

FINANCIAL SECTION

This section contains the following subsections:

- . Independent Auditors' Report
- . Management's Discussion and Analysis
- . Basic Financial Statements
- . Required Supplementary Information
- . Combining and Individual Fund Statements and Schedules



This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT



This page intentionally left blank.

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, City Council, and City Manager,
City of Palm Coast, Florida:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palm Coast, Florida, as of and for the year ended September 30, 2004, which collectively comprise City of Palm Coast, Florida's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Palm Coast, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palm Coast, Florida, as of September 30, 2004, 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 December 22, 2004, on our consideration of City of Palm Coast, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information, as 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 City of Palm Coast, Florida's basic financial statements. The introductory section, combining fund statements and schedules, schedule of expenditures of federal awards, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules 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 and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

James Moore & Co.

Daytona Beach, Florida
December 22, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS



This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Palm Coast management's 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.

Financial Highlights

- The assets of the City of Palm Coast exceeded its liabilities at the close of fiscal year 2004 by \$207,135,473. Of this amount, \$14,944,035 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$19,724,190. Approximately 73% of this increase was attributable to one-time resources such as impact fees and developer contributions.
- As of the close of fiscal year 2004, the City's governmental funds reported combined ending fund balances of \$16,940,776, an increase of \$281,606 over the prior year. Approximately, 83% of this total amount or \$14,176,406 is reported as unreserved fund balance.
- At the end of fiscal year 2004, unreserved fund balance in the general fund was \$5,849,129, or 29.6% of total general fund expenditures.
- The City of Palm Coast's total debt increased by \$97,027,606 during the current fiscal year. Bonds were issued to purchase the water and wastewater utility that serves the City. Bond debt was \$96,650,000. There was an increase in compensated absences and the City took a \$156,230 loan for an equipment purchase.

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 optional section that presents combining statements for nonmajor governmental 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 tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - The proprietary fund statements give the results of the City's business-type activities.

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 that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in single columns in the basic 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.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The governmental activities include most of the City's basic services, such as law enforcement, fire, public works, parks, and general administration. Property taxes and intergovernmental revenues finance most of these activities. Business-type activities of the City of Palm Coast include a water and sewer utility and solid waste collection, which are funded by user fees.

Fund Financial Statements

Governmental funds. The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Florida Statute or other regulations. The governmental funds, 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.

The City of Palm Coast maintains ten individual governmental funds. Eight of the governmental funds are classified as non major and are summarized under this heading in the governmental fund presentation. 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, capital projects fund and non major governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for non major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriation budget for its general, capital projects and non major governmental funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

Proprietary funds. The City of Palm Coast maintains three proprietary funds. Two of these are enterprise funds. They are the utility fund and solid waste fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The fleet management fund is an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Palm Coast's various functions

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the utility which is considered to be a major fund of the City. The solid waste fund is shown separately on the proprietary fund financial statements, but is not considered a major fund. The internal service fund is shown in a separate column, but not included in the totals for proprietary funds.

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 Palm Coast's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains one fiduciary fund, which is the volunteer firefighters' pension fund.

Financial Analysis of the City as a Whole

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 Palm Coast, assets exceeded liabilities by \$207,135,473 at the close of the most recent fiscal year.

Of the net assets, 5 percent falls in the unrestricted category. These may be used to meet ongoing obligations to citizens and creditors. Investment in capital assets makes up 88 percent of the City of Palm Coast's net assets. These capital assets are used to provide services to citizens and therefore are not available for future spending. Although the investment in capital assets is reported net of related debt used to acquire the assets, 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.

Table I
City of Palm Coast's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 21,835,932	\$ 19,203,152	\$ 18,825,525	\$ -	\$ 40,661,457	\$ 19,203,152
Capital assets	180,799,707	171,415,015	91,095,789	-	271,895,496	171,415,015
Total assets	202,635,639	190,618,167	109,921,314	-	312,556,953	190,618,167
Long-term liabilities	1,026,483	768,946	96,770,071	-	97,796,554	768,946
Other liabilities	5,211,082	2,437,938	2,413,844	-	7,624,926	2,437,938
Total liabilities	6,237,565	3,206,884	99,183,915	-	105,421,480	3,206,884
Net assets:						
Invested in capital assets, net						
of related debt	180,740,187	171,361,402	1,704,059	-	182,444,246	171,361,402
Restricted	5,950,159	4,103,283	5,288,252	-	11,238,411	4,103,283
Unrestricted	9,707,728	11,946,598	3,745,088	-	13,452,816	11,946,598
Total net assets	\$ 196,398,074	\$ 187,411,283	\$ 10,737,399	\$ -	\$ 207,135,473	\$ 187,411,283

Table II
City of Palm Coast's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 7,408,138	\$ 5,497,889	\$ 17,455,574	\$ -	\$ 24,863,712	\$ 5,497,889
Operating grants and contributions	2,544,712	1,738,313	-	-	2,544,712	1,738,313
Capital grants and contributions	4,911,700	2,464,325	10,011,548	-	14,923,248	2,464,325
General revenues:						
Property taxes	7,855,523	6,539,567	-	-	7,855,523	6,539,567
Other taxes	3,591,856	3,962,014	-	-	3,591,856	3,962,014
Intergovernmental	2,124,420	1,780,355	-	-	2,124,420	1,780,355
Other	236,828	297,041	124,049	-	360,877	297,041
Total revenues	28,673,177	22,279,504	27,591,171	-	56,264,348	22,279,504
Expenses:						
General government	8,388,301	6,280,768	-	-	8,388,301	6,280,768
Public safety	3,643,368	2,737,703	-	-	3,643,368	2,737,703
Transportation and physical environment	6,589,005	5,449,800	-	-	6,589,005	5,449,800
Culture & recreation	1,047,729	687,477	-	-	1,047,729	687,477
Utility	-	-	15,619,664	-	15,619,664	-
Solid Waste	-	-	1,234,108	-	1,234,108	-
Interest on long-term debt	17,983	39,515	-	-	17,983	39,515
Total expenses	19,686,386	15,195,263	16,853,772	-	36,540,158	15,195,263
Increase in net assets	8,986,791	7,084,241	10,737,399	-	19,724,190	7,084,241
Net assets - beginning	187,411,283	180,327,042	-	-	187,411,283	180,327,042
Net assets - ending	\$ 196,398,074	\$ 187,411,283	\$ 10,737,399	\$ -	\$ 207,135,473	\$ 187,411,283

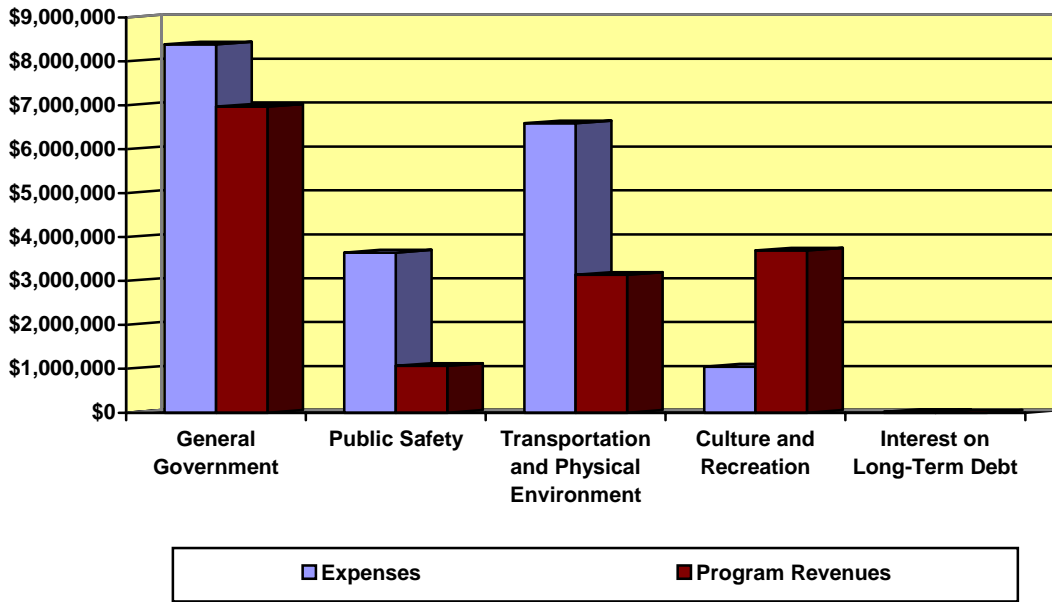
Governmental Activities

Governmental activities increased the City of Palm Coast's net assets by \$8,986,791 during the current fiscal year. This represents 46 percent of the total growth in net assets for the City. Buildings and infrastructure account for over \$7 million of the increase. The remainder was primarily construction in progress on a new park.

