
William W. McAbee
(Deceased 1924-2002)

January 24, 2006

Honorable Mayor and Members
of the City Council
City of Valparaiso, Florida

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Valparaiso, Florida, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) **Circular A-133 Compliance Supplement** that are applicable to each of its major federal programs for the year ended September 30, 2005. The City of Valparaiso's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Valparaiso's management. Our responsibility is to express an opinion on the City of Valparaiso's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City of Valparaiso's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Valparaiso's compliance with those requirements.

In our opinion, the City of Valparaiso complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance


The management of the City of Valparaiso is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Valparaiso's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Page Two
Honorable Mayor, and Members
of the City Council
City of Valparaiso, Florida

We noted certain matters involving the internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Valparaiso's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1, 05-2, and 05-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


McAbee & Scott
Certified Public Accountant

THE CITY OF VALPARAISO
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2005

This section of the City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets-the difference between the City's assets and liabilities-is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into two categories.

- **Governmental activities** - Most of the City's basic services are included here, such as the police, fire, public works, and parks departments, and general administration. Taxes and intergovernmental revenues finance most of these activities.
- **Business-type activities** - The City charges fees to customers to help it cover the costs of certain services it provides. The City's utility, communication, and sanitation systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds-not the City as whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Some funds may be required by State law or other funds may be established by the City Council to control and manage money for particular purposes (like the Streets Fund).

The City has two kinds of funds:

- **Governmental funds** - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. The City's combined net assets increased by \$853,582 or 15% between fiscal years 2004 and 2005.

	City of Valparaiso Net Assets						Total Percentage Change
	Governmental Activities		Business-type Activities		Total		
	2005	2004	2005	2004	2005	2004	
Current and other assets	\$1,840,829	\$1,771,203	\$2,438,986	\$1,666,794	\$4,279,815	\$3,437,997	24%
Capital assets	<u>2,401,007</u>	<u>2,114,770</u>	<u>2,651,231</u>	<u>2,279,335</u>	<u>5,052,238</u>	<u>4,394,105</u>	15%
Total assets	4,241,836	3,885,973	5,090,217	3,946,129	9,332,053	7,832,102	19%
Long-term debt outstanding	62,128	177,329	1,481,529	1,252,930	1,543,657	1,430,259	8%
Other liabilities	<u>190,180</u>	<u>107,652</u>	<u>1,041,277</u>	<u>590,834</u>	<u>1,231,457</u>	<u>698,486</u>	76%
Total liabilities	<u>252,308</u>	<u>284,981</u>	<u>2,522,806</u>	<u>1,843,764</u>	<u>2,775,114</u>	<u>2,128,745</u>	30%
Net assets	<u>3,989,528</u>	<u>3,600,992</u>	<u>2,567,411</u>	<u>2,102,365</u>	<u>6,556,939</u>	<u>5,703,357</u>	15%
Invested in capital assets, net of related debt	2,338,879	1,937,441	1,075,819	1,046,637	3,421,416	2,984,078	15%
Restricted	428,625	408,788	628,615	223,902	1,065,380	632,690	68%
Unrestricted	<u>1,222,024</u>	<u>1,254,763</u>	<u>862,977</u>	<u>831,826</u>	<u>2,070,143</u>	<u>2,086,589</u>	- 1%
Total net assets	<u>\$3,989,528</u>	<u>\$3,600,992</u>	<u>\$2,567,411</u>	<u>\$2,102,365</u>	<u>\$6,556,939</u>	<u>\$5,703,357</u>	15%

L-4

The net assets of the business-type activities increased by 22% to \$2.6 million from fiscal year 2004 to 2005. The primary reason for the increase in net assets of the business activities is the receipt of grant revenues related to building a water tank and well. The net assets of the City's governmental activities increased by 11% to \$4.0 million. \$2.3 million is invested in capital assets (land, buildings, infrastructure, and equipment) and \$428,625 are restricted as to the purposes they can be used for. Consequently, unrestricted net assets showed a \$1.2 million surplus at the end of this year. The increase in the net assets was attributed to the increase in capital assets, a decrease in the long-term debt outstanding, and an excess of revenues over expenditures. Specifically, the increase can be attributed to the following:

- The City completed a major capital project totaling \$174,647 to an administrative building.
- The City paid down capital lease obligations by \$115,201.
- The City made infrastructure improvements in various parks totaling \$79,900.

Changes in net assets

The City's total revenues increased by 21% to \$6.2 million. 9% of the City's revenues come from property taxes and 25% of total revenues come from some type of tax. Charges for services and state and federal revenues and grants make up 41% and 25%, respectively of the City's total revenues.

The total cost of all programs and services increased by 15% to 5.3 million. The City's expenses cover a range of services with the largest expense related to public safety, which represents 21% of the cost of all programs and services.

Governmental Activities

Revenues for the City's governmental activities increased by 10%, and total expenses increased by 16%. The increase in revenues in the governmental activities can be attributed to slight increases in taxes and more modest increases in intergovernmental revenue such as sales taxes, communication taxes, and municipal revenue sharing. Other revenue increases were due to insurance proceeds and disaster funds received as a result of the hurricanes. The increase in expenses in the governmental activities were attributed to a slight increase in the City's labor force and higher benefit costs. Other expense increases were from higher fuel costs and contractual services.

The total cost of all governmental activities this year was \$2.7 million. General government and public safety experienced increases of 25% and 16% over the previous year. The general government's increase in its cost of services can be attributed to higher costs of personnel, insurance and professional services. The public safety's increase in cost of services was attributed to increases in personnel costs, fuel costs, and non-capital outlay purchases.

Business-type Activities

Revenues of the City's business-type activities increased 36% to \$3.0 million while expenses increased 13% to 2.6 million. Revenue increases were due to increased demand for internet services.

The business-type activities' expenses were higher due to unexpected costs from the impact of Hurricane Ivan and Dennis. Increase costs from overtime, maintenance, and contractual services increased as a result of those natural disasters. In addition, expenses of the communication fund were higher due to higher programming costs and support for more internet subscribers. The utility fund experienced increase costs related to the regional sewer plant.

Changes in City of Valparaiso's Net Assets

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2004-2005
Revenues							
Program revenues:							
Charges for services	\$ 360,442	\$ 308,675	\$2,175,951	\$2,136,937	\$2,536,393	\$2,445,612	40%
Operating grants and contributions	220,595	1,273,958	207,347	23,241	427,942	1,297,199	-67 %
Capital grants and contributions	16,991	126,125	501,467	13,000	518,458	139,125	273%
General revenues:							
Property taxes	570,290	544,368	0	0	570,290	544,368	5%
Other taxes	1,508,812	564,356	17,848	0	1,526,660	64,356	171%
Other	<u>491,983</u>	<u>58,305</u>	<u>132,857</u>	<u>64,939</u>	<u>624,840</u>	<u>123,244</u>	407%
Total revenues	3,169,113	2,875,787	3,035,470	2,238,117	6,204,583	5,113,904	21%
Expenses							
General government	733,555	587,540	0	0	733,555	587,540	25%
Public safety	1,129,938	969,933	0	0	1,129,938	969,933	16%
Public works	125,329	110,368	0	0	125,329	110,368	14%
Transportation	185,694	205,866	0	0	185,694	205,866	-10%
Cemetery	79,609	68,628	0	0	79,609	68,628	16%
Culture and recreation	473,484	404,927	0	0	473,484	404,927	17%
Interest on long-term debt	4,968	7,545	0	0	4,968	7,545	-34%
Utility	0	0	889,746	819,913	889,746	819,913	9%
Communication	0	0	954,113	850,504	954,113	850,504	12%
Sanitation	0	0	<u>774,565</u>	<u>643,331</u>	<u>774,565</u>	<u>643,331</u>	20%
Total expenses	<u>2,732,577</u>	<u>2,354,807</u>	<u>2,618,424</u>	<u>2,313,748</u>	<u>5,351,001</u>	<u>4,668,555</u>	15%
Excess over (under) before transfers	436,536	520,980	417,096	(75,631)	853,582	445,349	92%
Transfers	(48,000)	(48,000)	<u>48,000</u>	<u>48,000</u>	0	0	
Increase (decrease) in net assets	\$ <u>388,536</u>	\$ <u>472,980</u>	\$ <u>465,046</u>	\$ <u>(27,631)</u>	\$ <u>853,582</u>	\$ <u>445,349</u>	92%

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$1.7 million, which is \$33,873 lower than the previous fiscal year. The primary reason for the decrease was that the general government experienced higher costs than anticipated.

General Fund Budgetary Highlights

Three amendments were made to the general fund budget during the year. These budget amendments fall into three categories.

- Amendments related to two federal disasters that resulted in federal monies and insurance proceeds and increased expenditures for capital improvements to docks and piers.
- Increases in capital appropriations to prevent budget overruns for purchasing fire department equipment and extra costs associated with a building improvement.
- Increases in appropriations to prevent budget overruns in general government for increased costs associated with legal services.

