

NOTES TO FINANCIAL STATEMENTS



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**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The *City of Palm Coast, Florida* (the "City") was incorporated December 31, 1999 under the laws of the State of Florida. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (fire and law enforcement), highways and streets, 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 statement of changes in net assets) report information on all of the nonfiduciary activities of the City. 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 expense 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 proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund 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, as are the proprietary 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.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 1 – Summary of Significant Accounting Policies (Continued)

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)***

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current 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 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.

The park impact fee special revenue fund is used to track impact fees collected for the purpose of funding capital expenditures for the expansion of park facilities.

The capital projects fund accounts for resources accumulated and payments made for the acquisition of land and construction of major capital facilities.

Additionally, the government reports the following fund types:

Internal service fund accounts for fleet management services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 1 – Summary of Significant Accounting Policies (Continued)

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)***

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing activities. The principal operating revenues of the City's internal service fund are charges to customers for sales and services. Operating expenses for the internal service fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Deposits and Investments

The City's cash and cash equivalents is cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of the acquisition. Investments are reported at fair value.

Receivables

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

Under Florida law, the assessment and collection of all county, municipal, and school district 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 municipalities to levy property taxes at a rate up to 10 mills.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables (Continued)

The property tax calendar is as follows:

Valuation Date	January 1, 2002												
Property Appraiser prepares the assessment roll with values as of January 1, 2002, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations.	July 1, 2002												
City Council holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year.	September 2002												
Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy date).	November 1, 2002												
A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2002 through March 2003, with the following applicable discounts:													
<table border="0"> <thead> <tr> <th style="text-align: left;"><u>Month Paid</u></th> <th style="text-align: left;"><u>Discount</u></th> </tr> </thead> <tbody> <tr> <td>November</td> <td>4%</td> </tr> <tr> <td>December</td> <td>3</td> </tr> <tr> <td>January</td> <td>2</td> </tr> <tr> <td>February</td> <td>1</td> </tr> <tr> <td>March</td> <td>0</td> </tr> </tbody> </table>	<u>Month Paid</u>	<u>Discount</u>	November	4%	December	3	January	2	February	1	March	0	November 1, 2002 through March 31, 2003
<u>Month Paid</u>	<u>Discount</u>												
November	4%												
December	3												
January	2												
February	1												
March	0												
All unpaid taxes on real and tangible personal property become delinquent.	April 1, 2003												
A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised.	April and May 2003												
Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date).	June 1, 2003												
A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent personal property taxes.													

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 1 – Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method for the fleet management fund. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time inventory is used. No required minimum levels of inventory are maintained.

Prepaid Items

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.

Capital Assets

Capital assets are defined by the City as property and equipment 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. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The City initially elected the modified approach for infrastructure assets. During fiscal year 2003 the decision was made to begin depreciating infrastructure. This change did not result in any prior period restatement and will be effective on a prospective basis.

Depreciation on assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	20 - 40
Improvements other than buildings	7 - 30
Infrastructure	15 - 50
Equipment	5 - 20

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 1 – Summary of Significant Accounting Policies (Continued)

Interfund Transactions

Interfund transactions reflect as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

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 and sick leave when they terminate up to a maximum of 320 hours for vacation and 320 hours for sick leave, as long as they are not dismissed with cause or fail to meet the 10 day notice requirement for voluntary resignations.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the 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.

Fund Equity

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

Note 2 – Reconciliation of Government-wide and Fund Financial Statements

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 "capital assets used in governmental activities are not financial resources and, therefore, are deferred in the funds." The details of this \$170,533,891 difference are as follows:

Capital assets	\$ 171,925,500
Less: Accumulated Depreciation	(2,647,685)
Construction in progress	1,256,076
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ 170,533,891

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 2 – Reconciliation of Government-wide and Fund Financial Statements (Continued)

A second 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 \$766,323 difference are as follows:

Loans payable	\$	335,300
Capital leases payable		53,612
Compensated absences		<u>377,411</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>		<u>\$ 766,323</u>