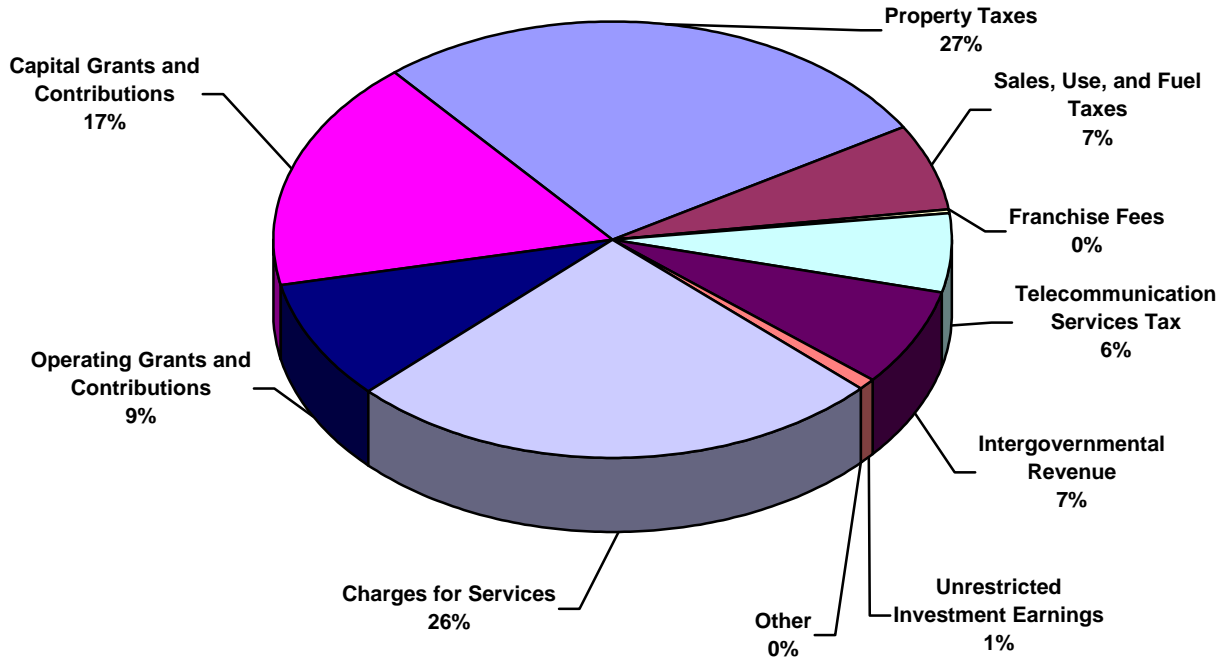
Business-type Activities

Business-type activities increased the City of Palm Coast's net assets by \$10,737,399 or 54 percent of the total growth in net assets. This is the first year that the City has operated a business-type activity. The local utility company was purchased in October 2003 for almost \$83 million. Bonds were issued for \$96,650,000, a portion of which was earmarked for future construction. Almost all of increase in net assets is attributable to capital grants and contributions.

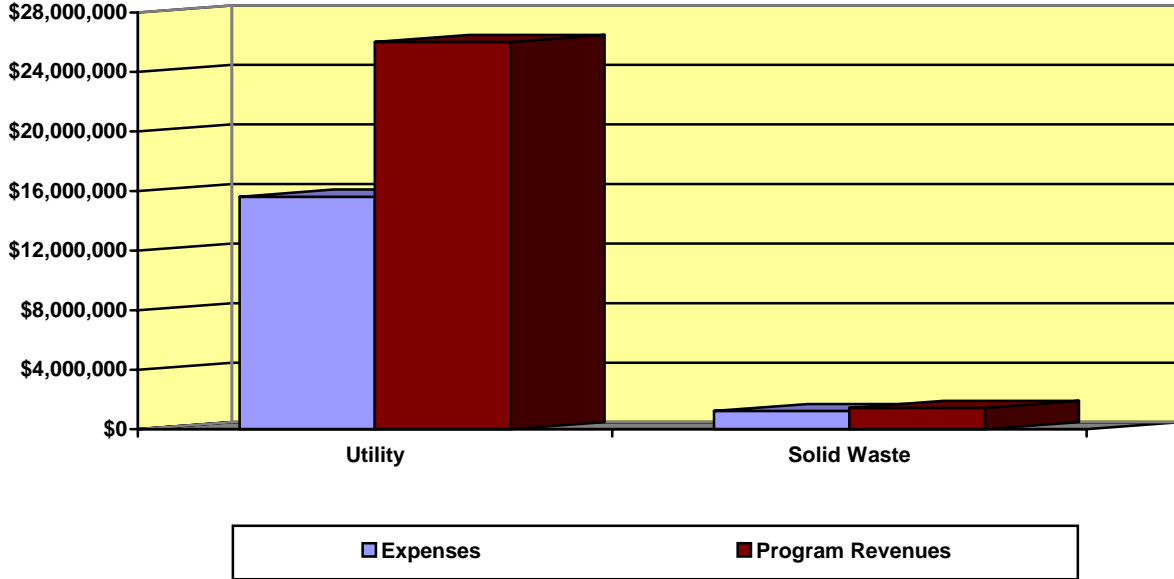
Expenses and Program Revenues - Governmental Activities



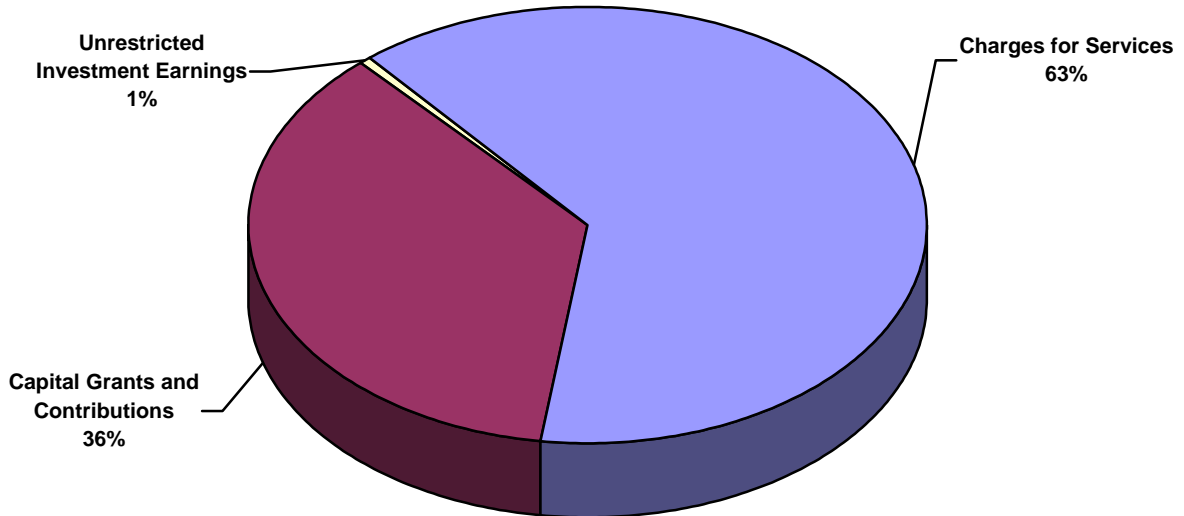
Revenues by Source - Governmental Activities



Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

Governmental funds. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance in the general fund was \$5,849,129. The total fund balance stood at \$6,454,797. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balance to fund expenditures. Unreserved fund balance represents 29 percent of total general fund expenditures, while total fund balance represents 32 percent of that same amount. These percentages represent a 4 percent and a 2 percent increase, respectively.

The fund balance of the City of Palm Coast's general fund increased by \$708,500 during the current fiscal year. Key factors in this growth are as follows:

- Tax revenue increased by just over \$1.6 million. Property taxes accounted for about \$1.3 million of the increase. There was no change in the millage rate.
- License and permit revenue increased by over \$1.7 million. Most of this increase was generated from the issuance of building permits.

The capital projects fund has a total fund balance of \$3,301,174, a decrease of \$2,531,020. Expenditures to buy and improve a new city hall building accounted for most of the decrease.