The general fund's actual expenditures were \$182 below final budget amounts. The most significant positive variance (\$37,802) resulted from the parks department choosing to defer some park upgrades.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City had invested \$5.1 million in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, water and sewer lines, cable television and internet equipment, and sanitation vehicles. This amount represents a net increase (including additions and deductions) of \$658 thousand, or 15%, over last year.

This year's major capital assets additions included:

- Remodeling of an administration building for \$174,647 where the City Commission conducts their meetings.
- Various park projects totaling \$79,900 paid for with the federal disaster and insurance proceeds.
- Construction in progress of a water well and tank totaling \$330,036 paid for with a community development block grant.
- A major street and stormwater project totaling \$104,526 paid for with the local option gasoline taxes and municipal revenue sharing dollars.

The City plans to spend approximately \$350,000 to complete the water well and tank to be financed with bond funds and a community development block grant in fiscal year 2006. More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

City of Valparaiso's Capital Assets

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 451,387	\$ 451,387	\$ 110,939	\$ 110,939	\$ 562,326	\$ 562,326	0%
Construction in progress	0	3,325	456,279	8,000	456,279	11,325	3929%
Infrastructure	682,478	524,615	0	0	682,478	524,615	30%
Buildings and improvements	711,609	569,328	1,652,025	1,694,924	2,363,634	2,264,252	4%
Furniture, vehicles, and equipment	286,526	261,338	380,644	406,229	667,170	667,567	0%
Assets under capital leases	<u>269,007</u>	<u>304,777</u>	<u>51,344</u>	<u>59,243</u>	<u>320,351</u>	<u>364,020</u>	-12%
Total	<u>\$2,401,007</u>	<u>\$2,114,770</u>	<u>\$2,651,231</u>	<u>2,279,335</u>	<u>\$5,052,238</u>	<u>\$4,394,105</u>	15%

Long-term Debt

At year end, the City had \$1,629,293 in bonds and capital leases outstanding – an increase of 14% over last year as shown in the table below. More detailed information about the City's long-term liabilities is presented in Note 6-A of the financial statements.

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2004-2005
Lease obligations	\$ 62,128	\$ 177,329	\$ 12,165	\$ 35,814	\$ 74,293	\$ 213,143	-187%
Bonds and notes	<u>0</u>	<u>0</u>	<u>1,555,000</u>	<u>1,207,000</u>	<u>1,555,000</u>	<u>1,207,000</u>	29%
Total	<u>\$ 62,128</u>	<u>\$ 177,329</u>	<u>\$ 1,567,165</u>	<u>\$ 1,242,814</u>	<u>\$ 1,629,293</u>	<u>\$ 1,420,143</u>	14%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Amounts available for appropriation in the general fund budget are 3.2 million, an increase of 14% over the final FY2005 budget of 2.8 million. Property taxes (benefiting from the 2005 increase in assessed valuations) municipal revenue sharing and communication sales tax revenues increased. The City will use these increases in revenues to finance programs costs. The 2006 appropriations include \$253 thousand from unrestricted reserves.

Budgeted expenditures are expected to rise nearly 13 percent to \$3.2 million. The largest increments are increased wages and cost of living adjustments of \$125 thousand and capital expenditures of \$200 thousand. The City has added no major new programs or initiatives to the FY 2006 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk's office, 190 Valparaiso Parkway, Valparaiso, Florida 32578.

THE CITY OF VALPARAISO
STATEMENT OF NET ASSETS
September 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 801,927	\$ 573,210	\$ 1,375,137
Accounts receivable, net	3,672	203,037	206,709
Taxes receivable, net	3,916	0	3,916
Interest receivable	594	406	1,000
Intergovernmental receivable	44,486	0	44,486
Grants receivable	61,325	103,706	165,031
Internal balances	233,971	0	233,971
Prepaid items	5,000	5,596	10,596
Inventories	0	80,293	80,293
Total current assets	1,154,891	966,248	2,121,139
Restricted assets:			
Cash and cash equivalents	427,482	968,032	1,395,514
Interest receivable	1,143	0	1,143
Grants receivable	0	113,464	113,464
Total restricted assets	428,625	1,081,496	1,510,121
Noncurrent assets:			
Unamortized bond issue costs	0	36,438	36,438
Investments	217,313	184,059	401,372
Investment in joint venture	0	170,745	170,745
Internal balances	40,000	0	40,000
Capital assets:			
Land	451,387	110,939	562,326
Construction in progress	0	456,279	456,279
Other capital assets, net of depreciation	1,949,620	2,084,013	4,033,633
Total capital assets	2,401,007	2,651,231	5,052,238
Total noncurrent assets	2,658,320	3,042,473	5,700,793
Total assets	\$ 4,241,836	\$ 5,090,217	\$ 9,332,053

THE CITY OF VALPARAISO
STATEMENT OF NET ASSETS
September 30, 2005

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 84,147	\$ 205,941	\$ 290,088
Taxes payable	15,819	575	16,394
Salaries and benefits payable	25,871	2,625	28,496
Deposits from others	1,250	0	1,250
Interest payable	401	65	466
Deferred revenue	2,750	72,627	75,377
Bonds and leases payable	56,225	12,165	68,390
Internal balances	0	233,971	233,971
Total current liabilities	186,463	527,969	714,432
Liabilities payable from restricted assets	0	452,881	452,881
Noncurrent liabilities:			
Compensated absences	59,942	20,427	80,369
Internal balances	0	40,000	40,000
Bonds and leases payable	5,903	1,480,000	1,485,903
Unamortized bond premium	0	42,388	42,388
Deferred bond refunding costs	0	(40,859)	(40,859)
Total noncurrent liabilities	65,845	1,541,956	1,607,801
Total liabilities	252,308	2,522,806	2,775,114
NET ASSETS			
Invested in capital assets, net of related debt	2,338,879	1,075,819	3,414,698
Restricted for:			
Capital projects	0	628,615	628,615
Public safety	16,705	0	16,705
Transportation	149,767	0	149,767
Cemetery	180,514	0	180,514
Culture and recreation	81,639	0	81,639
Unrestricted	1,222,024	862,977	2,085,001
Total net assets	3,989,528	2,567,411	6,556,939
Total liabilities and net assets	\$ 4,241,836	\$ 5,090,217	\$ 9,332,053

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

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THE CITY OF VALPARAISO
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

Functions/Programs	PROGRAM REVENUES				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 733,555	\$ 242,542	\$ 148,860	\$ 0	(\$342,153)	\$ 0	(\$ 342,153)
Public safety	1,129,938	83,903	0	16,991	(1,029,044)	0	(1,029,044)
Public works	125,329	0	0	0	(125,329)	0	(125,329)
Transportation	185,694	0	0	0	(185,694)	0	(185,694)
Cemetery	79,609	30,385	0	0	(49,224)	0	(49,224)
Culture and recreation	473,484	3,612	71,735	0	(398,137)	0	(398,137)
Interest on long-term debt	4,968	0	0	0	(4,968)	0	(4,968)
Total governmental activities	<u>2,732,577</u>	<u>360,442</u>	<u>220,595</u>	<u>16,991</u>	<u>(2,134,549)</u>	<u>0</u>	<u>(2,134,549)</u>
Business-type activities:							
Utility	889,746	636,937	5,084	501,467	0	253,742	253,742
Communication	954,113	911,751	54,697	0	0	12,335	12,335
Sanitation	774,565	627,263	147,566	0	0	264	264
Total business-type activities	<u>2,618,424</u>	<u>2,175,951</u>	<u>207,347</u>	<u>501,467</u>	<u>0</u>	<u>266,341</u>	<u>266,341</u>
Total primary government	<u>\$ 5,351,001</u>	<u>\$ 2,536,393</u>	<u>\$ 427,942</u>	<u>\$ 518,458</u>	<u>(\$2,134,549)</u>	<u>\$266,341</u>	<u>(\$1,868,208)</u>
General revenues:							
Property taxes					570,290	0	570,290
Public service taxes & franchise fees					1,508,812	0	1,508,812
State shared revenues					341,966	0	341,966
Investment earnings					19,298	17,848	37,146
Rents					39,307	71,789	111,096
Miscellaneous					27,847	27,646	55,493
Insurance claim					63,565	33,422	96,987
Transfers					(48,000)	48,000	0
Total general revenues and transfers					<u>2,523,085</u>	<u>198,705</u>	<u>2,721,790</u>
Change in net assets					<u>388,536</u>	<u>465,046</u>	<u>853,582</u>
Net assets- beginning					<u>3,600,992</u>	<u>2,102,365</u>	<u>5,703,357</u>
Net assets- ending					<u>\$ 3,989,528</u>	<u>\$ 2,567,411</u>	<u>\$ 6,556,939</u>

