

FINANCIAL SECTION

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- . Independent Auditors' Report
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INDEPENDENT AUDITORS' REPORT



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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, 2007, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palm Coast, Florida, as of September 30, 2007, 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 our report dated February 1, 2008, 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 and individual nonmajor fund financial statements, budgetary comparison schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of City of Palm Coast, Florida. The combining and individual nonmajor fund financial statements and budgetary comparison 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 tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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Daytona Beach, Florida
February 1, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 2007 by \$327,460,590. Of this amount, \$27,038,459 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$26,294,343. Approximately 58% of this increase was attributable to one-time resources such as impact fees and developer contributions.
- As of the close of fiscal year 2007, the City's governmental funds reported combined ending fund balances of \$48,456,075, a decrease of \$6,816,433 over the prior year. Approximately, 82% of this total amount or \$39,610,756 is reported as unreserved and undesignated fund balance.
- At the end of fiscal year 2007, unreserved/undesignated fund balance in the general fund was \$8,427,613, or 28% of total general fund expenditures.
- The City of Palm Coast's total debt increased by \$56,470,930 during the current fiscal year. The City obtained a State Revolving Fund (SRF) loan to expand and improve the reclaimed water system that serves the City. The City also issued \$49,840,000 in new utility revenue bonds to fund a water treatment plant and associated infrastructure. There was also an increase in compensated absences for the year.

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 funds 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 financial statements. The government-wide financial 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 the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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.

Both of the government-wide financial statements distinguish functions of the City of Palm Coast that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include most of the City's basic services, such as law enforcement, fire, public works, parks, and general administration. The business-type activities of the City of Palm Coast include a water and sewer utility, solid waste collection, stormwater management, and a tennis center which are funded by user fees.

The government-wide financial statements can be found on pages 23-25 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Some governmental funds are required by Florida Statute or other regulations. The governmental funds financial 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 reconciliation between the governmental funds financial statements and the governmental activities in the government-wide financial statements.

The City of Palm Coast maintains nine individual governmental funds. Four of the governmental funds are classified as nonmajor 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, transportation impact fee fund, streets improvement fund, SR100 CRA fund, and non major governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for nonmajor 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, transportation impact fee, streets improvement, SR100 CRA and non major governmental funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 26-29 of this report.

Proprietary funds. The City of Palm Coast maintains five proprietary funds. Four of these are enterprise funds. They are the utility fund, solid waste fund, stormwater fund, and tennis center 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. Since this fund predominantly benefits governmental rather than business-type functions, it has been included within the governmental activities in the government-wide financial statements.

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 on the utility, solid waste, and stormwater funds which are considered to be major funds, and the tennis center fund which is a nonmajor fund. The internal service fund is shown in a separate column, but not included in the totals for proprietary funds.

The basic proprietary fund financial statements can be found on pages 30-35 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of 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.

The basic fiduciary fund financial statements can be found on pages 36-37 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-67 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This includes budget and actual comparisons for the general fund and major special revenue funds with adopted budgets. This also includes the City of Palm Coast's progress in funding its obligation to provide pension benefits to the volunteer firefighters. Required supplementary information can be found on page 69 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Palm Coast, assets exceeded liabilities by \$327,460,590 at the close of the most recent fiscal year.

Of the net assets, 8.3% falls in the unrestricted category. These may be used to meet ongoing obligations to citizens and creditors. Approximately 14.6% of net assets represent resources that are subject to external restrictions. By far the largest portion of the City of Palm Coast's net assets (77.1%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. 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.

At the end of the current fiscal year, the City of Palm Coast is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Table I
City of Palm Coast's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 54,813,814	\$ 62,493,832	\$ 77,975,992	\$ 35,622,769	\$ 132,789,806	\$ 98,116,601
Capital assets	225,776,165	200,543,320	160,838,029	130,876,513	386,614,194	331,419,833
Total assets	280,589,979	263,037,152	238,814,021	166,499,282	519,404,000	429,536,434
Long-term liabilities	1,457,713	1,425,644	170,535,794	114,096,933	171,993,507	115,522,577
Other liabilities	5,303,647	6,139,368	14,646,256	6,708,242	19,949,903	12,847,610
Total liabilities	6,761,360	7,565,012	185,182,050	120,805,175	191,943,410	128,370,187
Net assets:						
Invested in capital assets, net						
of related debt	225,700,473	200,311,305	26,960,668	20,287,134	252,661,141	220,598,439
Restricted	32,324,411	34,114,771	15,436,579	15,509,631	47,760,990	49,624,402
Unrestricted	15,803,735	21,046,064	11,234,724	9,897,342	27,038,459	30,943,406
Total net assets	\$ 273,828,619	\$ 255,472,140	\$ 53,631,971	\$ 45,694,107	\$ 327,460,590	\$ 301,166,247