The other governmental funds have a total fund balance \$7,184,805. This was an increase of \$2,104,126 during the current fiscal year. The Fire Impact Fee Fund accounted for 41 percent of the increase. The remainder was spread over several special revenue funds.

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

Unrestricted net assets of the utility fund were \$3,348,445 at the end of the year. Since this is the first year that the City operated the utility, there is no prior year data for comparison.

The solid waste fund was established in April 2004. The unrestricted net assets were \$216,402 at the end of the year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget totaled \$4,705,304. Building inspection costs were more than expected due to the high level of building activity. This additional cost was covered by increases in permit revenue. Other major budget increases were for contractual services related to street and stormwater facility repairs and maintenance. These were covered by contingency funds and reserves.

During the year, revenues exceeded the final amended budget by \$835,915. This was the result of higher than expected tax collections and intergovernmental revenues related to growth. Permit revenue also exceeded budget expectations as building within the City of Palm Coast increased for the year. Expenditures were less than the final amended budget by \$1,412,759. Vacancies in Development Services and Public Works and projects that were not completed are the reason for this difference.

Capital Asset and Debt Administration

Capital assets. The City of Palm Coast's investment in capital assets as of September 30, 2004, amounts to \$269,961,049 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment. This is an increase of \$98,546,034 for the current fiscal year. Most of the increase is related to the purchase of the utility system and subsequent improvements during the year. The rest of the increase can be attributed to the purchase and renovation of a city hall building, improvements to city streets, and construction of a new park.

Table III
City of Palm Coast's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 67,837,121	\$ 67,812,181	\$ 12,196,800	\$ -	\$ 80,033,921	\$ 67,812,181
Buildings and improvements						
other than buildings	5,469,267	2,225,765	31,543,548	-	37,012,815	2,225,765
Infrastructure	99,547,913	97,648,849	41,848,350	-	141,396,263	97,648,849
Equipment	4,031,906	2,472,144	186,823	-	4,218,729	2,472,144
Construction in progress	3,913,500	1,256,076	3,385,821	-	7,299,321	1,256,076
Total	\$ 180,799,707	\$ 171,415,015	\$ 89,161,342	\$ -	\$ 269,961,049	\$ 171,415,015

Additional information on the City of Palm Coast's capital assets can be found in Note 6 on page 48 of this report.

Long-term debt. The City of Palm Coast issued \$96,650,000 in revenue bonds to purchase the utility system. A portion of the proceeds were also planned for system expansion. The City borrowed \$156,230 to purchase equipment through fleet management. There is a CDBG loan with a balance of \$230,693 and a State Revolving Fund loan of \$75,000. The remainder of the long-term debt is made up of capital leases and compensated absences. The total long-term debt of the City is \$97,796,554.

Table IV
City of Palm Coast's Long-term Debt

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Loans from other governments	\$ 305,693	\$ 335,300	\$ -	\$ -	\$ 305,693	\$ 335,300
Loans from financial institutions	156,230	-	-	-	156,230	-
Revenue bonds	-	-	96,650,000	-	96,650,000	-
Capital leases	59,520	53,613	-	-	59,520	53,613
Compensated absences	505,040	380,034	120,071	-	625,111	380,034
Total	\$ 1,026,483	\$ 768,947	\$ 96,770,071	\$ -	\$ 97,796,554	\$ 768,947

Additional information on the City of Palm Coast's long-term debt can be found in Note 9 beginning on page 46 of this report.

Next Year's Budget and Rates

During the current fiscal year, unreserved fund balance in the General Fund increased to \$5,849,129 plus an additional \$387,457 reserved for encumbrances. The City of Palm Coast has appropriated \$2,194,701 of the unreserved fund balance for spending in the 2005 fiscal year budget. After encumbrance and project carryovers, the available fund balance, as a percentage of prior year expenditures and transfers out is 17 percent.

The City Council approved a millage rate of 3.4 mills for fiscal year 2005. This is the same rate as fiscal year 2004, however .5 mills has been designated for capital projects.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City of Palm Coast's financial condition and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information you may contact the City of Palm Coast as follows:

City of Palm Coast
Financial Services
2 Commerce Boulevard
Palm Coast, FL 32164-3126

Or

Telephone (386) 986-3725
Fax (386) 986-3724
E-mail rbritt@ci.palm-coast.fl.us

BASIC FINANCIAL STATEMENTS



This page intentionally left blank.

City of Palm Coast, Florida
Statement of Net Assets
September 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Equity in pooled cash and investments	\$ 19,228,251	\$ 2,991,940	\$ 22,220,191
Receivables - net	321,660	2,542,629	2,864,289
Due from other governments	2,244,125	-	2,244,125
Prepaid items	2,650	-	2,650
Inventories	39,246	218,074	257,320
Unamortized bond premium	-	(1,472,382)	(1,472,382)
Unamortized debt issuance costs	-	3,406,829	3,406,829
Restricted assets:			
Equity in pooled cash and investments	-	13,059,477	13,059,477
Due from other governments	-	13,405	13,405
Capital assets (net of accumulated depreciation):			
Land	67,837,121	12,196,800	80,033,921
Buildings and improvements other than buildings	5,469,267	31,543,548	37,012,815
Infrastructure	99,547,913	41,848,350	141,396,263
Equipment	4,031,906	186,823	4,218,729
Construction in progress	3,913,500	3,385,821	7,299,321
Total assets	202,635,639	109,921,314	312,556,953
LIABILITIES			
Accounts payable and other current liabilities	2,374,112	647,172	3,021,284
Due to other governments	2,521,839	-	2,521,839
Internal balances	180,241	(180,241)	-
Customer deposits	134,890	1,420,553	1,555,443
Payable from restricted assets:			
Accounts payable	-	391,831	391,831
Contract payable	-	134,529	134,529
Noncurrent liabilities:			
Due within one year	468,769	87,853	556,622
Due in more than one year	557,714	96,682,218	97,239,932
Total liabilities	6,237,565	99,183,915	105,421,480
NET ASSETS			
Invested in capital assets, net of related debt	180,740,187	1,704,059	182,444,246
Restricted for:			
Specific capital projects	18,331	-	18,331
Construction	5,879,410	4,820,199	10,699,609
Renewal and replacement	-	468,053	468,053
Public safety	52,418	-	52,418
Unrestricted	9,707,728	3,745,088	13,452,816
Total net assets	\$ 196,398,074	\$ 10,737,399	\$ 207,135,473

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

City of Palm Coast, Florida
Statement of Activities
For the Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 8,388,301	\$ 6,960,846	\$ 7,196	\$ -
Public safety	3,643,368	118,086	39,042	907,529
Transportation and physical environment	6,589,005	208,305	2,494,204	430,850
Culture and recreation	1,047,729	120,901	-	3,573,321
Interest on long-term debt	17,983	-	-	-
Total governmental activities	\$ 19,686,386	\$ 7,408,138	\$ 2,540,442	\$ 4,911,700
Business-type activities:				
Utility	15,619,664	16,005,064	-	10,011,548
Solid waste	1,234,108	1,450,510	-	-
Total business-type activities	\$ 16,853,772	\$ 17,455,574	\$ -	\$ 10,011,548

General revenues:
Property taxes
Sales and use taxes
Franchise fees
Telecommunication services tax
Intergovernmental revenue
Unrestricted investment earnings
Miscellaneous
Gain on sale of capital assets
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning - restated
Net assets - ending

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

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental		Business-type		Total
Activities		Activities		
\$	(1,420,259)	\$	-	\$ (1,420,259)
	(2,578,711)		-	(2,578,711)
	(3,455,646)		-	(3,455,646)
	2,646,493		-	2,646,493
	(17,983)		-	(17,983)
	(4,826,106)		-	(4,826,106)
	-	10,396,948		10,396,948
	-	216,402		216,402
	-	10,613,350		10,613,350
	7,855,523		-	7,855,523
	1,878,066		-	1,878,066
	79,730		-	79,730
	1,634,060		-	1,634,060
	2,128,690		-	2,128,690
	197,427	148,549		345,976
	6,006		-	6,006
	8,895		-	8,895
	24,500	(24,500)		-
	13,812,897	124,049		13,936,946
	8,986,791	10,737,399		19,724,190
	187,411,283		-	187,411,283
\$	196,398,074	\$	10,737,399	\$ 207,135,473