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

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THE CITY OF VALPARAISO

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2005

THE CITY OF VALPARAISO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

September 30, 2005

	General Fund	Streets Fund	Total Governmental Funds
ASSETS			
Current:			
Cash and cash equivalents	\$ 781,930	\$ 19,997	\$ 801,927
Accounts receivable, net	3,673	0	3,673
Taxes receivable, net	3,916	0	3,916
Interest receivable	594	0	594
Intergovernmental receivable	44,486	0	44,486
Prepaid expenses	5,000	0	5,000
Grants receivable	61,325	0	61,325
Due from other funds	233,971	42,299	276,270
Restricted Assets:			
Cash and cash equivalents	278,858	148,624	427,482
Interest receivable	0	1,143	1,143
Noncurrent:			
Investments	217,313	0	217,313
Advances to other funds	40,000	0	40,000
Total assets	<u>\$ 1,671,066</u>	<u>\$ 212,063</u>	<u>\$ 1,883,129</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	64,989	19,158	84,147
Taxes payable	100	0	100
Salaries and benefits payable	25,032	839	25,871
Deposits from others	1,250	0	1,250
Deferred revenues	42,180	0	42,180
Due to other funds	42,299	0	42,299
Total liabilities	<u>175,850</u>	<u>19,997</u>	<u>195,847</u>
Fund balances:			
Reserved for restricted purposes	278,858	149,767	428,625
Reserved for advances to other funds	231,672	42,299	273,971
Unreserved-designated for subsequent year appropriation	253,119	0	253,119
Unreserved-undesignated	731,567	0	731,567
Total fund balances	<u>1,495,216</u>	<u>192,066</u>	<u>1,687,282</u>
Total liabilities and fund balances	<u>\$ 1,671,066</u>	<u>\$ 212,063</u>	<u>\$ 1,883,129</u>

Total fund balances for governmental funds \$ 1,687,282

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 451,387	
Infrastructure, net of \$665,740 accumulated depreciation	682,478	
Buildings and improvements, net of \$533,807 accumulated depreciation	711,609	
Furniture, vehicles and equipment, net of \$877,641 accumulated depreciation	286,526	
Assets under capital leases, net of \$116,034 accumulated depreciation	<u>269,007</u>	
Total capital assets		2,401,007

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net assets. Balances at September 30, 2005 are:

Sales tax contingency	(15,719)	
Accrued interest on capital lease obligations	(401)	
Capital leases	(62,128)	
Compensated absences	<u>(59,942)</u>	
Total long-term liabilities		(138,190)

Revenues not collected within 60 days of fiscal year end in the governmental funds do not meet the requirements of the availability for revenue recognition. Deferred revenue balances at September 30, 2005 are:

Cemetery lot revenue	3,512
Grant revenues	<u>35,917</u>

Total net assets of governmental activities \$ 3,989,528

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

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

THE CITY OF VALPARAISO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2005

	General Fund	Streets Fund	Total Governmental Funds
REVENUES:			
Property taxes	\$ 570,290	\$ 0	\$ 570,290
Franchise taxes	332,621	0	332,621
Communication taxes	171,944	0	171,944
Gasoline taxes	0	185,345	185,345
Sales taxes	563,036	0	563,036
Excise taxes	34,516	0	34,516
Utility taxes	221,350	0	221,350
Licenses and Permits	119,733	0	119,733
Intergovernmental	233,642	105,639	339,281
Federal and state grants	203,669	0	203,669
Fines and forfeits	66,229	0	66,229
Charges for services	171,651	0	171,651
Interest	16,269	3,029	19,298
Rents	39,307	0	39,307
Miscellaneous	27,847	0	27,847
Insurance claim	63,565	0	63,565
Total revenues	<u>2,835,669</u>	<u>294,013</u>	<u>3,129,682</u>
EXPENDITURES:			
Current:			
General government	692,224	0	692,224
Public safety	1,040,914	0	1,040,914
Public works	118,208	0	118,208
Transportation	0	140,758	140,758
Cemetery	76,864	0	76,864
Culture and recreation	447,957	0	447,957
Debt Service:			
Principal	115,201	0	115,201
Interest	5,290	0	5,290
Capital outlay	350,679	127,460	478,139
Total expenditures	<u>2,847,337</u>	<u>268,218</u>	<u>3,115,555</u>
Excess of revenues over (under) expenditures	(11,668)	25,795	14,127
OTHER FINANCING SOURCES (USES)			
Transfers out	(48,000)	0	(48,000)
Total other financing sources (uses)	<u>(48,000)</u>	<u>0</u>	<u>(48,000)</u>
Net change in fund balance	(59,668)	25,795	(33,873)
Fund balances-beginning	<u>1,554,884</u>	<u>166,271</u>	<u>1,721,155</u>
Fund balances-ending	<u>\$ 1,495,216</u>	<u>\$ 192,066</u>	<u>\$ 1,687,282</u>

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

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

For the Year Ended September 30, 2005

Net change in fund balances - total governmental funds (\$33,873)

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 (\$478,139) exceeds depreciation (\$191,902) in the current period. 286,237

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 115,201

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of three balances.

Compensated absences (3,060)
Accrued interest on capital lease obligations 321
Contingency sales tax payable (15,719)

Under the modified accrual basis of accounting used in the governmental funds, revenues are recognized when they become measurable and available. In the statement of activities, however, which is presented on the accrual basis, revenues and receivables are reported when the exchange takes place or in conformity with GASB No. 33 for non exchange transactions.

Deferred revenues:
Grants 35,916
Cemetery lot installment sales 3,513

Change in net assets of governmental activities \$ 388,536

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

THE CITY OF VALPARAISO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2005

	Utility Fund	Communication Fund	Sanitation Fund	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 109,581	\$ 455,634	\$ 7,995	\$ 573,210
Accounts receivable (net)	77,548	74,144	51,345	203,037
Interest receivable	152	254	0	406
Grants receivable	0	0	103,706	103,706
Prepaid items	1,000	4,596	0	5,596
Inventories	51,806	28,487	0	80,293
Total Current Assets	240,087	563,115	163,046	966,248
Restricted Assets				
Cash and cash equivalents	732,249	235,783	0	968,032
Grants receivable	113,464	0	0	113,464
Total Restricted Assets	845,713	235,783	0	1,081,496
Noncurrent assets				
Unamortized bond issue costs	36,438	0	0	36,438
Investments	184,059	0	0	184,059
Investments in joint venture	170,745	0	0	170,745
Capital assets:				
Land	40,287	70,652	0	110,939
Construction in progress	430,941	25,338	0	456,279
Buildings and improvements	4,631,740	75,705	733	4,708,178
Furniture, vehicles and equipment	322,361	1,082,642	326,843	1,731,846
Capital lease assets	0	0	78,990	78,990
Less: accumulated depreciation	(3,243,206)	(910,980)	(280,815)	(4,435,001)
Total Noncurrent Assets	2,573,365	343,357	125,751	3,042,473
Total Assets	3,659,165	1,142,255	288,797	5,090,217

THE CITY OF VALPARAISO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2005

	Utility Fund	Communication Fund	Sanitation Fund	Total
LIABILITIES				
Current Liabilities:				
Accounts payable	154,258	38,886	12,797	205,941
Taxes payable	0	575	0	575
Salaries and benefits payable	681	1,231	713	2,625
Interest payable	0	0	65	65
Deferred revenue	0	72,627	0	72,627
Due to other funds	131,555	23,571	78,845	233,971
Bonds and leases payable	0	0	12,165	12,165
Total Current Liabilities	286,494	136,890	104,585	527,969
Liabilities payable from restricted assets:				
Accounts payable	100,904	0	0	100,904
Interest payable	10,130	0	0	10,130
Contingency payable	0	167,985	0	167,985
Bonds and leases payable-current	75,000	0	0	75,000
Deposits	98,862	0	0	98,862
Total Liabilities Payable From Restricted Assets	284,896	167,985	0	452,881
Noncurrent liabilities:				
Compensated absences	1,864	8,139	10,424	20,427
Advances from other funds	0	0	40,000	40,000
Bonds and leases payable	1,480,000	0	0	1,480,000
Unamortized bond premium	42,388	0	0	42,388
Deferred bond refunding costs	(40,859)	0	0	(40,859)
Total Noncurrent Liabilities	1,483,393	8,139	50,424	1,541,956
Total Liabilities	2,054,783	313,014	155,009	2,522,806
NET ASSETS				
Invested in capital assets, net of related debt	618,876	343,357	113,586	1,075,819
Restricted for capital assets	560,817	67,798	0	628,615
Unrestricted	424,689	418,086	20,202	862,977
Total Net Assets	\$ 1,604,382	\$ 829,241	\$ 133,788	\$ 2,567,411