Governmental Activities

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 4,339,016	\$ 9,280,074	\$ 36,783,233	\$ 32,579,083	\$ 41,122,249	\$ 41,859,157
Operating grants and contributions	2,227,021	2,481,156	-	2,673,226	2,227,021	5,154,382
Capital grants and contributions	7,062,673	19,533,215	5,441,798	9,743,906	12,504,471	29,277,121
General revenues:						
Property taxes	19,902,970	14,720,753	-	-	19,902,970	14,720,753
Other taxes	5,050,504	5,047,367	-	-	5,050,504	5,047,367
Intergovernmental	3,212,176	3,310,749	-	-	3,212,176	3,310,749
Other	3,884,438	3,221,046	1,430,419	1,089,712	5,314,857	4,310,758
Total revenues	45,678,798	57,594,360	43,655,450	46,085,927	89,334,248	103,680,287
Expenses:						
General government	8,358,244	8,721,369	-	-	8,358,244	8,721,369
Public safety	7,749,060	6,339,499	-	-	7,749,060	6,339,499
Transportation and physical environment	9,535,259	8,776,023	-	-	9,535,259	8,776,023
Culture & recreation	2,535,047	2,101,421	-	-	2,535,047	2,101,421
Utility	-	-	24,748,547	22,329,065	24,748,547	22,329,065
Solid Waste	-	-	6,352,603	4,359,944	6,352,603	4,359,944
Storm Water	-	-	3,469,901	3,680,413	3,469,901	3,680,413
Interest on long-term debt	291,244	19,208	-	-	291,244	19,208
Total expenses	28,468,854	25,957,520	34,571,051	30,369,422	63,039,905	56,326,942
Increase in net assets before transfers	17,209,944	31,636,840	9,084,399	15,716,505	26,294,343	47,353,345
Transfers	1,146,535	956,761	(1,146,535)	(956,761)	-	-
Increase in net assets	18,356,479	32,593,601	7,937,864	14,759,744	26,294,343	47,353,345
Net assets - beginning	255,472,140	222,878,539	45,694,107	30,934,363	301,166,247	253,812,902
Net assets - ending	\$ 273,828,619	\$ 255,472,140	\$ 53,631,971	\$ 45,694,107	\$ 327,460,590	\$ 301,166,247

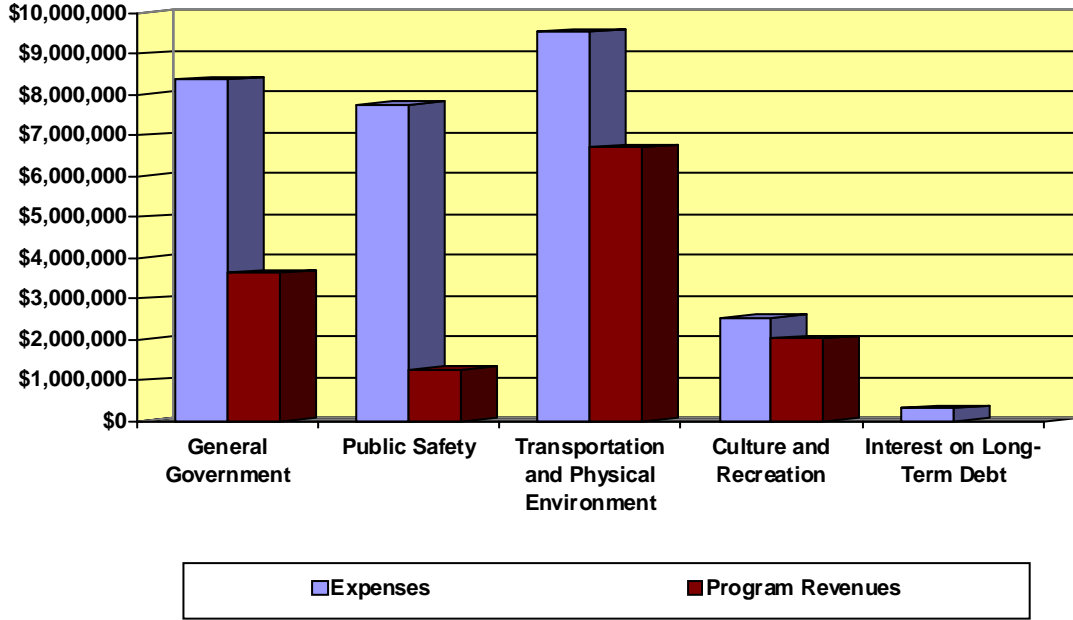
Governmental activities increased the City of Palm Coast's net assets by \$18,356,479 during the current fiscal year. This represents 70 percent of the total growth in net assets for the City. Land purchases for various construction projects and community redevelopment account for over \$10 million of the increase. Various governmental construction projects in process are the primary factor for the balance of the increase in net assets. Restricted net assets decreased by \$1,790,360 during the fiscal year. This change is primarily due to decreased impact fee collections from the drop in residential building permits.