City of Palm Coast, Florida
Balance Sheet
Governmental Funds
September 30, 2004

ASSETS	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Equity in pooled cash and investments	\$ 9,262,570	\$ 2,936,482	\$ 6,747,616	\$ 18,946,668
Accounts receivable - net	65,877	-	-	65,877
Notes receivable - current	30,813	-	-	30,813
Due from other governments	928,912	-	1,315,213	2,244,125
Notes receivable - noncurrent	199,880	-	-	199,880
Due from other funds	-	500,000	-	500,000
Prepaid items	2,650	-	-	2,650
Total assets	\$ 10,490,702	\$ 3,436,482	\$ 8,062,829	\$ 21,990,013

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 930,725	\$ 121,931	\$ 607,195	\$ 1,659,851
Accrued liabilities	401,400	13,377	270,829	685,606
Due to other governments	2,521,839	-	-	2,521,839
Customer deposits	134,890	-	-	134,890
Deferred revenue	47,051	-	-	47,051
Total liabilities	4,035,905	135,308	878,024	5,049,237

Fund balances:

Reserved for:				
Encumbrances	387,457	667,483	1,491,219	2,546,159
Specific capital projects	18,331	-	-	18,331
Notes receivable - noncurrent	199,880	-	-	199,880
Unreserved, reported in:				
General fund	5,849,129	-	-	5,849,129
Special revenue funds	-	-	5,693,586	5,693,586
Capital projects funds	-	2,633,691	-	2,633,691
Total fund balances	6,454,797	3,301,174	7,184,805	16,940,776
Total liabilities and fund balance:	\$ 10,490,702	\$ 3,436,482	\$ 8,062,829	\$ 21,990,013

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

City of Palm Coast, Florida
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 Governmental Funds
 September 30, 2004

Fund balances - total governmental funds	\$	16,940,776
<p style="margin-left: 40px;">Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		178,941,844
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenues in the funds.		47,051
Internal services funds are used by management to charge the costs of fleet lease and maintenance. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		1,335,081
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		<u>(866,678)</u>
Net assets of governmental activities:	\$	<u><u>196,398,074</u></u>

City of Palm Coast, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2004

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 11,063,544	\$ -	\$ 1,878,066	\$ 12,941,610
Licenses and permits	5,910,993	-	-	5,910,993
Intergovernmental revenue	2,447,643	-	927,256	3,374,899
Charges for services	1,523,459	-	51,234	1,574,693
Fines and forfeitures	106,067	-	23,843	129,910
Impact fees	-	-	4,002,575	4,002,575
Investment earnings	100,710	32,111	64,365	197,186
Miscellaneous	6,006	-	-	6,006
Total revenues	21,158,422	32,111	6,947,339	28,137,872
EXPENDITURES				
Current:				
General government	8,455,664	-	-	8,455,664
Public safety	3,549,167	-	-	3,549,167
Transportation and physical environment	4,032,203	-	443,896	4,476,099
Culture and recreation	1,002,543	-	-	1,002,543
Capital outlay:				
General government	117,562	2,891,248	-	3,008,810
Public safety	116,984	677,527	55,000	849,511
Transportation and physical environment	2,402,156	348,550	1,386,198	4,136,904
Culture and recreation	19,125	359,722	2,886,819	3,265,666
Debt service:				
Principal	77,510	-	-	77,510
Interest and Other	17,983	-	-	17,983
Total expenditures	19,790,897	4,277,047	4,771,913	28,839,857
Excess of revenues over (under) expenditures	1,367,525	(4,244,936)	2,175,426	(701,985)
OTHER FINANCING SOURCES AND (USES)				
Transfers in	95,800	808,636	-	904,436
Transfers out	(808,636)	-	(71,300)	(879,936)
Sale of capital assets	-	905,280	-	905,280
Loan and capital lease proceeds	53,811	-	-	53,811
Total other financing sources (uses)	(659,025)	1,713,916	(71,300)	983,591
Net change in fund balances	708,500	(2,531,020)	2,104,126	281,606
Fund balances - beginning - restated	5,746,297	5,832,194	5,080,679	16,659,170
Fund balances - ending	\$ 6,454,797	\$ 3,301,174	\$ 7,184,805	\$ 16,940,776

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

City of Palm Coast, Florida
 Reconciliation of the Statement of Revenues, Expenditures,
 And Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 Governmental Funds
 For the Year Ended September 30, 2004

Net change in fund balances - total governmental funds		\$ 281,606
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Expenditures for capital assets	11,260,891	
Less current year depreciation	<u>(2,507,995)</u>	8,752,896
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Contributed property and equipment		709,125
Revenue collections expected after 60 days		47,051
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets.</p>		
		(1,054,067)
<p>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. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		23,699
<p>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.</p>		
Compensated absences		(124,054)
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities.</p>		
		<u>350,535</u>
Change in net assets of governmental activities		<u>\$ 8,986,791</u>

City of Palm Coast, Florida
Statement of Net Assets
Proprietary Fund
September 30, 2004

	Business-type Activities-Enterprise Fund			Governmental Activities Internal Service Funds
	Utility	Solid Waste	Total	
ASSETS				
Current assets:				
Equity in pooled cash and investments:	\$ 2,991,940	\$ -	\$ 2,991,940	\$ 281,583
Accounts receivable - net:	2,208,278	334,351	2,542,629	25,090
Inventories:	218,074	-	218,074	39,246
Total current assets	5,418,292	334,351	5,752,643	345,919
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and investments:				
Revenue bond covenants:	7,379,394	-	7,379,394	-
Impact fees:	5,212,030	-	5,212,030	-
Renewal and replacement:	468,053	-	468,053	-
Due from other governments:				
Revenue bond covenants:	13,405	-	13,405	-
Total restricted assets	13,072,882	-	13,072,882	-
Capital assets:				
Land:	12,196,800	-	12,196,800	-
Building and improvements other than buildings:	75,886,767	-	75,886,767	-
Equipment:	199,317	-	199,317	2,207,916
	88,282,884	-	88,282,884	2,207,916
Less accumulated depreciation:	(2,507,363)	-	(2,507,363)	(350,053)
	85,775,521	-	85,775,521	1,857,863
Construction in progress:	3,385,821	-	3,385,821	-
Total capital assets (net of accumulated depreciation)	89,161,342	-	89,161,342	1,857,863
Due from other funds:	117,949	-	117,949	-
Unamortized bond premium:	(1,472,382)	-	(1,472,382)	-
Unamortized debt issuance costs:	3,406,829	-	3,406,829	-
Total noncurrent assets	104,286,620	-	2,052,396	1,857,863
Total assets	\$ 109,704,912	\$ 334,351	\$ 110,039,263	\$ 2,203,782

City of Palm Coast, Florida
Statement of Net Assets (continued)
Proprietary Fund
September 30, 2004

	<u>Business-type Activities-Enterprise Fund</u>			Governmental Activities Internal Service Funds
	<u>Utility</u>	<u>Solid Waste</u>	<u>Total</u>	
LIABILITIES				
Current liabilities				
Accounts payable	\$ 478,984	\$ -	\$ 478,984	\$ 23,244
Accrued liabilities	168,188	-	168,188	5,411
Loans payable	-	-	-	33,594
Compensated absences	87,853	-	87,853	2,516
Customer deposits	1,420,553	-	1,420,553	-
Total current liabilities:	<u>2,155,578</u>	<u>-</u>	<u>2,155,578</u>	<u>64,765</u>
Current liabilities payable from restricted assets:				
Current maturities of bonds payable	-	-	-	-
Current maturities of loans from other governments	-	-	-	-
Accounts payable	391,831	-	391,831	-
Contract payable	134,529	-	134,529	-
Total current liabilities (payable from restricted assets)	<u>526,360</u>	<u>-</u>	<u>526,360</u>	<u>-</u>
Noncurrent liabilities				
Compensated absences	32,218	-	32,218	1,059
Bonds payable	96,650,000	-	96,650,000	-
Loans payable	-	-	-	122,636
Due to other funds	-	117,949	117,949	500,000
Total noncurrent liabilities:	<u>96,682,218</u>	<u>117,949</u>	<u>96,800,167</u>	<u>623,695</u>
Total liabilities:	<u>99,364,156</u>	<u>117,949</u>	<u>99,482,105</u>	<u>688,460</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,704,059	-	1,704,059	1,857,863
Restricted for construction	4,820,199	-	4,820,199	-
Restricted for renewal and replacement	468,053	-	468,053	-
Unrestricted	3,348,445	216,402	3,564,847	(342,541)
Total net assets	<u>10,340,756</u>	<u>\$ 216,402</u>	<u>\$ 10,557,158</u>	<u>\$ 1,515,322</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>180,241</u>	
			<u>\$ 10,737,399</u>	

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



This page intentionally left blank.