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

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

THE CITY OF VALPARAISO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2005

	Enterprise Funds			Total
	Utility Fund	Communication Fund	Sanitation Fund	
OPERATING REVENUES				
Charges for service	\$ 632,137	\$ 910,475	\$ 627,263	\$ 2,169,875
Miscellaneous	4,800	27,467	0	32,267
Total Operating Revenue	<u>636,937</u>	<u>937,942</u>	<u>627,263</u>	<u>2,202,142</u>
OPERATING EXPENSES				
Salaries and benefits	230,569	216,665	399,091	846,325
Internal services	29,651	40,319	42,386	112,356
Utilities	74,820	14,762	0	89,582
Depreciation	126,113	97,932	28,165	252,210
Bad debts	1,297	1,976	1,125	4,398
Lease	0	42,522	0	42,522
Hurricane debris removal	0	0	101,550	101,550
Landfill costs	0	0	146,831	146,831
Repairs & maintenance	51,155	16,421	19,177	86,753
Telephone & internet	6,028	72,061	0	78,089
Programming costs	0	352,621	0	352,621
Regional plant operation	185,637	0	0	185,637
Insurance	8,447	14,931	6,230	29,608
Services and supplies	105,230	83,903	28,911	218,044
Total Operating Expenses	<u>818,947</u>	<u>954,113</u>	<u>773,466</u>	<u>2,546,526</u>
Operating Income (Loss)	<u>(182,010)</u>	<u>(16,171)</u>	<u>(146,203)</u>	<u>(344,384)</u>
NONOPERATING REVENUES (EXPENSES)				
Tap on fees	86,770	0	0	86,770
Sales taxes	0	25,295	0	25,295
Investment earnings	10,760	6,706	382	17,848
Rents	58,789	13,000	0	71,789
Interest expense	(67,877)	0	(1,099)	(68,976)
Amortization of bond costs	(2,922)	0	0	(2,922)
Equity in gain of joint venture	1,455	0	0	1,455
Grants	419,781	29,402	147,566	596,749
Gain on insurance claim	0	33,422	0	33,422
Total Nonoperating Revenues (Expenses)	<u>506,756</u>	<u>107,825</u>	<u>146,849</u>	<u>761,430</u>
Transfers in	48,000	0	0	48,000
Change in Net Assets	372,746	91,654	646	465,046
Total Net Assets-beginning	<u>1,231,636</u>	<u>737,587</u>	<u>133,142</u>	<u>2,102,365</u>
Total Net Assets-ending	<u>\$ 1,604,382</u>	<u>\$ 829,241</u>	<u>\$ 133,788</u>	<u>\$ 2,567,411</u>

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

THE CITY OF VALPARAISO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2005

	Enterprise Funds			Total
	Utility Fund	Communication Fund	Sanitation Fund	
Cash Flows From Operating Activities				
Receipts from customers	\$ 637,096	\$ 913,458	\$ 627,697	\$ 2,178,251
Payments to suppliers	(220,077)	(577,625)	(323,780)	(1,121,482)
Payments to employees	(230,731)	(215,051)	(395,384)	(841,166)
Internal activity-payments from (to) other funds	(29,651)	(40,319)	(42,386)	(112,356)
Other receipts (payments)	4,800	27,467	0	32,267
Net Cash Provided (Used) by Operating Activities	<u>161,437</u>	<u>107,930</u>	<u>(133,853)</u>	<u>135,514</u>
Cash Flows from Noncapital Financing Activities				
Sales taxes	0	25,295	0	25,295
Rents	58,789	13,000	0	71,789
Noncapital grants	5,084	29,402	43,860	78,346
Operating transfers in	48,000	0	0	48,000
Receipts (payments) on interfund loan	43,445	48,533	10,519	102,497
Net Cash Provided (Used) by Non Capital Financing Activities	<u>155,318</u>	<u>116,230</u>	<u>54,379</u>	<u>325,927</u>
Cash Flows from Capital and Related Financing Activities				
Tap on fees	86,770	0	0	86,770
Purchase and construction of capital assets	(557,899)	(61,041)	(5,165)	(624,105)
Principal paid on capital debt	(1,207,000)	0	(23,649)	(1,230,649)
Interest paid on capital debt	(70,544)	0	(1,147)	(71,691)
Proceeds from insurance claim	0	33,422	0	33,422
Capital grants received	301,234	0	0	301,234
Bond proceeds	1,599,360	0	0	1,599,360
Payment of bond issue costs	(38,133)	0	0	(38,133)
Premium paid on bonds	(7,900)	0	0	(7,900)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>105,868</u>	<u>(27,619)</u>	<u>(29,961)</u>	<u>48,308</u>
Cash Flows from Investing Activities				
Interest	10,926	6,505	382	17,813
Purchase of investments	(3,244)	0	0	(3,244)
Sale of investments	93,673	0	0	93,673
Net Cash Provided (Used) by Investing Activities	<u>101,355</u>	<u>6,505</u>	<u>382</u>	<u>108,242</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>523,998</u>	<u>203,046</u>	<u>(109,053)</u>	<u>617,991</u>
Balances-Beginning of the Year	<u>317,832</u>	<u>488,371</u>	<u>117,048</u>	<u>923,251</u>
Balances-End of Year	<u>\$ 841,830</u>	<u>\$ 691,417</u>	<u>\$ 7,995</u>	<u>\$ 1,541,242</u>
Displayed as:				
Cash	\$ 109,581	\$ 455,634	\$ 7,995	\$ 573,210
Restricted assets	\$ 732,249	\$ 235,783	\$ 0	\$ 968,032

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

THE CITY OF VALPARAISO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended September 30, 2005

	Enterprise Funds			Total
	Utility Fund	Communication Fund	Sanitation Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	(182,010)	(16,171)	(146,203)	(344,384)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	126,113	97,932	28,165	252,210
Bad debts	1,297	1,976	1,125	4,398
Changes in assets and liabilities:				
Receivables, gross	751	(1,044)	434	141
Inventories	(16,339)	(2,439)	0	(18,778)
Prepaid items	0	(4,596)	0	(4,596)
Accounts payable	227,579	(8,269)	(21,082)	198,228
Accrued liabilities (taxes and interest)	489	63	185	737
Deposits	4,208	0	0	4,208
Deferred income	0	4,030	0	4,030
Salaries and benefits payable	(651)	2,346	3,523	5,218
Contingency payable	0	34,102	0	34,102
Net Cash Provided (Used) by Operating Activities	<u>\$161,437</u>	<u>\$ 107,930</u>	<u>(\$133,853)</u>	<u>\$ 135,514</u>
Non-cash investing, capital, and financing activities:				
Equity in gain of joint venture	\$ 1,454			
Amortization of bond issue costs, discounts, premiums, and deferred amounts	\$ 4,085			
Retirement of out-of-service fixed assets	\$ 75,110	\$ 40,815	\$ 923	

L-13

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

THE CITY OF VALPARAISO
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
September 30, 2005

	Pension Trust Funds
ASSETS	
Cash and cash equivalents	\$ 11,015
Investments	<u>324,809</u>
Total assets	<u>335,824</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 335,824</u>

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

THE CITY OF VALPARAISO
STATEMENT OF CHANGES IN NET ASSETS- FIDUCIARY FUNDS
Year Ended September 30, 2005

	Pension Trust Funds
Additions	
Contributions:	
Employer	\$ 28,417
Employee	4,763
State of Florida	39,283
Total contributions	72,463
Investment income:	
Net realized and unrealized investment income	25,495
Less: investment expenses	(504)
Net investment income	24,991
Total additions	97,454
Deductions	
Pension benefits	7,487
Refunds	85
Total deductions	7,572
Change in net assets	89,882
Net assets held in trust for pension benefits:	
Balance, beginning of year	245,942
Balance, end of year	\$ 335,824

L-14

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

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Valparaiso, Florida (the "City") was incorporated on May 6, 1921, under the provisions of the Laws of Florida, 9-1-01. The City operates under a Commission-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, utilities, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles. The City's business-type activities apply Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The City's significant accounting policies are described below.

A. The Financial Reporting Entity

The financial statements were prepared in accordance with GASB Statement No. 14, The Financial Reporting Entity, which establishes standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City is financially accountable for a component unit if it appoints a voting majority of the organization's governing board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City is also financially accountable if the entity is fiscally dependent on the City.

Based upon the application of these criteria, the Municipal Police Officers and Firefighters Retirement Trust Fund established pursuant to Florida Statute chapters 175 and 185 qualify as blended component units that are presented in the financial statements. The City does not issue a separate financial statement for the above component unit.

Related Organization

Related organizations are those legally separate entities for which the City is responsible for appointing the board members or Trustees and for which the City is not otherwise financially accountable. These organizations are not included in the primary government's financial statements as they are not considered to be part of the financial reporting entity. The only entity meeting these criteria is the Valparaiso Employees Internal Revenue Code (IRC) Section 457 deferred compensation plan. This plan is a trust fund established solely for the benefit of the plan participants. All record keeping, administration, and investing activities are handled by a third-party trustee.

Joint Venture

The City is involved in a joint venture arrangement that is described in Note 5.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Change in Accounting Pronouncements

In 2004, the City implemented GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, GASB Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – State and Local Governments: Omnibus which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, Certain Financial Disclosures which changes note disclosure requirements for governmental activities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management’s discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and shall, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow user’s of financial reports to assess a government’s operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

Statement No. 38 requires certain disclosure to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. The statement eliminates certain prior disclosures that were no longer relevant or useful, revises certain ongoing disclosures to improve the information they provide and adds new disclosures of relevant and useful information not previously required. Adoption of this statement has not resulted in any restatement of beginning balances.