Charges for services decreased \$4,941,058 and capital grants and contributions decreased \$7,062,673, due primarily to the decrease in residential building permit charges and related impact fee collections. Property tax collections increased \$5,182,217 primarily due to a 41% increase in the taxable value of property within the City.

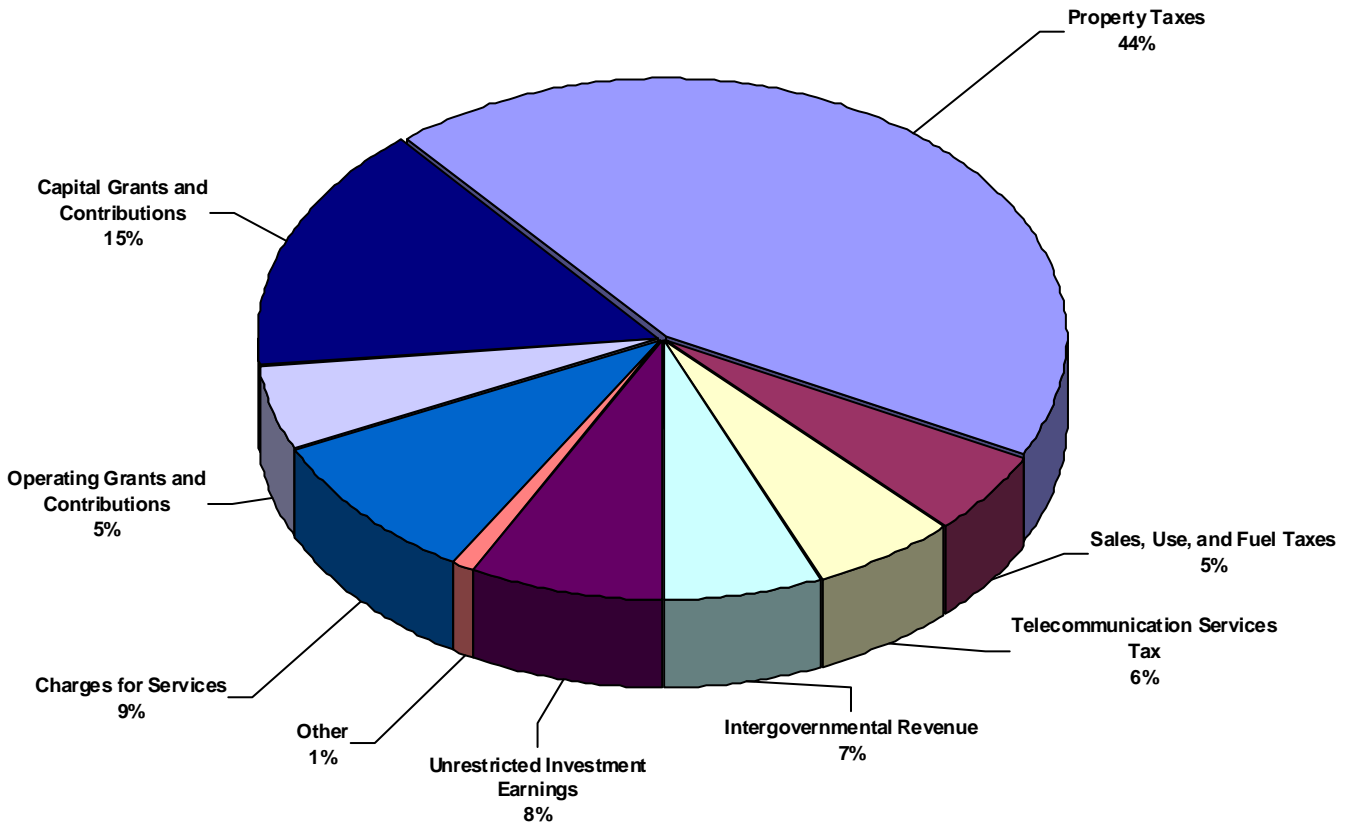
Business-type Activities

Business-type activities increased the City of Palm Coast's net assets by \$7,937,864 or 30 percent of the total growth in net assets. The increase in net assets was primarily attributable to capital grants and contributions. Restricted net assets decreased by \$73,052 during the fiscal year. Decreased impact fee collections due to the residential housing slump are the primary factor for the decrease.