City of Palm Coast, Florida
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Utility	Solid Waste	Totals	
Operating revenues:				
Charges for services:				
Water sales	\$ 9,441,742	\$ -	\$ 9,441,742	\$ -
Sewer charges	6,389,854	-	6,389,854	-
Garbage charges	-	1,450,510	1,450,510	-
Miscellaneous	173,468	-	173,468	1,347,772
Total operating revenues	16,005,064	1,450,510	17,455,574	1,347,772
Operating expenses:				
Administrative	2,162,627	-	2,162,627	665,164
Water system	3,917,023	-	3,917,023	-
Sewer system	3,069,854	-	3,069,854	-
Solid waste system	-	1,234,108	1,234,108	-
Depreciation	2,507,363	-	2,507,363	238,626
Total operating expenses	11,656,867	1,234,108	12,890,975	903,790
Operating income	4,348,197	216,402	4,564,599	443,982
Nonoperating income (expenses):				
Investment revenue	148,549	-	148,549	241
Interest/amortization expense	(4,143,038)	-	(4,143,038)	-
Other	-	-	-	8,895
Total nonoperating revenues (expenses)	(3,994,489)	-	(3,994,489)	9,136
Income before contributions and transfers	353,708	216,402	570,110	453,118
Capital grants and contributions	10,011,548	-	10,011,548	-
Transfers in	-	-	-	77,659
Transfers out	(24,500)	-	(24,500)	-
Change in net assets	10,340,756	216,402	10,557,158	530,777
Total net assets - beginning	-	-	-	984,545
Total net assets - ending	<u>\$ 10,340,756</u>	<u>\$ 216,402</u>	<u>\$ 10,557,158</u>	<u>\$ 1,515,322</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>180,241</u>	
			<u>\$ 10,737,399</u>	

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

City of Palm Coast, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Utility	Solid Waste	Totals	
Cash flows from operating activities				
Cash received from customers	\$ 15,217,339	\$ 1,116,159	\$ 16,333,498	\$ 1,340,328
Cash paid to suppliers	(4,924,123)	(1,234,108)	(6,158,231)	(577,661)
Cash paid to employees	(3,284,381)	-	(3,284,381)	(110,758)
Net cash provided by operating activities	7,008,835	(117,949)	6,890,886	651,909
Cash flow from noncapital financing activities				
Transfers in from other funds	-	-	-	77,659
Transfers out to other funds	(24,500)	-	(24,500)	-
Advances to other funds	(117,949)	-	(117,949)	-
Advances from other funds	-	117,949	117,949	500,000
Net cash used by noncapital financing activities	(142,449)	117,949	(24,500)	577,659
Cash flow from capital and related financing activities				
Proceeds from issuance of long-term debt	94,715,553	-	94,715,553	156,230
Interest paid	(4,143,038)	-	(4,143,038)	-
Acquisition and construction of property, plant and equipment	(91,534,176)	-	(91,534,176)	(1,221,709)
Proceeds from the sale of capital assets	-	-	-	15,239
Contributed capital from individuals	9,998,143	-	9,998,143	-
Net cash used by capital and related financing activities	9,036,482	-	9,036,482	(1,050,240)
Cash flow from investing activities				
Interest on investments	148,549	-	148,549	241
Net cash provided by investing activities	148,549	-	148,549	241
Net increase in cash and cash equivalents	16,051,417	-	16,051,417	179,569
Beginning cash and cash equivalent:	-	-	-	102,014
Ending cash and cash equivalent:	<u>\$ 16,051,417</u>	<u>\$ -</u>	<u>\$ 16,051,417</u>	<u>\$ 281,583</u>

(continued)

City of Palm Coast, Florida
Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended September 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Utility	Solid Waste	Totals	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 4,348,197	\$ 216,402	\$ 4,564,599	\$ 443,982
Adjustment to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	2,507,363	-	2,507,363	238,626
Change in assets and liabilities:				
Accounts receivable	(2,208,278)	(334,351)	(2,542,629)	(7,444)
Inventories	(218,074)	-	(218,074)	(29,249)
Accounts payable	478,984	-	478,984	407
Accrued liabilities	168,188	-	168,188	4,635
Customer deposits	1,420,553	-	1,420,553	-
Restricted accounts payable	391,831	-	391,831	-
Compensated absences	120,071	-	120,071	952
Net cash provided by operating activities:	\$ 7,008,835	\$ (117,949)	\$ 6,890,886	\$ 651,909
 Cash and cash equivalents classified as:				
Equity in pooled cash and investments in current assets	\$ 2,991,940	\$ -	\$ 2,991,940	\$ 281,583
Restricted equity in pooled cash and investments				
Revenue bond covenants	7,379,394	-	7,379,394	-
Impact fees	5,212,030	-	5,212,030	-
Renewal and replacement	468,053	-	468,053	-
Total restricted equity in pooled cash and investments	13,059,477	-	13,059,477	-
Total cash and cash equivalents:	\$ 16,051,417	\$ -	\$ 16,051,417	\$ 281,583

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

City of Palm Coast, Florida
Statement of Fiduciary Net Assets
Fiduciary Funds
As of September 30, 2004

	Volunteer Firefighter Pension Fund
ASSETS	
Cash and investments	\$ 22,397
Total assets	22,397
 NET ASSETS	
Held in Trust for Pension Benefits and Other Purposes	\$ 22,397

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

City of Palm Coast, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2004

	Volunteer Firefighter Pension Fund
ADDITIONS	
Contributions:	
State contributions	\$ 22,312
Total contributions	22,312
Investment earnings:	
Interest	85
Total investment earnings	85
Total additions	22,397
Net Increase (Decrease)	22,397
Net assets - beginning	-
Net assets - ending	\$ 22,397

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



This page intentionally left blank.

NOTES TO FINANCIAL STATEMENTS



This page intentionally left blank.

**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. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. 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 capital projects fund accounts for resources accumulated and payments made for the acquisition of land and construction of major capital facilities.

The government reports the following major proprietary funds:

The utility enterprise fund accounts for revenues and expenditures related to activities in the government's distribution of water, pumping of sewage, collection of sewage and treatment of sewage.

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.

The pension trust fund accounts for the activities of the Volunteer Firefighters' Pension, which accumulates resources for pension benefit payments to qualified volunteer firefighters.

**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)***

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

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

Amounts reported as program revenues 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 enterprise funds and the internal service fund are charges to customers for sales and services. Operating expenses for the enterprise funds and 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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

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, utility billings and solid waste billings. All General Fund receivables are deemed collectible, and an allowance for doubtful accounts has been set up in the Utility and Solid Waste Funds for 17% and 7%, respectively, of the outstanding receivable amounts.

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

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables (Continued)

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.

The property tax calendar is as follows:

Valuation Date	January 1, 2003	
Property Appraiser prepares the assessment roll with values as of January 1, 2003, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations.	July 1, 2003	
City Council holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year.	September 2003	
Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy date).	November 1, 2003	
A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2003 through March 2004, with the following applicable discounts:		
<u>Month Paid</u>	<u>Discount</u>	
November	4%	
December	3	
January	2	November 1, 2003
February	1	through
March	0	March 31, 2004
All unpaid taxes on real and tangible personal property become delinquent.	April 1, 2004	
A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised.	April and May 2004	
Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date).	June 1, 2004	
A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent personal property taxes.	June 1, 2004	

**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 and the utility 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.

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

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.

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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 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 \$178,941,844 difference are as follows:

Capital assets	\$ 180,137,367
Less: Accumulated Depreciation	(5,109,022)
Construction in progress	3,913,499
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ 178,941,844

**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 \$866,678 difference are as follows:

Loans payable	\$	305,693
Capital leases payable		59,520
Compensated absences		501,465
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>		\$ 866,678

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 \$23,699 difference are as follows:

Debt issued or incurred:		
Capital lease financing	\$	(53,811)
Debt repayments:		
Loan		29,607
Capital lease		47,903
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>		\$ 23,699

**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, 2004 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 \$7,630,122 and the bank balance was \$7,651,783. 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 \$23,550 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, 2004, the City had no investments that were required to be categorized as to level of risk. The City had a \$27,469,551 investment in the State Board of Administration Pooled Cash and \$156,445 in a money market account. The Volunteer Firefighters' Pension monies totaling \$22,397 are invested in a bank money market account.