C. Basic Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements.

Government-wide Financial Statements – The required government-wide financial statements are the Statement of Net Assets and the Statement of Activities, which report information on all of the nonfiduciary activities of the City. The effects of interfund activity have been removed from these statements. Fiduciary funds are also excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basic Financial Statements – continued

The Statement of Activities demonstrates the degree with which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment including depreciation. The City does not allocate the interest expense of governmental fund debt or indirect costs such as finance, personnel, legal, etc. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements – The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. Non-major funds by category are summarized into a single column. The various funds are reported by type within the financial statements. The following fund types and funds are used and reported by the City:

a) **Governmental Funds:**

The focus of the governmental funds’ measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund. This 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.

Streets Fund. This fund is a special revenue fund used to account for state revenues restricted for the use and expenditures of transportation.

b) **Proprietary Funds:**

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basic Financial Statements – continued

- **Utility Fund** is used to account for the operations associated with potable water supply, treatment, transmission and distribution services to area residents and the operations associated with sewer collection, treatment and disposal services to area residents.
- **Sanitation Fund** is used to account for the operations associated with sanitation collection and disposal services for the residents of the City.
- **Communication Fund** is used to account for the operating activities of the City's cable television, internet, and security services.

c) **Fiduciary Funds:**

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds. The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The City has two *Pension Trust Funds* which accumulate resources to provide retirement benefits to City employees. The two pension trust funds are the Police Officers' Retirement Trust Fund, and the Firefighters' Retirement Trust Fund.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements, the proprietary fund financial statements and the fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses reported when a liability is incurred, regardless of the timing of related cash flows.

All governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose the City considers revenue to be available if they are collected within 60 days of the end of the year. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Measurement Focus and Basis of Accounting - continued

Property taxes, public services taxes, franchise taxes and interest income associated with the current fiscal period are susceptible to accrual and are recorded as earned since they are measurable and available. In addition, revenue from Federal, State and local reimbursements type grants for which eligibility requirements have been met and which meet the availability criteria have been accrued and recognized as revenue of the period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. Licenses and permits, charges for services and miscellaneous revenue are recorded as revenue when received in cash, because they are generally not measurable until actually received.

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenue consist primarily of charges for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All items not meeting this definition are reported as non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liability, and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents, for the purpose of the statement of cash flows, are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. Certificates of deposit with original maturities of one year or less when purchased are also cash equivalents.

The City's Retirement Plans are authorized by its governing board to invest in obligations of the U.S. Government, common stocks and corporate bonds. Investments are reported at fair value.

For additional information concerning restricted accounts, see Note 2. Legal restrictions and the City's policies governing deposits are also discussed in Note 2.

Receivables

All trade receivables are shown net of an allowance for uncollectibles based on the past history of uncollectibles. See Note 3 for further details.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Assets, Liabilities, and Net Assets or Equity - continued

Inventories and Prepays

Inventories in proprietary funds consist of expendable supplies held for consumption. They are reported at cost on a first-in, first-out basis or, in instances where cost is not determinable, at an approximate cost based upon current invoice prices. Maintenance and operating supplies are expensed when purchased rather than when consumed.

Prepays record payments to vendors that benefit future reporting periods. Both inventories and prepays are similarly reported in government-wide and fund financial statements.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred as either "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Capital Assets, Depreciation, and Amortization

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable government or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an useful life in excess of one year. Such assets meeting these criteria are capitalized at historical cost, if purchased, while others are charged to expense. Donated assets are stated at fair value on the date donated.

The City's infrastructure asset records include only those infrastructure assets categorized during the past nine years. An estimate of infrastructure costs before this period has not been made. The City elects not to retroactively report major infrastructure assets before this time under GASB Statement No. 34. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Computer software costs are expensed as incurred. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Assets, Liabilities, and Net Assets or Equity – continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 – 50
Building improvements	15 – 25
Infrastructure	20 – 50
Vehicles	5 – 10
Office Equipment	5 – 10
Machinery and equipment	5 – 15
CATV system	5 – 15
Water and sewer systems	20 – 50

Capitalized Interest

Interest costs are capitalized when incurred on debt where proceeds were used to finance construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No construction activities were financed by debt during the current year.

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 cost, 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.

Deferred Revenues

Revenues collected in advance are deferred and recognized as revenue in the period earned.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Assets, Liabilities, and Net Assets or Equity – continued

Compensated Absences

Full-time, permanent employees are granted vacation and sick leave benefits in varying amounts to a maximum of 30 days depending on tenure and age. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued in the government-wide and proprietary fund financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for the amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Unreserved undesignated fund balance is the portion of fund equity available for any lawful use. In the government-wide financial statements, equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and other assets financed by the related debt (e.g. bond issuance costs and restricted bond sinking and reserve accounts), reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b.) Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- d) Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Capital Contributions

Capital contributions in proprietary fund financial statements arise from grants or outside contributions of resources restricted to capital acquisition and construction.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Assets, Liabilities, and Net Assets or Equity – continued

Use of Estimates

The financial statements and related disclosures are prepared in conformity with principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the period reported. These estimates include assessing the collectibility of accounts receivable, the use and recoverability of inventory, pension and postretirement obligations and useful lives and impairment of tangible assets, the determination of the actuarially accrued liability for unpaid claims, which is prepared based upon certain assumptions pertaining to interest rates, inflation rates, etc., among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Although these estimates are based on management’s knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

F. Budget Policy and Practice

The budget is adopted by resolution for all City funds on or before October 1 of each year as required by State Statute. Budgets are amended through a resolution passed by a majority vote of the City Commission at a publicized meeting. The total revenue(s) and/or expenditure(s) must exceed \$5,000 before the amendment will be considered. All budget amounts presented in the accompanying supplementary information have been adjusted for legally authorized amendments.

G. Basis of Budgeting

Budgets for all funds are prepared on the cash receipts and disbursements basis of accounting which differs from the basis used for financial reporting purposes. These differences are usually not significant for the governmental funds, however, they are for the enterprise fund as the budget includes capital outlay and debt principal repayments as expense and does not include depreciation. Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year that the applicable purchase orders are expected to be issued. Occasionally, a portion of the unreserved fund balance from the previous year will be included as budgeted source for the current year.

Each fund’s appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Expenditures are not to exceed appropriations at the fund level.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H. Stewardship, Compliance and Accountability

- A. Compliance With Finance Related Legal and Contractual Provisions – The City has no material violations of finance related legal and contractual provisions including with respect to investment of funds and long-term debt covenants.
- B. Deficit Fund Balance or Fund Equity of Individual Funds – As of September 30, 2005, no individual fund had a deficit fund balance or retained earnings deficit.
- C. Excess of Expenditures Over Budget Appropriations in Individual Funds – For the year ended September 30, 2005, no budgetary fund had an excess of expenditures over appropriations.

NOTE 2 DEPOSITS AND INVESTMENTS

The following are the components of the City’s cash and cash equivalents and investments at September 30, 2005:

	<u>Total</u>
Cash and cash equivalents:	
Cash	\$ 1,859,307
Certificate of deposits	410,263
U..S. Treasury money market funds	501,081
Pension trust funds	<u>11,015</u>
Total cash and cash equivalents	2,781,666
Investments:	
Certificate of deposits	401,372
Pension trust funds	<u>324,809</u>
	<u>\$ 3,507,847</u>

Deposits

Florida Statutes authorize the deposit of City funds in demand deposits or time deposits of financial institutions approved by the State Treasurer. These are defined as public deposits. All City public deposits are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, “Florida Security for Public Deposits Act.” Under the act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository’s collateral pledging level. All collateral must be deposited with the State Treasurer. Any losses to public depositories resulting from insolvency are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessment against other qualified public depositories of the same type as the depository in default. The City bank balances were insured either by the federal depository insurance or collateralized in the bank’s participation in the Florida Security for Public Deposits Act.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 2 DEPOSITS AND INVESTMENTS - continued

Investments

The City’s investment policy, in compliance with state statutes, authorizes the Treasurer to invest in the following:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Chapter 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest bearing time deposits or savings accounts in qualified public depositories as defined in Chapter 280.02, Florida Statutes.
- Direct obligations of the U.S. Treasury.
- Obligations of federal agencies and instrumentalities.

The police and firefighters pension trust funds are allowed to invest in corporate stocks and bonds subject to certain limitations . Investments are reported at fair value.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The City is not exposed to custodial credit risk since all of its bank deposits and certificate of deposits are held with qualified public depositories or insured by the federal depository insurance.

Investment in money market and open-end mutual funds are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Credit Risk. State law limits investments in money market funds and mutual bond funds to funds with the highest credit quality rating from nationally recognized statistical rating organizations. As of September 30, 2005, the City’s investments in money market and mutual funds were rated AAAs by Standard & Poor’s and Aaa by Moody’s Investors Service.

The police and firefighter employees pension plan investment consist primarily of mutual funds: Bond Fund, Growth Fund, Index Fund, Small Cap Equity and an International Fund.