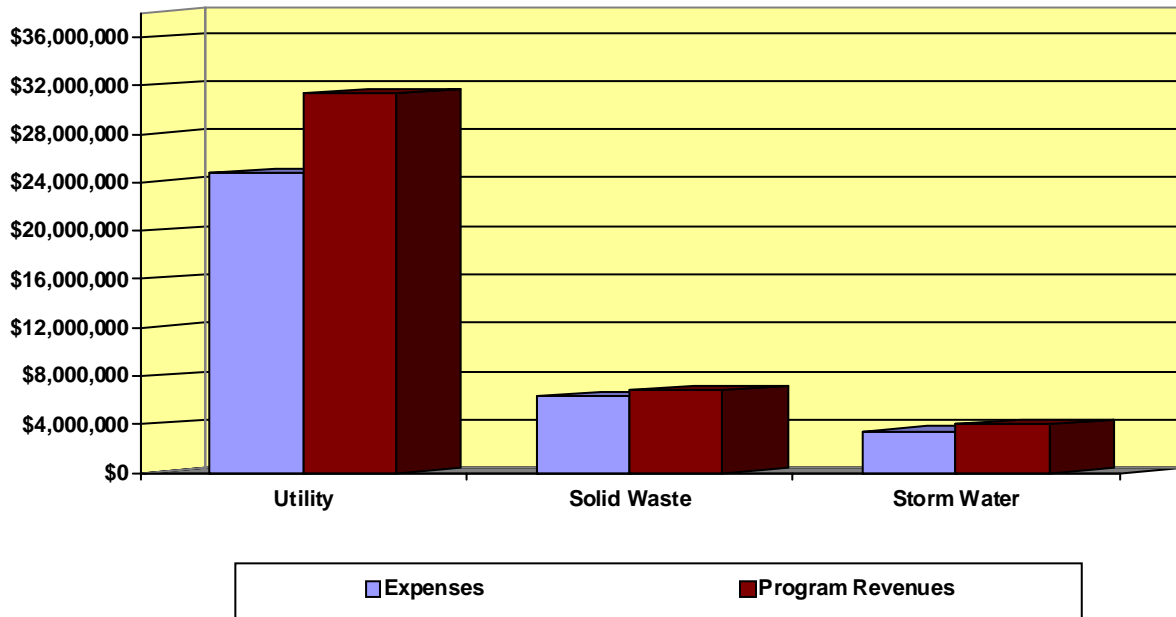
Expenses and Program Revenues - Governmental Activities



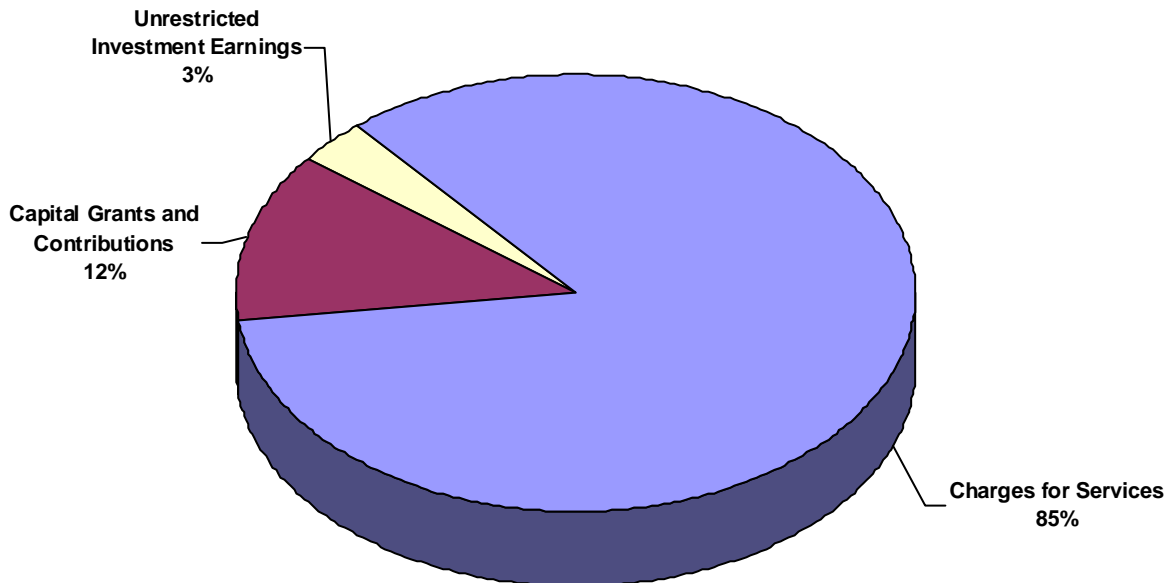
Revenues by Source - Governmental Activities



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/undesignated fund balance in the general fund was \$8,427,613, with an additional \$1,782,550 designated as a disaster reserve. The total fund balance stood at \$13,143,457. 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/undesignated fund balance represents approximately 28% of total general fund expenditures versus 51% for fiscal year 2006. Total fund balance represents 42.7% of the total general fund expenditures versus 60% for fiscal year 2006.