Note 5 – Receivables

Receivables consist of the following at September 30, 2004:

	General Fund	Utility Fund	Solid Waste Fund	Fleet Management Fund	Totals
Accounts receivable	\$ 65,877	\$ 2,660,883	\$ 360,151	\$ 25,090	\$ 3,112,001
Notes receivable - current	30,813			-	30,813
Notes receivable - noncurrent	199,880			-	199,880
Less allowance for doubtful accounts	-	(452,605)	(25,800)	-	(478,405)
	<u>\$ 296,570</u>	<u>\$ 2,208,278</u>	<u>\$ 334,351</u>	<u>\$ 25,090</u>	<u>\$ 2,864,289</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, 2004 was as follows:

	Balance 09/30/03	Increases	Decreases	Balance 09/30/04
A. Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 67,812,181	\$ 764,164	\$ (739,224)	\$ 67,837,121
Construction in progress	1,256,076	3,349,149	(691,725)	3,913,500
Total capital assets, not being depreciated	69,068,257	4,113,313	(1,430,949)	71,750,621
Capital assets, being depreciated				
Buildings and improvements other than buildings	2,351,796	3,630,748	(268,310)	5,714,234
Infrastructure	99,606,079	3,977,943	-	103,584,022
Equipment	3,150,935	2,161,447	(102,475)	5,209,907
Total capital assets, being depreciated	105,108,810	9,770,138	(370,785)	114,508,163
Less accumulated depreciated for:				
Buildings and improvements other than buildings	(126,031)	(150,061)	31,125	(244,967)
Infrastructure	(1,957,230)	(2,078,879)	-	(4,036,109)
Equipment	(678,791)	(517,681)	18,471	(1,178,001)
Total accumulated depreciation	(2,762,052)	(2,746,621)	49,596	(5,459,077)
Total capital assets, being depreciated, net	102,346,758	7,023,517	(321,189)	109,049,086
Governmental activities capital assets, net	\$ 171,415,015	\$ 11,136,830	\$ (1,752,138)	\$ 180,799,707
B. Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ -	\$ 12,196,800	\$ -	\$ 12,196,800
Construction in progress	-	3,385,821	-	3,385,821
Total capital assets, not being depreciated	-	15,582,621	-	15,582,621
Capital assets, being depreciated				
Buildings and improvements other than buildings	-	32,742,178	-	32,742,178
Infrastructure	-	43,144,590	-	43,144,590
Equipment	-	199,316	-	199,316
Total capital assets, being depreciated	-	76,086,084	-	76,086,084
Less accumulated depreciated for:				
Buildings and improvements other than buildings	-	(1,198,630)	-	(1,198,630)
Infrastructure	-	(1,296,240)	-	(1,296,240)
Equipment	-	(12,493)	-	(12,493)
Total accumulated depreciation	-	(2,507,363)	-	(2,507,363)
Total capital assets, being depreciated, net	-	73,578,721	-	73,578,721
Governmental activities capital assets, net	\$ -	\$ 89,161,342	\$ -	\$ 89,161,342

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

Note 6 – Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 70,890
Public safety	99,627
Public works	2,287,972
Culture and recreation	49,506
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>238,626</u>
Total depreciation expense - governmental activities	<u><u>\$ 2,746,621</u></u>
Business activities:	
Utility	\$ 2,507,363
Solid Waste	<u>-</u>
Total depreciation expense - business activities	<u><u>\$ 2,507,363</u></u>

Note 7 – Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2004, is as follows:

	Due from Other Funds	Due to Other Funds
Capital Projects Fund	\$ 500,000	\$ -
Utility Fund	117,949	-
Solid Waste Fund		117,949
Fleet Management Fund	-	500,000
	<u>\$ 617,949</u>	<u>\$ 617,949</u>

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

Note 7 – Interfund Receivables, Payables, and Transfers (Continued)

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

	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$ 808,636	\$ 95,800
Capital Projects Fund	500,000	-
Nonmajor Governmental Funds	71,300	808,636
Utility Fund	24,500	-
Fleet Management Fund	-	577,659
	<u>\$1,404,436</u>	<u>\$1,482,095</u>

There was a transfer of capital assets from the General Fund to the Fleet Management Fund. Since capital assets are not carried in the governmental funds there was no transfer out shown, however the proprietary fund (Fleet Management) must show the transfer in. This transfer was \$77,659.

Note 8 – Leases and Agreements

Interlocal Agreements:

The City maintains an interlocal agreement with the Flagler County Sheriff for law enforcement services. The agreement provides for additional services above the base level of service provided by the Sheriff prior to incorporation. For 2004 the total cost was \$1,119,188 and provided 15.5 additional personnel.

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

Note 8 – Leases and Agreements (Continued)

Operating Leases:

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

General Fund	<u>\$ 45,984</u>
--------------	------------------

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	\$ 212,322
Less: Accumulated amortization	<u>(96,947)</u>
	<u>\$ 115,375</u>

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

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>	
2005	\$ 37,898
2006	25,312
2007	<u>4,065</u>
Total minimum lease payments	67,275
Less amount representing interest	<u>(7,755)</u>
Present value of minimum lease payments	<u>\$ 59,520</u>

The current and long-term obligation under capital lease is \$32,488 and \$27,032, respectively.

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

Note 9 – Long-Term Debt

A. Governmental Activities

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:

Year Ending <u>September 30</u>	Principal	Interest
2005	\$ 30,813	\$ 8,667
2006	32,068	7,412
2007	33,375	6,105
2008	34,735	4,745
2009	36,150	3,542
2010 - 2011	63,552	2,036
	\$ 230,693	\$ 32,507

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.

The City is currently in the process of applying for a construction loan. This State Revolving Fund Loan will be rolled into the new loan once approved. Repayment is anticipated to begin during fiscal year 2005.

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

Note 9 – Long-Term Debt (Continued)

B. Business Activities

Utility

Utility System Revenue Bonds

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.

Disposition of Revenue in order of Priority

Deposits are made in the Utility Fund for payment of operation and maintenance costs.

Funds are transferred to Debt Service Reserve for the following purposes:

- Interest Payments
- Parity Contract Obligations Payments
- Principal Payments
- Redemption of Term Bonds
- Subordinated Debt Payments

A reserve fund is not required since the City has acquired municipal bond insurance, which unconditionally and irrevocably guarantees that the full and complete payment will be made by or on behalf of the City to the Paying Agent or its successor.

Deposits are made into the Utility Capital Projects Fund for renewal, replacement and improvement, in an amount at least equal to one-twelfth of 5% of gross revenues received during the immediately preceding Fiscal Year.

Any remaining revenues are surplus and may be used for any lawful purpose of the City.

Early Redemption

A. Optional Redemption

The series 2003 bonds maturing on or after October 1, 2014 are redeemable prior to their stated dates of maturity, at the option of the City, in whole or in part on any date on or after October 1, 2013, at the redemption prices equal to the principal amount of the Series 2003 Bonds to be redeemed plus interest accrued to the date of redemption.

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

Note 9 – Long-Term Debt (Continued)

Changes in long-term debt

During the year ended September 30, 2004, the following changes in long-term debt occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
CDBG Loan	\$ 260,300	\$ -	\$ (29,607)	\$ 230,693	\$ 30,813
State Revolving Fund Loan	75,000	-	-	75,000	6,995
Capital leases	53,612	53,811	(47,903)	59,520	32,488
Equipment Loan	-	156,230	-	156,230	33,594
Compensated Absences	380,034	1,102,636	(977,630)	505,040	364,879
Long-term debt	<u>\$ 768,946</u>	<u>\$ 1,312,677</u>	<u>\$ (1,055,140)</u>	<u>\$ 1,026,483</u>	<u>\$ 468,769</u>
Business Type Activities:					
Utility Revenue Bond	\$ -	\$ 96,650,000	\$ -	\$ 96,650,000	\$ -
Compensated Absences	-	226,121	(106,050)	120,071	87,853
Long-term debt	<u>\$ -</u>	<u>\$ 96,876,121</u>	<u>\$ (106,050)</u>	<u>\$ 96,770,071</u>	<u>\$ 87,853</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, an equipment loan of \$156,230 and \$3,575 of internal service fund compensated absences are included in the above amounts. For governmental activities, compensated absences are generally liquidated by the general fund.

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, 2004, contributions to this plan totaled \$565,300.

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.