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 states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs when debt is first issued, whereas amounts are deferred and amortized in the statement of activities.” The details of this \$2,493,644 difference are as follows:

Debt issued or incurred:		
Loan	\$	(75,000)
Less: Issuance costs		-
Capital lease financing		(23,811)
Debt repayments:		
Loan		2,550,768
Capital lease		48,165
Amortization of issuance costs		<u>(6,478)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>		<u>\$ 2,493,644</u>

A second element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$373,140 difference are as follows:

Compensated absences	\$	(194,012)
Disposal of capital assets		<u>(179,126)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>		<u>\$ (373,138)</u>

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

Note 3 – Stewardship, Compliance and Accountability

Compliance with Finance-Related Legal and Contractual Provision

The City has no material violations of finance-related legal and contractual provisions.

Excess of Expenditures Over Appropriations

For the year ended September 30, 2003 no departments exceeded appropriations.

Budgetary Information

The City follows these procedures in adopting the budget:

1. On or before the 30th day of September of each year, the City Council by resolution adopts an annual budget for all funds, after public hearings are conducted to obtain taxpayer comments.
2. If, during the fiscal year, revenues in excess of those estimated in the budget are available for appropriation, the Council may, by resolution, make supplemental appropriations for the year in an amount not to exceed such excess.
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 Council. The legal level of budgetary control is the department level.
4. 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 employed. Unexpended and unencumbered appropriations lapse at the end of the fiscal year and may be reappropriated in the ensuing year.
5. The budget 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.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 4 – Deposits and Investments

Deposits

At year-end, the carrying amount of the City's deposits was \$6,531,418 and the bank balance was \$6,599,386. All bank deposits were fully covered by federal depository insurance and by deposits 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". Included in the carrying amount of the City deposits is \$3,250 in petty cash.

Investments

The City follows guidelines of Florida Statute Section 218.415, which allows the following investments:

1. The Local Government Surplus Funds Trust Fund
2. SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest bearing time deposits or savings accounts in qualified public depositories.
4. Direct obligations of the U.S. Treasury.

At September 30, 2003, the City had no investments that were required to be categorized as to level of risk. The City had a \$10,158,103 investment in the State Board of Administration Pooled Cash.

Note 5 – Receivables

Receivables consist of the following at September 30, 2003:

	General Fund	Fleet Management Fund	Totals
Accounts receivable	\$ 41,360	\$ 17,646	\$ 59,006
Notes receivable - current	29,607		29,607
Notes receivable - noncurrent	230,693		230,693
	<u>\$ 301,660</u>	<u>\$ 17,646</u>	<u>\$ 319,306</u>

Notes receivable, both current and noncurrent, is a loan to Flamingo Development of Flagler, Inc. The City received a Community Development Block Grant loan for the same amount. The amount owed by the City is included in long-term debt.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 6 – Capital Assets

Capital asset activity for the year ended September 30, 2003 was as follows:

	Balance 09/30/02	Increases	Decreases	Balance 09/30/03
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 27,564,331	\$ 40,247,850	\$ -	\$ 67,812,181
Construction in progress	994,460	890,935	(629,319)	1,256,076
Total capital assets, not being depreciated	28,558,791	41,138,785	(629,319)	69,068,257
Capital assets, being depreciated				
Buildings and improvements other than buildings	1,358,260	993,536	-	2,351,796
Infrastructure	136,908,974	2,944,955	(40,247,850)	99,606,079
Equipment	3,451,410	718,266	(1,018,741)	3,150,935
Total capital assets, being depreciated	141,718,644	4,656,757	(41,266,591)	105,108,810
Less accumulated depreciated for:				
Buildings and improvements other than buildings	(80,382)	(45,649)	-	(126,031)
Infrastructure	-	(1,957,230)	-	(1,957,230)
Equipment	(406,518)	(325,627)	53,354	(678,791)
Total accumulated depreciation	(486,900)	(2,328,506)	53,354	(2,762,052)
Total capital assets, being depreciated, net	141,231,744	2,328,251	(41,213,237)	102,346,758
Governmental activities capital assets, net	\$ 169,790,535	\$ 43,467,036	\$ (41,842,556)	\$ 171,415,015

Depreciation expense was charged to the functions/programs as follows:

Governmental activities:	
General government	\$ 55,009
Public safety	78,521
Public works	2,054,368
Culture and recreation	44,680
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	95,928
Total depreciation expense - governmental activities	<u>\$ 2,328,506</u>

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 7 – Interfund Transfers

Transfers from the General Fund are generally made to establish reserves for future capital expenditures and possible emergency related expenditures.