The fund balance of the City of Palm Coast's general fund decreased by \$1,532,393 during the current fiscal year. Key factors in this decrease are as follows:

- Property tax revenue increased about \$5.2 million in the current year due to significant increases in the value of underlying taxable property in the City. However, license and permit revenue decreased about \$3.4 million due to a significant decrease in residential building permits. Expenditures also increased about \$6.2 million, including about a \$2.5 million increase in capital outlay.

The capital projects fund has a total fund balance of \$10,529,476, an increase of \$3,059,550. A portion of the total property tax revenue is allocated to this fund to cover capital expenditures. Tax collections increased nearly \$2.2 million due to significant increases in the value of underlying property in the City. The transportation impact fee fund balance was \$19,645,868, a decrease of \$3,256,797. This decrease is primarily reflective of decreased impact fees due to a significant drop in residential building permits. The streets improvement fund balance was \$4,111,716, representing an increase of \$1,546,732. This was primarily the result of increased non-property tax revenues. The SR100 CRA fund balance was (\$5,074,072), a decrease of \$4,086,033. Purchases of land for redevelopment in advance of tax increment revenues are the primary factor for the decrease.

The other governmental funds have a total fund balance \$6,099,630. This was a decrease of \$2,547,492 during the current fiscal year, primarily due to decreased impact fee collections in the park and fire impact fee 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 \$11,798,739 at the end of the year, with the total fund balance at \$48,822,509. The unrestricted net assets increased \$2,398,546 for the year. Income from operations was the primary factor for the increase.

Unrestricted net assets of the solid waste fund were \$25,340, which represents an increase of \$490,071. Increased operating income from a new rate structure established during the fiscal year is the primary factor for the change.

Unrestricted net assets of the stormwater fund were \$(1,271,955), which represents a decrease of \$1,630,231. This decrease is primarily due to increased investment in stormwater infrastructure.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget totaled \$821,490. The change was due to an increase in the transportation capital outlay budget of \$475,000, with the balance in public safety. There were minor changes in expenditures in other departments throughout the year. During the year, final amended expenditures exceeded the revenues budget by \$1,713,120. This was the result of budgeted utilization of accumulated fund balance. Actual expenditures were less than the final amended budget by \$5,177,681. Vacancies in Community Development, Streets and Drainage, and projects that were not completed are the primary reasons for this difference.

Capital Asset and Debt Administration

Capital assets. The City of Palm Coast's investment in capital assets as of September 30, 2007, amounts to \$386,614,194 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment. This is an increase of \$55,194,361 for the current fiscal year. Most of the increase is related to the expansion and improvement of the utility system during the year. The rest of the increase can be attributed to the improvements to city streets, land purchases, and construction of parks and recreation facilities.

Table III
City of Palm Coast's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 80,881,058	\$ 69,808,144	\$ 13,139,191	\$ 13,032,557	\$ 94,020,249	\$ 82,840,701
Buildings and improvements						
other than buildings	14,357,011	13,490,289	44,308,251	45,691,576	58,665,262	59,181,865
Infrastructure	108,845,879	105,186,924	69,615,186	64,307,682	178,461,065	169,494,606
Equipment	8,361,213	7,036,133	1,087,717	753,564	9,448,930	7,789,697
Construction in progress	13,331,004	5,021,830	32,687,684	7,091,134	46,018,688	12,112,964
Total	\$ 225,776,165	\$ 200,543,320	\$ 160,838,029	\$ 130,876,513	\$ 386,614,194	\$ 331,419,833

Additional information on the City of Palm Coast's capital assets can be found in Note 6 on pages 52-53 of this report.

Long-term debt. The City of Palm Coast owes \$142,765,000 in revenue bonds used for the purchase and expansion of the utility system. There is a CDBG loan with a balance of \$134,437 and State Revolving Fund loans of \$27,122,347 for utility and stormwater improvements. The remainder of the long-term debt is made up of equipment loans and compensated absences. The total long-term debt of the City is \$171,993,507.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Loans from other governments	\$ 134,437	\$ 167,812	\$ 27,122,347	\$ 18,844,279	\$ 27,256,784	\$ 19,012,091
Loans from financial institutions	37,846	228,072	-	-	37,846	228,072
Revenue bonds	-	-	142,765,000	94,805,000	142,765,000	94,805,000
Capital leases	-	3,944	-	-	-	3,944
Compensated absences	1,285,430	1,025,816	648,447	447,654	1,933,877	1,473,470
Total	\$ 1,457,713	\$ 1,425,644	\$ 170,535,794	\$ 114,096,933	\$ 171,993,507	\$ 115,522,577

Additional information on the City of Palm Coast's long-term debt can be found in Note 9 beginning on pages 55-61 of this report.

Next Year's Budget and Rates

During the current fiscal year, unreserved/undesignated fund balance in the General Fund decreased to \$8,427,613 plus an additional \$366,395 reserved for encumbrances. The City of Palm Coast has appropriated \$1,072,585 of the unreserved fund balance for spending in the 2008 fiscal year budget. After encumbrances, the available fund balance, as a percentage of prior year expenditures and transfers out is 23.5%.