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

Note 10 – Retirement Plans (Continued)

Florida Retirement System (Continued)

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>10/1/2003 - 09/30/2004</u>
Regular employees – members not qualifying for other classes	7.39%
Special Risk Employees – members employed as law enforcement officers and firefighters	18.53%
Health Insurance Subsidy included in the above rates	1.11%

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>
09/30/2002	\$ 159,692	100%	\$ 0
09/30/2003	\$ 144,803	100%	\$ 0
09/30/2004	\$ 177,984	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, 2004, there is no liability and no required contribution.

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

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.

Note 12 – Prior Year Restatements

Fund balances in some of the governmental funds were restated for the year ended September 30, 2003. All of the restatements resulted in increases to the fund balances. Revenues from the State were not accrued properly at year end and expenditures for workers compensation were over estimated. The largest amount to be restated was related to the purchase of the utility. Payments in preparation of the acquisition were made from the General Fund and shown as expenditures. It was subsequently determined that the payments should have been recorded as due from other funds since the costs were to be repaid to the General Fund.

	General Fund	Nonmajor Governmental Funds	Statement of Activities
Fund Balance/Net Assets - September 30, 2003	\$ 4,535,367	\$ 4,958,741	\$ 186,078,415
Accrual of sales, telecommunication, and gas taxes as of September 30, 2003	337,276	121,938	459,214
Credit of expenditure recorded in error	99,364	-	99,364
Reclassification of expenditure to due from other fund	774,290	-	774,290
Adjusted fund balance/net assets	<u>\$ 5,746,297</u>	<u>\$ 5,080,679</u>	<u>\$ 187,411,283</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Palm Coast, Florida
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended September 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 10,460,700	\$ 10,460,700	\$ 11,063,544	\$ 602,844
Licenses and permits	2,293,708	5,338,708	5,910,993	572,285
Intergovernmental	1,896,200	1,927,700	2,447,643	519,943
Charges for services	1,026,509	2,374,299	1,523,459	(850,840)
Fines and forfeitures	130,800	130,800	106,067	(24,733)
Investment earnings	85,300	85,300	100,710	15,410
Miscellaneous	5,000	5,000	6,006	1,006
Total revenues	15,898,217	20,322,507	21,158,422	835,915
EXPENDITURES				
Current:				
General government:				
Mayor and Council	53,938	64,938	64,865	73
City Manager	287,682	320,382	319,283	1,099
City Attorney	165,000	275,000	271,714	3,286
City Clerk	86,136	118,755	103,595	15,160
Administrative Services	800,494	926,109	897,435	28,674
Financial Services	403,563	419,313	409,734	9,579
Development Services	3,483,816	6,480,297	6,127,075	353,222
Nondepartmental	734,000	783,700	475,018	308,682
Total general government	6,014,629	9,388,494	8,668,719	719,775
Public safety:				
Fire	2,492,205	2,597,162	2,546,963	50,199
Law Enforcement	1,123,545	1,123,545	1,119,188	4,357
Total public safety	3,615,750	3,720,707	3,666,151	54,556
Public Works				
Engineering	4,805,181	5,808,278	5,349,551	458,727
Engineering	958,902	1,179,202	1,084,808	94,394
Total transportation and physical environment	5,764,083	6,987,480	6,434,359	553,121
Culture and recreation	1,103,890	1,106,975	1,021,668	85,307
Total expenditures	16,498,352	21,203,656	19,790,897	1,412,759
Excess of revenues over (under) expenditures	(600,135)	(881,149)	1,367,525	2,248,674
Other financing sources (uses):				
Transfers in	24,500	95,800	95,800	-
Transfers out	(788,980)	(788,980)	(808,636)	(19,656)
Loan and capital lease proceeds	-	-	53,811	53,811
Total other financing sources (uses)	(764,480)	(693,180)	(659,025)	34,155
Net change in fund balance	(1,364,615)	(1,574,329)	708,500	2,282,829
Fund balance - beginning - restated	5,746,297	5,746,297	5,746,297	-
Fund balance - ending	\$ 4,381,682	\$ 4,171,968	\$ 6,454,797	\$ 2,282,829

**CITY OF PALM COAST, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and the park impact fee special revenue fund. Encumbrance accounting is employed. Unexpended and unencumbered appropriations lapse at the end of the fiscal year and may be reappropriated in the ensuing year.



This page intentionally left blank.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES



This page intentionally left blank.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Police Education Fund - This fund is used to account for the costs of educational expenses for police officers. Revenues come from fines and forfeitures.

Police Automation Fund - This fund is used to account for funds collected and disbursements made for the purpose of acquisition of equipment to upgrade the technology of existing police equipment.

Disaster Reserve Fund - This fund has been set up to cover costs of a hurricane or other disasters.

Recycling Revenue Fund - This fund is used to account for revenue from the sale of recycled materials collected as part of the solid waste program.

Streets Improvement Fund – This fund is used to account for the revenue from a half-cent local government infrastructure surtax that is being used to resurface city streets.

Park Impact Fee Fund - This fund is used to account for fees collected from new development, for the purpose of funding capital cost related to park land acquisition and improvements, and to track the expenditures of the money.

Fire Impact Fee Fund - This fund is used to account for fees collected from new development, for the purpose of funding capital cost related to expanding fire services, and to track the expenditures of the money.

Development Special Projects Fund - This fund is used to account for money collected from developers for future improvements such as sidewalks and traffic lights.

City of Palm Coast, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2004

	Special Revenue			
	Police Education	Police Automation	Disaster Reserve	Recycling Revenue
ASSETS				
Equity in pooled cash and investments	\$ 20,931	\$ 31,487	\$ 769,104	\$ 110,366
Due from other governments	-	-	727,256	-
Total assets	\$ 20,931	\$ 31,487	\$ 1,496,360	\$ 110,366
 LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 329,701	\$ -
Accrued liabilities	-	-	24,048	-
Total liabilities	-	-	353,749	-
 FUND BALANCES				
Reserved for encumbrances	-	-	-	-
Unreserved/undesignated	20,931	31,487	1,142,611	110,366
Total fund balances	20,931	31,487	1,142,611	110,366
Total liabilities and fund balance	\$ 20,931	\$ 31,487	\$ 1,496,360	\$ 110,366

Funds

	Streets Improvement	Park Impact Fee	Fire Impact Fee	Development Special Projects	Total Nonmajor Governmental Funds
\$	593,020	\$ 3,068,418	\$ 1,596,984	\$ 557,306	\$ 6,747,616
	387,957	200,000	-	-	1,315,213
\$	980,977	\$ 3,268,418	\$ 1,596,984	\$ 557,306	\$ 8,062,829
\$	4,208	\$ 249,761	\$ 4	\$ 23,521	\$ 607,195
	-	246,781	-	-	270,829
	4,208	496,542	4	23,521	878,024
	2,923	1,318,435	-	169,861	1,491,219
	973,846	1,453,441	1,596,980	363,924	5,693,586
	976,769	2,771,876	1,596,980	533,785	7,184,805
\$	980,977	\$ 3,268,418	\$ 1,596,984	\$ 557,306	\$ 8,062,829

City of Palm Coast, Florida
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2004

	Special Revenue			
	Police Education	Police Automation	Disaster Reserve	Recycling Revenue
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue	-	-	727,256	-
Charges for services	-	-	-	51,234
Fines and forfeitures	4,773	19,070	-	-
Impact fees	-	-	-	-
Investment earnings	201	224	10,286	894
Total revenues	<u>4,974</u>	<u>19,294</u>	<u>737,542</u>	<u>52,128</u>
EXPENDITURES				
Current:				
Transportation and physical environment	-	-	419,224	-
Capital outlay:				
Public safety	-	-	-	-
Transportation and physical environment	-	-	41,733	-
Culture and recreation	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>460,957</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	4,974	19,294	276,585	52,128
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(71,300)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(71,300)</u>	<u>-</u>
Net change in fund balances	4,974	19,294	205,285	52,128
Fund balances - beginning - restated	15,957	12,193	937,326	58,238
Fund balances - ending	<u>\$ 20,931</u>	<u>\$ 31,487</u>	<u>\$ 1,142,611</u>	<u>\$ 110,366</u>