Money market funds are reported at amortized cost which is equivalent to the fair value.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE 2 DEPOSITS AND INVESTMENTS - continued

A reconciliation of cash and investments as shown on the balance sheet and statement of net assets is as follows:

Deposits	\$ 2,781,666
Investments	<u>726,181</u>
	\$ <u>3,507,847</u>
Cash and cash equivalents, primary government	\$ 1,375,137
Investments, primary government	401,372
Restricted cash and cash equivalents, primary government	1,395,514
Restricted investments, primary government	<u>0</u>
Total primary government	\$ <u>3,172,023</u>
Cash and cash equivalents, fiduciary funds	\$ 11,015
Investment, fiduciary funds	<u>324,809</u>
Total fiduciary funds	<u>335,824</u>
Grand Total	\$ <u>3,507,847</u>

Restricted Assets

An explanation of the purpose for restricted assets and a reconciliation of restricted assets to the balance sheet are presented for additional analysis.

General Fund

The City has set aside monies to be restricted for the beautification and perpetual care of the City cemetery. The cemetery account receives monthly transfers of one-half of the sale proceeds from burial certificates.

Replacement funds have been established in the utility and communications fund to set aside resources for replacement of assets.

A library reserve fund was established to receive funds from the Okaloosa County Library Cooperative to be used for future expenditures for the library.

A police forfeiture fund was established to receive monies and proceeds from sale of confiscated property. Expenditures are made from this fund according to State Statute.

A parks reserve fund was established to be used for future capital expenditures.

A fire services fund was established to receive fire impact fees to be used for future capital expenditures.

Streets Fund

A streets special revenue fund has been established to account for funds received from the State that are restricted for the use of transportation expenditures as defined by Florida Statute.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE 2 DEPOSITS AND INVESTMENTS - continued

Restricted Assets – continued

Proprietary Funds

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "sinking fund" account is used to segregate resources accumulated for debt service payments over the next twelve months.

Water and sewer meter deposits received from customers of the water and sewer system are placed in the Utility Deposit Account. The money is restricted to use as payment of the final customer bill or returned to the customer upon settlement of final bill.

A grant fund was established to account for grant monies and disbursements related to the Community Development Block Grant.

A contingency fund was established to hold funds received from customers billed for pole attachment fees in the event that the Court allows the rate increase proposed by Gulf Power.

	Cash and Cash Equivalents
General Fund	
Fire	\$ 11,843
Cemetery	180,514
Library	50,439
Police	4,862
Parks	<u>31,200</u>
Total	\$ <u>278,858</u>
Streets Fund	\$ <u>148,624</u>
Proprietary Funds:	
Utility Fund	
Debt Service	\$ 77,120
Meter Deposits	98,732
Replacement	50,289
Project	501,108
Grant	<u>5,000</u>
Total	\$ <u>732,249</u>
Communication Fund	
Contingency	167,985
Replacement	<u>67,798</u>
Total	\$ <u>235,783</u>
Total	\$ <u>1,395,514</u>

L-20

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 3 RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE

Governmental Funds

Intergovernmental receivables consist of state shared revenues and county occupational licenses. Taxes receivable consist of the utility tax assessed on water charges. Accounts receivable in the governmental funds consists of cemetery lot sale revenues and late fees which are shown net of allowance for uncollectibles of \$1,000.

The governmental fund reported deferred revenues of \$42,180 that consisted of the following:

Unearned rent	\$ 2,750
Cemetery lot sales	3,513
Grant revenues	<u>35,917</u>
	<u>\$ 42,180</u>

Proprietary Funds

The proprietary accounts receivable consists of amounts due from customers for unpaid services and unbilled utility services. Accounts receivable from utility customers and the related revenues reflect an estimated amount based on 45 days of unbilled services at September 30, 2005. The amount of unbilled service revenues included in the accounts receivable of the utility fund was \$79,924.

The allowance for uncollectibles is reported as follows:

	Major Enterprise Funds		
	Utility	CATV	Sanitation
Accounts receivable	\$ 83,048	\$ 76,144	\$ 52,845
Allowance for uncollectibles	<u>(5,500)</u>	<u>(2,000)</u>	<u>(1,500)</u>
Net accounts receivable	<u>\$ 77,548</u>	<u>\$ 74,144</u>	<u>\$ 51,345</u>

The Communication fund reported deferred revenue of \$72,627 for billings for services to be provided in the next month.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 CAPITAL ASSETS

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 451,387	\$ 0	\$ 0	\$ 451,387
Construction in progress	<u>3,325</u>	<u>128,122</u>	<u>(131,447)</u>	<u>0</u>
Total capital assets not being depreciated	<u>454,712</u>	<u>128,122</u>	<u>(131,447)</u>	<u>451,387</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	1,142,907	205,311	0	1,348,218
Buildings and improvements	1,074,590	178,771	(7,945)	1,245,416
Furniture, vehicles, and equipment	1,076,075	97,382	(9,290)	1,164,167
Assets under capital leases	<u>385,041</u>	<u>0</u>	<u>0</u>	<u>385,041</u>
Total capital assets being depreciated	<u>3,678,613</u>	<u>481,464</u>	<u>(17,235)</u>	<u>4,142,842</u>
Less accumulated depreciation for:				
Infrastructure	618,292	47,448	0	665,740
Buildings and improvements	505,262	36,490	(7,945)	533,807
Furniture, vehicles, and equipment	814,737	72,194	(9,290)	877,641
Assets under capital leases	<u>80,264</u>	<u>35,770</u>	<u>0</u>	<u>116,034</u>
Total accumulated depreciation	<u>2,018,555</u>	<u>191,902</u>	<u>(17,235)</u>	<u>2,193,222</u>
Total capital assets being depreciated, net	<u>1,660,058</u>	<u>289,562</u>	<u>0</u>	<u>1,949,620</u>
Governmental activity capital assets, net	<u>\$2,114,770</u>	<u>\$ 417,684</u>	<u>\$(131,447)</u>	<u>\$ 2,401,007</u>
Business Type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 110,939	\$ 0	\$ 0	\$ 110,939
Construction in progress	<u>8,000</u>	<u>448,279</u>	<u>0</u>	<u>456,279</u>
Total capital assets not being depreciated	<u>118,939</u>	<u>448,279</u>	<u>0</u>	<u>567,218</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	4,642,547	65,631	0	4,708,178
Furniture, vehicles, and equipment	1,738,500	110,196	(116,850)	1,731,846
Assets under capital leases	<u>78,990</u>	<u>0</u>	<u>0</u>	<u>78,990</u>
Total capital assets being depreciated	<u>6,460,037</u>	<u>175,827</u>	<u>(116,850)</u>	<u>6,519,014</u>
Less accumulated depreciation for:				
Buildings and improvements	2,947,623	108,530	0	3,056,153
Furniture, vehicles, and equipment	1,332,271	135,781	(116,850)	1,351,202
Assets under capital leases	<u>19,747</u>	<u>7,899</u>	<u>--</u>	<u>27,646</u>
Total accumulated depreciation	<u>4,299,641</u>	<u>252,210</u>	<u>(116,850)</u>	<u>4,435,001</u>
Total capital assets being depreciated, net	<u>2,160,396</u>	<u>(76,383)</u>	<u>0</u>	<u>2,084,013</u>
Business-type activities capital assets, net	<u>\$2,279,335</u>	<u>\$(371,896)</u>	<u>\$ 0</u>	<u>\$2,651,231</u>
Primary government capital assets, net	<u>\$ 4,394,105</u>	<u>\$ 789,580</u>	<u>\$(131,447)</u>	<u>\$5,052,238</u>

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 4 CAPITAL ASSETS - continued

Land with a cost of approximately \$100,000 was being leased out as of September 30, 2005.

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

Government activities:

General government	\$ 22,551
Public safety	89,023
Public works	7,120
Transportation	44,936
Cemetery	2,745
Culture and recreation	<u>25,527</u>
Total depreciation expense, governmental activities	<u>\$191,902</u>

Business-type activities:

Utility	\$ 126,113
Communication	97,932
Sanitation	<u>28,165</u>
Total depreciation expense, business-type activities	<u>\$ 252,210</u>

NOTE 5 JOINT VENTURE

A regional sanitary sewer system designed to provide service to residents of Valparaiso, Niceville, and Okaloosa County was completed and placed in service during the fiscal year ending September 30, 1982. The project was funded 75% by U.S. Environmental Protection Agency (EPA) grants under provision of Public Law 92-500 and 25% by the local government applicants. Valparaiso currently owns 20% of the operating capacity of the expanded system. The City of Niceville is a 44% owner and Okaloosa County is a 36% owner. The in-service cost of the property, plant and equipment paid for through the initial combined funding of the participants and the EPA was recorded prorata on the accounting records of the individual participants. The City's portion of their assets is accounted for in its utility fund.

The net operating results of the system are accounted for as a joint venture and accounted for under the equity method. The City's prorata share of the total cost of operating the regional sewer facility for the period ended September 30, 2005, was \$185,637. The City's portion of the equity in the joint venture is \$170,745.

The system is managed and operated by a separate governing body (Niceville, Valparaiso, Okaloosa County Regional Sewer Board, Inc.) consisting of six members; two appointed by each of the three participants. The Board is responsible for preparing and approving its own budget. The cost of operations, including additional equipment, inventory purchases, etc. are accounted for, in total, on the books and financial statements of the Board.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 5 JOINT VENTURE - continued

The following is a condensed summary of the assets, liabilities and equity, and operating results of the Board's fiscal year ended June 30, 2005. The Regional Sewer Board's audited financial statements can be obtained from the City Clerk's office.