The City Council approved a millage rate of 2.96234 mills for fiscal year 2008. The City was required by the state legislature to reduce the fiscal year 2008 millage rate to 7% below the rolled-back rate. This reduction of .28766 mills is actually an 8.8% decrease from the fiscal year 2007 rate. The City Council has designated .75 mills for capital projects.

On January 29, 2008, the Florida electorate approved an amendment (referred to as Amendment 1) to the Florida Constitution relative to property taxation. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 - \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school district taxes, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of their Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to three percent (3%) or the percentage change in the Consumer Price Index, whichever is less. With respect to non-homestead property, Amendment 1 limits (caps) the annual increase in assessed value for non-homestead property (businesses, industrial property, rental property, second homes, etc.) to ten percent (10%), except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property. Amendment 1 becomes effective on October 1, 2008, with the exception of the ten percent (10%) assessment cap on non-homestead property which becomes effective on January 1, 2009. The financial effect of these changes has not been determined.

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) 986-3773
E-mail rbritt@ci.palm-coast.fl.us

BASIC FINANCIAL STATEMENTS



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City of Palm Coast, Florida
Statement of Net Assets
September 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Equity in pooled cash and investments	\$ 51,994,977	\$ 8,660,481	\$ 60,655,458
Receivables - net	538,046	6,537,323	7,075,369
Due from other governments	2,194,975	-	2,194,975
Prepaid items	52,887	4,516	57,403
Inventories	32,929	419,122	452,051
Unamortized bond premium	-	(1,624,420)	(1,624,420)
Unamortized debt issuance costs	-	4,499,862	4,499,862
Other Assets	-	-	-
Restricted assets:			
Equity in pooled cash and investments	-	56,307,085	56,307,085
Due from other governments	-	3,172,023	3,172,023
Prepaid Items	-	-	-
Capital assets (net of accumulated depreciation):			
Land	80,881,058	13,139,191	94,020,249
Buildings and improvements other than buildings	14,357,011	44,308,251	58,665,262
Infrastructure	108,845,879	69,615,186	178,461,065
Equipment	8,361,213	1,087,717	9,448,930
Construction in progress	13,331,004	32,687,684	46,018,688
Total assets	<u>280,589,979</u>	<u>238,814,021</u>	<u>519,404,000</u>
LIABILITIES			
Accounts payable and other current liabilities	3,953,816	1,318,602	5,272,418
Due to other governments	326,998	-	326,998
Internal balances	682,023	(682,023)	-
Customer deposits	340,810	3,144,183	3,484,993
Unearned revenue	-	66,655	66,655
Payable from restricted assets:			
Accrued bond interest payable	-	3,264,264	3,264,264
Accounts payable	-	6,630,288	6,630,288
Contract payable	-	904,287	904,287
Noncurrent liabilities:			
Due within one year	548,128	2,993,973	3,542,101
Due in more than one year	909,585	167,541,821	168,451,406
Total liabilities	<u>6,761,360</u>	<u>185,182,050</u>	<u>191,943,410</u>
NET ASSETS			
Invested in capital assets, net of related debt	225,700,473	26,960,668	252,661,141
Restricted for:			
Construction	29,682,454	12,968,598	42,651,052
Debt service	-	2,467,981	2,467,981
Public safety	174,760	-	174,760
Enabling legislation	2,467,197	-	2,467,197
Unrestricted	15,803,735	11,234,724	27,038,459
Total net assets	<u>\$ 273,828,619</u>	<u>\$ 53,631,971</u>	<u>\$ 327,460,590</u>

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, 2007

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 8,358,244	\$ 3,631,863	\$ 10,950	\$ -
Public safety	7,749,060	279,066	82,978	892,549
Transportation and physical environment	9,535,259	160,299	2,133,093	4,403,412
Culture and recreation	2,535,047	267,788	-	1,766,712
Interest on long-term debt	291,244	-	-	-
Total governmental activities	<u>\$ 28,468,854</u>	<u>\$ 4,339,016</u>	<u>\$ 2,227,021</u>	<u>\$ 7,062,673</u>
Business-type activities:				
Utility	24,748,547	25,893,437	-	5,441,798
Solid Waste	6,352,603	6,843,240	-	-
Storm Water	3,469,901	4,046,556	-	-
Total business-type activities	<u>\$ 34,571,051</u>	<u>\$ 36,783,233</u>	<u>\$ -</u>	<u>\$ 5,441,798</u>

General revenues:

- Property taxes
- Sales and use taxes
- Telecommunication services tax
- Intergovernmental revenue, non-program
- Contributions not restricted to specific programs
- Unrestricted investment earnings
- Miscellaneous
- Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