Funds

	Streets Improvement	Park Impact Fee	Fire Impact Fee	Development Special Projects	Total Nonmajor Governmental Funds
\$	1,878,066	\$ -	\$ -	\$ -	\$ 1,878,066
	-	200,000	-	-	927,256
	-	-	-	-	51,234
	-	-	-	-	23,843
	-	2,664,196	907,529	430,850	4,002,575
	277	36,941	12,901	2,641	64,365
	<u>1,878,343</u>	<u>2,901,137</u>	<u>920,430</u>	<u>433,491</u>	<u>6,947,339</u>
	-	-	-	24,672	443,896
	-	-	55,000	-	55,000
	1,344,465	-	-	-	1,386,198
	-	2,886,819	-	-	2,886,819
	<u>1,344,465</u>	<u>2,886,819</u>	<u>55,000</u>	<u>24,672</u>	<u>4,771,913</u>
	533,878	14,318	865,430	408,819	2,175,426
	-	-	-	-	(71,300)
	-	-	-	-	(71,300)
	533,878	14,318	865,430	408,819	2,104,126
	442,891	2,757,558	731,550	124,966	5,080,679
\$	<u>976,769</u>	<u>\$ 2,771,876</u>	<u>\$ 1,596,980</u>	<u>\$ 533,785</u>	<u>\$ 7,184,805</u>

City of Palm Coast, Florida
 Capital Projects Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 40,720	\$ 40,720	\$ 32,111	\$ (8,609)
Total revenues	40,720	40,720	32,111	(8,609)
EXPENDITURES				
Capital outlay:				
General government	1,300,000	3,154,805	2,891,248	263,557
Public safety	-	608,458	677,527	(69,069)
Transportation and physical environment	850,000	1,143,620	348,550	795,070
Culture and recreation	589,700	1,254,229	359,722	894,507
Total expenditures	2,739,700	6,161,112	4,277,047	1,884,065
Excess of revenues over (under) expenditures	(2,698,980)	(6,120,392)	(4,244,936)	1,875,456
Other financing sources (uses):				
Transfers in	788,980	788,980	808,636	19,656
Transfers out	(500,000)	(500,000)	-	(500,000)
Sale of capital assets	-	-	905,280	905,280
Total other financing sources (uses)	288,980	288,980	1,713,916	424,936
Net change in fund balance	(2,410,000)	(5,831,412)	(2,531,020)	2,300,392
Fund balance - beginning	5,832,194	5,832,194	5,832,194	-
Fund balance - ending	\$ 3,422,194	\$ 782	\$ 3,301,174	\$ 2,300,392

City of Palm Coast, Florida
 Police Education Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Fines and forfeitures	\$ 5,500	\$ 5,500	\$ 4,773	\$ (727)
Investment earnings	100	100	201	101
Total revenues	5,600	5,600	4,974	(626)
EXPENDITURES				
Current:				
Public safety	5,600	21,500	-	21,500
Total expenditures	5,600	21,500	-	21,500
Excess of revenues over (under) expenditures	-	(15,900)	4,974	20,874
Fund balance - beginning	15,957	15,957	15,957	-
Fund balance - ending	\$ 15,957	\$ 57	\$ 20,931	\$ 20,874

City of Palm Coast, Florida
 Police Automation Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Fines and forfeitures	\$ 22,000	\$ 22,000	\$ 19,070	\$ (2,930)
Investment earnings	200	200	224	24
Total revenues	<u>22,200</u>	<u>22,200</u>	<u>19,294</u>	<u>(2,906)</u>
EXPENDITURES				
Current:				
Public safety	22,200	34,300	-	34,300
Total expenditures	<u>22,200</u>	<u>34,300</u>	<u>-</u>	<u>34,300</u>
Excess of revenues over (under) expenditures	-	(12,100)	19,294	31,394
Fund balance - beginning	12,193	12,193	12,193	-
Fund balance - ending	<u>\$ 12,193</u>	<u>\$ 93</u>	<u>\$ 31,487</u>	<u>\$ 31,394</u>

City of Palm Coast, Florida
Disaster Reserve Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Intergovernmental revenue	\$ -	\$ -	\$ 727,256	\$ 727,256
Investment earnings	15,000	15,000	10,286	(4,714)
Total revenues	<u>15,000</u>	<u>15,000</u>	<u>737,542</u>	<u>722,542</u>
EXPENDITURES				
Current:				
Physical environment	15,000	952,300	419,224	533,076
Capital outlay:				
Physical environment	-	-	41,733	(41,733)
Total expenditures	<u>15,000</u>	<u>952,300</u>	<u>460,957</u>	<u>491,343</u>
Excess of revenues over (under) expenditures	-	(937,300)	276,585	1,213,885
Other financing sources (uses):				
Transfers out	-	-	(71,300)	(71,300)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(71,300)</u>	<u>(71,300)</u>
Net change in fund balance	-	(937,300)	205,285	1,142,585
Fund balance - beginning	937,326	937,326	937,326	-
Fund balance - ending	<u>\$ 937,326</u>	<u>\$ 26</u>	<u>\$ 1,142,611</u>	<u>\$ 1,142,585</u>

City of Palm Coast, Florida
 Recycling Revenue Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Charges for services	\$ 35,000	\$ 35,000	\$ 51,234	\$ 16,234
Investment earnings	-	-	894	894
Total revenues	35,000	35,000	52,128	17,128
EXPENDITURES				
Current:				
Physical environment	35,000	93,200	-	93,200
Total expenditures	35,000	93,200	-	93,200
Excess of revenues over (under) expenditures	-	(58,200)	52,128	110,328
Fund balance - beginning	58,238	58,238	58,238	-
Fund balance - ending	\$ 58,238	\$ 38	\$ 110,366	\$ 110,328

City of Palm Coast, Florida
Streets Improvement Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 1,210,000	\$ 1,210,000	\$ 1,878,066	\$ 668,066
Investment earnings	-	-	277	277
Total revenues	1,210,000	1,210,000	1,878,343	668,343
EXPENDITURES				
Capital outlay:				
Transportation and physical environment	1,210,000	1,528,578	1,344,465	184,113
Total expenditures	1,210,000	1,528,578	1,344,465	184,113
Excess of revenues over (under) expenditures	-	(318,578)	533,878	852,456
Fund balance - beginning - restated	442,891	442,891	442,891	-
Fund balance - ending	\$ 442,891	\$ 124,313	\$ 976,769	\$ 852,456

City of Palm Coast, Florida
 Park Impact Fee Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Intergovernmental revenue	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
Impact fees	797,400	1,997,400	2,664,196	666,796
Investment earnings	16,200	21,200	36,941	15,741
Total revenues	1,013,600	2,218,600	2,901,137	682,537
EXPENDITURES				
Capital outlay:				
Culture and recreation	1,013,600	4,969,536	2,886,819	2,082,717
Total expenditures	1,013,600	4,969,536	2,886,819	2,082,717
Excess of revenues over (under) expenditures	-	(2,750,936)	14,318	2,765,254
Fund balance - beginning	2,757,558	2,757,558	2,757,558	-
Fund balance - ending	\$ 2,757,558	\$ 6,622	\$ 2,771,876	\$ 2,765,254

City of Palm Coast, Florida
 Fire Impact Fee Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Impact fees	\$ 350,000	\$ 350,000	\$ 907,529	\$ 557,529
Investment earnings	-	-	12,901	12,901
Total revenues	<u>350,000</u>	<u>350,000</u>	<u>920,430</u>	<u>570,430</u>
EXPENDITURES				
Capital outlay:				
Public safety	350,000	1,081,500	55,000	1,026,500
Total expenditures	<u>350,000</u>	<u>1,081,500</u>	<u>55,000</u>	<u>1,026,500</u>
Excess of revenues over (under) expenditures	-	(731,500)	865,430	1,596,930
Fund balance - beginning	731,550	731,550	731,550	-
Fund balance - ending	<u>\$ 731,550</u>	<u>\$ 50</u>	<u>\$ 1,596,980</u>	<u>\$ 1,596,930</u>

City of Palm Coast, Florida
 Development Special Projects Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Impact fees	\$ -	\$ 330,000	\$ 430,850	\$ 100,850
Investment earnings	-	-	2,641	2,641
Total revenues	-	330,000	433,491	103,491
EXPENDITURES				
Current:				
Transportation and physical environment	-	-	24,672	(24,672)
Capital outlay:				
Transportation and physical environment	-	454,900	-	454,900
Total expenditures	-	454,900	24,672	430,228
Excess of revenues over (under) expenditures	-	(124,900)	408,819	533,719
Fund balance - beginning	124,966	124,966	124,966	-
Fund balance - ending	\$ 124,966	\$ 66	\$ 533,785	\$ 533,719