SUMMARY OF ASSETS, LIABILITIES AND NET ASSETS

ASSETS	
Current assets	\$ 195,742
Restricted assets	249,214
Fixed assets – net of accumulated depreciation	416,928
Other assets	<u>2,166</u>
Total Assets	\$ <u>864,050</u>

LIABILITIES AND NET ASSETS

Liabilities	\$ 97,472
Net assets	<u>766,578</u>
Total Liabilities and Net Assets	\$ <u>864,050</u>

SUMMARY OF OPERATING RESULTS

Sewer operating revenues	\$ 1,249,853
Operating expenses	<u>1,249,990</u>
Operating income (loss)	(137)
Non-operating revenues (expenses)	<u>7,411</u>
Net income (loss)	\$ <u>7,274</u>

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 6 LIABILITIES

A. Long-Term Obligations

Changes in long-term debt

The following is a summary of changes in long-term debt for the year ended September 30, 2005:

	October 1, <u>2004</u>	Increases	Decreases	September 30, <u>2005</u>	Due within <u>One Year</u>
Governmental activities:					
Compensated absences	\$ 56,882	\$ 3,060	\$ 0	\$ 59,942	\$ 0
Capital leases	<u>177,329</u>	<u>0</u>	<u>115,201</u>	<u>62,128</u>	<u>56,225</u>
Total	<u>\$ 234,211</u>	<u>\$ 3,060</u>	<u>\$ 115,201</u>	<u>\$ 122,070</u>	<u>\$ 56,225</u>
Business-type activities:					
Compensated absences	\$ 15,941	\$ 4,486	\$ 0	\$ 20,427	\$ 0
Capital leases	35,814	0	23,649	12,165	12,165
Revenue bonds					
1991 USDA	372,000	0	372,000	0	0
1993 City of Arcadia	835,000	0	835,000	0	0
Bond discount	(10,116)	0	(10,116)	0	0
Note payable	0	1,555,000	0	1,555,000	75,000
Note premium	0	44,360	1,972	42,388	0
Deferred refunded costs	0	(43,539)	(2,680)	(40,859)	0
Internal balances	<u>40,000</u>	<u>0</u>	<u>0</u>	<u>40,000</u>	<u>0</u>
Total	<u>\$ 1,288,639</u>	<u>\$ 1,560,307</u>	<u>\$ 1,219,825</u>	<u>\$ 1,629,121</u>	<u>\$ 87,165</u>

Florida Municipal Loan Council – Current Debt Refunding

On February 1, 2005, the City entered into a loan agreement with the Florida Municipal Loan Council to borrow \$1,555,000 from the proceeds of the Florida Municipal Loan Council Revenue Bonds, Series 2005A to current refund the outstanding 1991 USDA bonds in the amount of \$372,000 and the 1993 City of Arcadia bonds in the amount of \$790,000. The note was issued at a premium of \$44,360 of which the net proceeds of \$1,561,227 (after payment of \$38,133 in underwriting fees, insurance and other issuance costs) plus the City's reserves in these two bond issues totaling \$126,632 were used to refund these prior issues. The remaining funds were deposited into a project fund to provide for future capital acquisition and infrastructure improvement. The loan has an outstanding balance of \$1,555,000 and calls for semi-annual payments due on February 1 and August 1, commencing on August 1, 2005, through February 1, 2020, and bears interest at varying rates ranging from 3% to 5%.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 6 LIABILITIES - continued

A. Long-Term Obligations - continued

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$43,539. This difference, reported in the accompanying financial statements as a deduction from notes payable, is being charged to operations through the year 2015 using the effective interest method. The City completed the current refunding to reduce its total debt service payments over the next 15 years by \$56,980 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$42,536.

The City has pledged all non-ad valorem revenues as collateral under this loan. The City is required to meet certain financial ratios under this loan agreement. As of September 30, 2005, the City was in compliance with such requirements. This note is accounted for in the Utility Fund.

Debt Service Requirements to Maturity

The annual debt service requirements to maturity for the Florida Municipal Council note as of September 30, 2005, are as follows:

Year Ended	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
September 30,			
2006	\$ 75,000	\$ 58,419	\$ 133,419
2007	80,000	58,533	138,533
2008	85,000	56,132	141,132
2009	90,000	53,370	143,370
2010	90,000	50,445	140,445
2011-2015	510,000	201,600	711,600
2016-2020	<u>625,000</u>	<u>92,522</u>	<u>717,522</u>
Total	<u>\$ 1,555,000</u>	<u>\$ 571,021</u>	<u>\$ 2,126,021</u>

Specific years for payments of internal balances and compensated absences are not determinable and are not included in the table above.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 6 LIABILITIES - continued

A. Long-Term Obligations - continued

Capital Leases Payable

The City's outstanding lease agreements include the acquisition of a fire truck at a cost of \$290,000, two police cars at a cost of \$50,036, a police computer system at a cost of \$45,005, and a sanitation vehicle at a cost of \$78,990. These leases qualify as capital leases. Interest rates range from 2.7% to 4.8%.

The debt service for capital leases are:

Year Ending September 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>General Fund</u>		<u>Sanitation Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 56,225	\$ 1,265	\$ 12,165	\$ 233
2007	<u>5,903</u>	<u>83</u>	<u>0</u>	<u>0</u>
Totals	\$ <u>62,128</u>	\$ <u>1,348</u>	\$ <u>12,165</u>	\$ <u>233</u>
Cost of assets	\$ 385,041		\$ 78,990	
Accumulated depreciation	\$ 116,034		\$ 27,646	

Totals of principal and interest components equal required minimum payments for the periods shown, and total principal equals the net present value of these leases.

B. Pension Plan Obligations

Florida Retirement System

Plan Description

The City contributes to the Florida Retirement System (FRS), a cost sharing multiple employer defined benefit pension plan administered by the State of Florida, Division of Retirement Services. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. Beginning in 2002, a defined contribution plan alternative to the existing defined benefit plan known as the Public Employee Optional Retirement Program or the FRS Investment became available to FRS members. The complete financial report of the FRS may be obtained by writing to Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, Florida 32399-1560 or by calling 1-850-488-5706.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 6 LIABILITIES - continued

B. Pension Plan Obligations - continued

Florida Retirement System - continued

Funding Policy

The FRS funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability reemerges as a result of future plan benefit changes, assumption changes, or methodology changes, it is assumed any unfunded actuarial liability would be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount. Active plan members including the City was required to contribute 7.83% of the annual salary of regular class employees and 18.53% of special risk class employees. Required contributions and contribution percentages are presented below:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Required Contributions	\$ 66,567	\$ 72,712	\$ 58,248
Regular Class Contribution %	7.83%	7.39%	7.39%
Special Risk Class Contribution %	18.53%	18.53%	16.00%
Percentage Contributed	100%	100%	100%

Police Officers and Firefighters Retirement Plan

Plan Description

The Police and Firefighters Retirement Plan is a single-employer defined benefit plan, established under Chapters 185 and 175 of the Florida Statutes, which covers all police officers and firefighters hired on or after January 1, 1996. The City's payroll for employees covered by this plan applicable to the October 1, 2004, actuarial valuation was approximately \$231,257. As of October 1, 2004, employee membership data related to the plan was as follows:

Retirees and beneficiaries currently receiving benefits	0
Terminated employee entitled to benefits but not yet receiving them	0
Disabled employees currently receiving benefits	1
Current active employees	
Vested	0
Nonvested	7
Total	8

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 6 LIABILITIES – continued

B. Pension Plan Obligations - continued

Police Officers and Firefighters Retirement Plan - continued

The Police Officers and Firefighters Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Employees who retire with 10 years of service and are age 55 or who retire with 25 years of service and are age 52 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of average rate of pay for the highest five years of the last ten years worked or the career average, whichever is greater. Employees with ten years of service may retire at or after age 50 and receive reduced retirement benefits. The normal form of benefit is a ten year certain and life annuity.

Funding Policy

The City's plan is funded by employer contributions at actuarially determined rates which expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The employees of the plan contribute at a rate of 2% of their annual salary. For 2005, the City contributed a total of \$63,380 to the plan which included \$34,515 contributed by the State. The employees' contributions to the plan for the current year totaled \$4,763. The contributions are deposited with the Florida Municipal Pension Trust Fund where they are invested in mutual funds.

Actuarial Assumptions

Valuation date	October 1, 2004
Actuarial cost method	Aggregate cost method
Amortization method	N/A
Amortization period	N/A
Asset valuation method	Market Value
Investment rate of return	7.5%
Salary increases	6.50% this plan year; 5.30% long-term
Inflation rate	3.75%
Cost-of-living adjustments	0.00%

The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE 6 LIABILITIES - continued

B. Pension Plan Obligations - continued

Police Officers and Firefighters Retirement Plan - continued

Three-Year Trend Information

Year Ended September 30,	Employer Annual Pension Cost (APC)	Employer Contribution		Percentage of APC Contributed	Net Pension Obligation (Asset)
		City	State		
2004	\$ 14,879	\$ 13,964	\$ 24,314	257%	\$(23,399)
2003	15,897	15,027	23,278	242%	(22,508)
2002	18,263	17,169	6,489	130%	(5,395)

The City does not issue a stand-alone financial report for the plan.