	Transfer In:			
	Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	
Transfer Out:				
General Fund	\$ 670,622	\$ 310,000	\$ 115,900	\$ 1,096,522

Note 8 – Leases

Operating Leases:

Total rental expense from operating leases in the various funds is as follows:

General Fund	<u>\$</u>	<u>46,712</u>
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Capital Leases:

The City has entered into a lease agreement for financing the acquisition of computer equipment. This lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of the future minimum lease payments as of the date on inception. Assets recorded under capital lease and the accumulated amortization is as follows:

Computer equipment	<u>\$</u>	158,512
Less: Accumulated amortization		<u>(61,560)</u>
	<u>\$</u>	<u>96,952</u>

Amortization of equipment leased under capital lease is included in the general government function.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 8 – Leases (Continued)

The following is a schedule by years of future minimum lease payments under capital lease, together with the present value of the net minimum lease payments as of September 30:

<u>Year Ending September 30</u>		
2004	\$	36,700
2005		14,573
2006		<u>6,294</u>
Total minimum lease payments		57,567
Less amount representing interest		<u>(3,955)</u>
Present value of minimum lease payments	\$	<u><u>53,612</u></u>

The current and long-term obligation under capital lease is \$33,803 and \$19,809, respectively.

Note 9 – Long-Term Debt

Local Government Pooled Loan

During 2001, the City Council of Palm Coast authorized the borrowing of up to \$4,400,000 from the Florida Local Government Finance Commission to finance environmentally sensitive lands under the Palm Coast Parkway Corridor Land Acquisition Program. At September 30, 2002, the City had borrowed \$2,520,000 under the loan agreement. The entire principal amount was due December 5, 2006, but was paid in full on January 5, 2003.

CDBG Loan

During the fiscal year ended September 30, 2000, the City of Palm Coast entered into an agreement with Florida Department of Community affairs (DCA). DCA agreed to lend \$324,953 to the City who then entered into an agreement to lend the same amount to a private company who agreed to construct and operate a day care center.

This loan is payable to DCA at \$3,290 per month at 4% interest through May 14, 2011. The same terms apply to the note receivable from the day care center.

Annual debt service requirements to maturity for the loan are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 29,607	\$ 9,873
2005	30,813	8,667
2006	32,068	7,412
2007	33,375	6,105
2008	34,735	4,745
2009 - 2011	<u>99,702</u>	<u>5,578</u>
	<u>\$ 260,300</u>	<u>\$ 42,380</u>

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 9 – Long-Term Debt (Continued)

State Revolving Fund Loan

On June 18, 2001 the City executed an agreement with the Florida Department of Environmental Protection that would allow the City to borrow up to \$150,000, through the State Revolving Fund loan program, for the purpose of preparing a stormwater facilities plan. On February 14, 2003 the City made a draw of \$75,000. No further draws are anticipated.

This loan is payable semi-annually over a five year period beginning July 15, 2004 at a 3.08% interest rate.

Annual debt service requirements to maturity for the loan are as follows:

Year Ending <u>September 30</u>	Principal	Interest
2004	\$ 6,995	\$ 1,155
2005	14,314	1,985
2006	14,759	1,541
2007	15,217	1,083
2008	15,689	611
2009 - 2011	8,026	124
	<u>\$ 75,000</u>	<u>\$ 6,499</u>