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		
Activities		Activities		Total
\$ (4,715,431)	\$	-	\$	(4,715,431)
(6,494,467)		-		(6,494,467)
(2,838,455)		-		(2,838,455)
(500,547)		-		(500,547)
(291,244)		-		(291,244)
(14,840,144)		-		(14,840,144)
-		6,586,688		6,586,688
-		490,637		490,637
-		576,655		576,655
-		7,653,980		7,653,980
19,902,970		-		19,902,970
2,434,474		-		2,434,474
2,616,030		-		2,616,030
3,212,176		-		3,212,176
61,260		-		61,260
3,515,416		1,430,419		4,945,835
240,871		-		240,871
66,891		-		66,891
1,146,535		(1,146,535)		-
33,196,623		283,884		33,480,507
18,356,479		7,937,864		26,294,343
255,472,140		45,694,107		301,166,247
\$ 273,828,619	\$	53,631,971	\$	327,460,590

City of Palm Coast, Florida
Balance Sheet
Governmental Funds
September 30, 2007

ASSETS	General	Capital	Transportation	Streets	SR100	Nonmajor	Total
		Projects	Impact Fee Fund	Improvement Fund	CRA Fund	Governmental Funds	Governmental Funds
Equity in pooled cash and investments	\$ 8,472,295	\$ 10,779,830	\$ 20,336,647	\$ 3,914,571	\$ 212,128	\$ 6,606,086	\$ 50,321,557
Accounts receivable - net	385,927	-	-	-	-	-	385,927
Prepaid items	3,461	-	29,283	-	13,093	7,050	52,887
Notes receivable - current	34,735	-	-	-	-	-	34,735
Due from other governments	1,003,942	305,041	94,850	782,232	-	8,910	2,194,975
Notes receivable - noncurrent	99,702	-	-	-	-	-	99,702
Advances to other funds	5,260,727	-	-	-	-	-	5,260,727
Total assets	\$ 15,260,789	\$ 11,084,871	\$ 20,460,780	\$ 4,696,803	\$ 225,221	\$ 6,622,046	\$ 58,350,510

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 764,866	\$ 492,030	\$ 731,719	\$ 585,087	\$ 38,566	\$ 392,343	\$ 3,004,611
Accrued liabilities	320,661	63,365	83,193	-	-	130,073	597,292
Due to other governments	326,998	-	-	-	-	-	326,998
Deferred revenue	363,997	-	-	-	-	-	363,997
Customer deposits	340,810	-	-	-	-	-	340,810
Advances from other funds	-	-	-	-	5,260,727	-	5,260,727
Total liabilities	2,117,332	555,395	814,912	585,087	5,299,293	522,416	9,894,435

Fund balances:

Reserved for:							
Encumbrances	366,395	1,188,466	2,148,128	234,072	27,049	531,760	4,495,870
Enabling legislation	2,467,197	-	-	-	-	-	2,467,197
Notes receivable - noncurrent	99,702	-	-	-	-	-	99,702
Unreserved:							
Designated for:							
Disaster reserve	1,782,550	-	-	-	-	-	1,782,550
Undesignated, reported in:							
General fund	8,427,613	-	-	-	-	-	8,427,613
Special revenue funds	-	-	17,497,740	3,877,644	(5,101,121)	5,567,870	21,842,133
Capital projects funds	-	9,341,010	-	-	-	-	9,341,010
Total fund balances	13,143,457	10,529,476	19,645,868	4,111,716	(5,074,072)	6,099,630	48,456,075
Total liabilities and fund balances	\$ 15,260,789	\$ 11,084,871	\$ 20,460,780	\$ 4,696,803	\$ 225,221	\$ 6,622,046	\$ 58,350,510

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, 2007

Fund balances - total governmental funds	\$	48,456,075
<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.		220,744,581
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenues in the funds.		363,997
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.		5,676,343
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		<u>(1,412,377)</u>
Net assets of governmental activities	\$	<u><u>273,828,619</u></u>