A schedule of funding progress is not presented since the plan uses the aggregate actuarial cost method. The schedule of employer contributions is listed below:

Schedule of Employer Contributions

Year Ended September 30,	Annual Required Contribution	Percent Contributed
1996	\$ 1,482	100%
1997	4,902	100%
1998	5,546	100%
1999	11,371	100%
2000	7,563	100%
2001	8,911	100%
2002	18,263	100%
2003	15,897	100%
2004	14,879	100%

THE CITY OF VALPARAISO
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2005

NOTE 6 LIABILITIES - continued

B. Pension Plan Obligations - continued

Deferred Compensation Plan

The City established on January 8, 1996, a contributory deferred compensation plan pursuant to Internal Revenue Code Section 457. The City contributes 9% of an employee's compensation and the employees may elect to make voluntary contributions of up to 9% of compensation. Regular class employees who are hired after the plan effective date are eligible to participate in the plan. The Plan's assets are not considered part of the reporting entity and are not included in these financial statements. Vesting rights vary according to years of service. The City contributed \$59,146 and the employees contributed \$ 19,130 to this plan during the fiscal year.

NOTE 7 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet and proprietary funds statement of net assets. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "advances to/from other funds" for the non-current portion of interfund loans. The composition of interfund balances as of September 30, 2005, is as follows:

Due from/to other funds

Receivable Fund	Payable Fund	Purpose for balance	Amount
General Fund	Utility Fund	Short-term loan to fund operations	\$ 131,555
General Fund	Communication Fund	Short-term loan to fund operations	23,751
General Fund	Sanitation Fund	Short-term loan to fund operations	78,845
Streets Fund	General Fund	Short-term loan to fund operations	42,299

Advances from/to other funds

General Fund	Sanitation Fund	Long-term loan to fund capital expenditures	40,000
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Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Utility Fund	48,000

The transfers from the general fund to the utility fund was a budgeted operating transfer to repay cash borrowed in prior years.

THE CITY OF VALPARAISO
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2005

NOTE 8 REVENUES, EXPENDITURES AND EXPENSES

A. Ad Valorem Tax

The City's ad valorem taxes are assessed by the Okaloosa County Tax Assessor and collected by the Okaloosa County Tax Collector in accordance with the Laws of Florida.

The City Council retains the right and duty to set millage. The ad valorem tax rate for the City of Valparaiso for fiscal year 2005 was 3.99 mills. No accrual has been made for 2005 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.

Lien Date	January 1, 2005
Levy Date	November 1, 2005
Due Date	November 1, 2005
Delinquency Date	April 1, 2006

Discounts of 1% for each month taxes are paid prior to March, 2006, are granted.

Revenue recognition criteria for property taxes under the National Council on Governmental Accounting's Interpretation No. 3 requires that property taxes be expected to be collected within 60 days of the current period in order to be accrued. Current year taxes which are uncollected as of the end of the fiscal year are generally immaterial in amount and highly susceptible to uncollectibility; therefore, they are not recorded as a receivable on the balance sheet date.

B. Benefits Funded by the State of Florida

For 2005, the State of Florida contributed on-behalf payments for City employees as follows:

Plan	Amount
Valparaiso Police Retirement Plan	\$ 24,800
Valparaiso Firefighters Retirement Plan	\$ 9,716

State contributions are funded by allocation of the State's insurance premium tax. The above plans are affiliated with the Florida Municipal Pension Trust Fund.

C. Lease Expense

The City pays rent under a microwave operating lease agreement for the purpose of installing, servicing, maintaining, repairing, and replacing the City's broadcast signal reception and microwave transmission system. The City is contractually obligated for rental payments under this lease through fiscal year 2008 at an annual rate of \$1,800. Rent paid under this lease for the year ended September 30, 2005 was \$1,800.

THE CITY OF VALPARAISO
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2005

NOTE 8 REVENUES, EXPENDITURES AND EXPENSES - continued

C. Lease Expense - continued

The City leases utility poles from Gulf Power for pole attachment privileges granted in connection with the furnishing of cable television services. Rent is payable in advance semi-annually at the rate of \$40.60 per pole, effective January 1, 2002. Rent paid for the year ended September 30, 2005 was \$6,620 which is \$34,102 less than the amount billed under the new rate. The City has recorded the difference as a contingent rental expense.

Future minimum rental payments due under this lease for the next five years and thereafter are based on the current rates being charged since the current lease rates will remain in effect unless revised by Gulf Power. The rental payments will also vary depending on the number of poles attached to. Based on the current rate, the future annual minimum rental payments for the next five years and thereafter would be \$40,722.

D. Lease Revenue

Governmental Funds

The City predominantly leases its property to wireless telecommunications companies. These leases are non-cancelable operating leases.

Minimum rentals on non-cancelable leases for the next five years are as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Utility Fund	\$ 61,290	\$ 63,556	\$ 65,907	\$ 68,308	\$ 70,837	\$ 329,898
Communications Fund	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 60,000
General Fund	\$ 40,167	\$ 40,670	\$ 41,184	\$ 41,707	\$ 42,241	\$ 205,969

The Utility Fund leases are for five years and can be renewed for 4 successive 5 year periods on similar terms and conditions. The annual rent on these leases will increase by 4% per year.

The Communications Fund lease is also for five years with the option of renewing for successive five year periods. The annual rent of \$12,000 will be adjusted by the CPI index starting in year 2006. Because that figure is unknown at this time, minimum future rentals for this lease was determined by the lease rate in effect at fiscal year end.

The General Fund's lease with the telecommunications company is for five years with the option of renewing for four additional terms of five years each on the same terms and conditions. The annual rent increases by two percent (2%) per year. The General Fund received a total of \$39,307 in rents during the current year.

The General Fund's second lease is for a five year term at an annual rent of \$15,000. A second five year renewal option is available at renegotiated annual rent. Unearned revenue from the general fund leases are reported on the balance sheet in the amount of \$2,750.

THE CITY OF VALPARAISO
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2005

D. Lease Revenue - continued

Governmental Funds - continued

Rental income for the current fiscal year received on proprietary fund leases was \$71,789. No contingent rental revenue was earned during fiscal year 2005.

NOTE 9 FUND BALANCE

A. Reservation of Fund Balance

Reserve for Restricted Purposes - An account used to segregate a portion of fund balance for the excess of restricted assets over liabilities payable from restricted assets. See Note 2 for further details.

Reserve for Advances to Other Funds - An account used to segregate a portion of fund balance to indicate that interfund receivable over interfund payable to other funds do not represent available, spendable resources.

B. Designation of Fund Balance

Designations of Fund Balance are used to show the amounts within unreserved equity which are intended to be used for specific purposes, but are not legally restricted. The General Fund designation is to provide funding for appropriations in the subsequent fiscal year.

C. Unreserved Fund Balance

Unreserved Fund Balance - An account used to indicate the balance of a fund that represents available, spendable resources.

NOTE 10 SEGMENT INFORMATION

The utility fund issued revenue bonds to provide for improvements to its water and sewer system. Summarized financial information can be found in the fund financial statements presented on pages 20-24 since the utility fund qualifies as a major fund.

NOTE 11 RELATED PARTY TRANSACTIONS

As disclosed in Note 5, the City is involved in a joint venture type of operation with the City of Niceville and Okaloosa County.

No amounts were due to or from any of the related parties.

THE CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE 12 CONTINGENT LIABILITIES

A. Pole Attachment Fees

The City is waiting on the outcome of a Supreme Court appeal that will decide whether fees charged by Gul Power for pole attachment privileges are fair compensation. The City has escrowed \$167,985 in savings in case of an unfavorable ruling. \$34,102 has been accrued for the current year in accordance with SFAS No. 5

B. Litigation

The City is a party to various claims and assessments arising from its actions in the course of carrying out its public services. The City carries general liability coverage and management believes its coverage is sufficient to cover all significant losses arising from the unsuccessful outcome of any pending and/or threatened litigation.

NOTE 13 RISK MANAGEMENT

The City is exposed to various risks of loss related to: damage to and destruction of assets; errors and omissions; worker's compensation claims and natural disasters for which the City carries commercial insurance. Claims incurred are based on actual repair and replacement costs. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

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NOTE 14 FEDERAL AND STATE GRANTS

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability, if any, for reimbursements which may arise as the result of these audits is not believed to be material.

NOTE 15 COMMITMENTS

The City has committed to performing street resurfacing projects estimated to cost \$238,818 in the next fiscal year.

The City has committed to maintain an amount of \$675,000 as unreserved general funds. The City's unreserved fund balances are currently above this amount. \$253,119 of unreserved funds have been designated to be used in the 2006 budget.

Business-type activities include a construction in progress project with remaining commitments of approximately \$367,106 to be used for improvements to the water system. This project will be funded substantially with grant proceeds. The City has committed to complying with a matching requirement of approximately \$160,000 by the end of the grant period in the next fiscal year.

L-28