Changes in long-term debt

During the year ended September 30, 2003, the following changes in long-term debt occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Local Government					
Pooled Loan	\$ 2,520,000	\$ -	\$ (2,520,000)	\$ -	\$ -
CDBG Loan	291,067	-	(30,767)	260,300	29,607
State Revolving Fund Loan	-	75,000	-	75,000	6,995
Capital leases	77,967	23,811	(48,166)	53,612	33,803
Compensated Absences	184,572	601,613	(406,151)	380,034	250,716
Long-term debt	<u>\$ 3,073,606</u>	<u>\$ 700,424</u>	<u>\$ (3,005,084)</u>	<u>\$ 768,946</u>	<u>\$ 321,121</u>

For governmental activities, compensated absences are generally liquidated by the general fund.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 10 – Retirement Plans

Defined Contribution Plan

The City maintains a single employer defined contribution plan. All full-time employees are eligible to participate. The name of the plan is the City of Palm Coast 401(a) Pension Plan. Under this plan, the City contributes a certain percentage of employees' eligible wages determined by City Council. Employees do not participate in the plan funding. For the period ended September 30, 2003, contribution to this plan totaled \$228,956.

Florida Retirement System

Former Flagler County and Palm Coast Service District employees hired as transfers during the 1999-2000 or 2000-2001 fiscal years have a one-time option to remain a member of the Florida State Retirement System (FRS). No employees for FYE 1999-2000 elected to be part of FRS. However, during 2001 there were former Palm Coast Service District employees hired who did elect to remain in FRS.

The Retirement System is a cost sharing multiple employer public employee retirement system administered by the State of Florida Department of Management Services, Division Retirement, to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions.

The System provides vesting of benefits after six (6) years of creditable service. Members are eligible for normal retirement after 6 years of service and attaining age 62, or 30 years of service regardless of age. Early retirement may be taken any time after completing 10 years of service; however, there is a five percent reduction in benefits for each year prior to normal retirement. Generally, membership is compulsory for all full-time and part-time employees.

There is no requirement for employees to contribute to the System; the employer pays all contributions.

The statutory contribution rates as a percent of earnings were as follows:

	<u>10/1/2002 - 6/30/2003</u>	<u>7/1/2003 - 9/30/2003</u>
Regular employees – members not qualifying for other classes	5.76%	7.39%
Special Risk Employees – members employed as law enforcement officers and firefighters	16.01%	18.53%
Health Insurance Subsidy included in the above rates	1.11%	1.11%

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 10 – Retirement Plans (Continued)

Contributions required and made to the System for City employees were as follows:

<u>Fiscal Year Ending</u>	<u>Required Contribution</u>	<u>% Contributed</u>	<u>Net Pension Obligation</u>
09/30/2001	\$ 169,384	100%	\$ 0
09/30/2002	\$ 159,692	100%	\$ 0
09/30/2003	\$ 144,803	100%	\$ 0

For a stand-alone report of the Florida Retirement System, refer to the State of Florida Comprehensive Annual Financial Report or various publications available from the Florida Department of Management Services.

During the fiscal year, the System held no securities issued by the employer.

Volunteer Firefighters' Pension Plan

On July 2, 2002, the City of Palm Coast established a volunteer firefighters' pension plan pursuant to Florida Statute, Chapter 175. The volunteer positions are unpaid and therefore there is no benefit provided under Chapter 175. In order to provide a benefit for the volunteers, the City will need to approve a "local law" plan that will provide a benefit based on years of service. As of September 30, 2003, there is no liability and no required contribution.

Note 11 – 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. 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.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Note 12 – Subsequent Events

City Hall Building Purchase

On October 2, 2003 the City purchased a building for \$2,200,000 that will become city hall after completion of remodeling. Remodeling cost is estimated to be approximately \$600,000. The purchase and remodeling costs are being paid for from cash reserves.

Utility Purchase

On October 30, 2003 the City issued debt and closed on the purchase of the water and wastewater utility that serves the City of Palm Coast and some surrounding areas. The purchase price was \$82,774,934. Another \$10,690,000 was borrowed to complete some capital projects that were in process or needed in the near future and to fund a renewal and replacement reserve. Acquisition and closing costs included in the bond issue brought the total debt issued to \$96,650,000. This debt will be paid over 30 years from water and wastewater revenues.