City of Palm Coast, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2007

	General	Capital Projects	Transportation Impact Fee Fund	Streets Improvement Fund	SR100 CRA Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 17,941,467	\$ 6,467,452	\$ -	\$ 2,434,474	\$ 299,163	\$ -	\$ 27,142,556
Licenses and permits	2,695,100	-	-	-	-	-	2,695,100
Intergovernmental revenue	547,585	-	149,342	3,055,783	1,000	130,779	3,884,489
Charges for services	4,641,523	70,846	-	-	-	-	4,712,369
Fines and forfeitures	701,103	-	-	-	-	66,833	767,936
Impact fees	-	-	3,888,866	-	-	720,106	4,608,972
Contributions	1,200,000	-	-	-	-	608,376	1,808,376
Investment earnings	1,095,946	538,104	1,124,659	194,178	50,732	445,759	3,449,378
Miscellaneous	248,808	-	-	-	500	-	249,308
Total revenues	29,071,532	7,076,402	5,162,867	5,684,435	351,395	1,971,853	49,318,484
EXPENDITURES							
Current:							
General government	11,585,234	23,171	-	-	-	-	11,608,405
Public safety	7,530,695	-	-	-	-	65	7,530,760
Transportation and physical environment	6,024,787	-	84,864	-	52,807	-	6,162,458
Culture and recreation	2,054,595	-	-	-	-	-	2,054,595
Capital outlay:							
General government	2,978,811	196,610	-	-	-	-	3,175,421
Public safety	50,953	193,610	-	-	-	1,862,478	2,107,041
Transportation and physical environment	481,868	2,399,397	8,334,800	4,137,703	4,312,573	-	19,666,341
Culture and recreation	34,164	1,311,931	-	-	-	2,568,778	3,914,873
Debt service:							
Principal	37,318	-	-	-	-	-	37,318
Interest and Other	6,227	-	-	-	280,727	-	286,954
Total expenditures	30,784,652	4,124,719	8,419,664	4,137,703	4,646,107	4,431,321	56,544,166
Excess of revenues over (under) expenditures	(1,713,120)	2,951,683	(3,256,797)	1,546,732	(4,294,712)	(2,459,468)	(7,225,682)
OTHER FINANCING SOURCES AND (USES)							
Transfers in	686,375	156,024	-	-	208,679	-	1,051,078
Transfers out	(505,648)	(48,157)	-	-	-	(88,024)	(641,829)
Total other financing sources (uses)	180,727	107,867	-	-	208,679	(88,024)	409,249
Net change in fund balances	(1,532,393)	3,059,550	(3,256,797)	1,546,732	(4,086,033)	(2,547,492)	(6,816,433)
Fund balances - beginning	14,675,850	7,469,926	22,902,665	2,564,984	(988,039)	8,647,122	55,272,508
Fund balances - ending	\$ 13,143,457	\$ 10,529,476	\$ 19,645,868	\$ 4,111,716	\$ (5,074,072)	\$ 6,099,630	\$ 48,456,075

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, 2007

Net change in fund balances - total governmental funds \$ (6,816,433)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	28,863,676	
Less current year depreciation	<u>(4,527,839)</u>	24,335,837

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

Contributed capital assets	61,260
Revenue collections expected after 60 days	125,698

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and adjustments) is to decrease net assets.

(65,652)

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. This amount is the net effect of these differences in the treatment of long-term debt and related items.

37,318

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(265,580)
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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 fund is reported with governmental activities.

944,031

Change in net assets of governmental activities.

\$ 18,356,479

City of Palm Coast, Florida
Statement of Net Assets
Proprietary Fund
September 30, 2007

	Business-type Activities-Enterprise Funds					Governmental Activities Internal Service Funds
	Utility	Solid Waste	Storm Water	(Nonmajor) Tennis Center	Total	
ASSETS						
Current assets:						
Equity in pooled cash and investments	\$ 8,596,138	\$ -	\$ -	\$ 64,343	\$ 8,660,481	\$ 1,673,420
Accounts receivable - net	4,165,320	1,254,318	1,117,685	-	6,537,323	17,682
Inventories	419,122	-	-	-	419,122	32,929
Prepaid items	-	-	-	4,516	4,516	-
Restricted current assets:						
Cash with fiscal agent	5,184,264	-	-	-	5,184,264	-
Due from other governments	3,040,531	-	131,492	-	3,172,023	-
Total current assets	21,405,375	1,254,318	1,249,177	68,859	23,977,729	1,724,031
Noncurrent assets:						
Restricted assets:						
Equity in pooled cash and investments:						
Debt Service	519,379	-	137,748	-	657,127	-
Impact Fees	14,976,016	-	-	-	14,976,016	-
Bond proceeds	35,489,678	-	-	-	35,489,678	-
Total restricted assets	50,985,073	-	137,748	-	51,122,821	-
Capital assets:						
Land	12,845,761	-	293,430	-	13,139,191	-
Building and improvements other than buildings	50,755,450	-	105,249	-	50,860,699	-
Infrastructure	69,093,585	-	8,425,138	-	77,518,723	-
Equipment	739,562	-	651,629	-	1,391,191	7,527,799
	133,434,358	-	9,475,446	-	142,909,804	7,527,799
Less accumulated depreciation	(14,276,790)	-	(482,669)	-	(14,759,459)	(2,496,215)
	119,157,568	-	8,992,777	-	128,150,345	5,031,584
Construction in progress	32,677,174	-	10,510	-	32,687,684	-
Total capital assets (net of accumulated depreciation)	151,834,742	-	9,003,287	-	160,838,029	5,031,584
Due from other funds	2,897,435	-	-	-	2,897,435	-
Loan acquisition costs	443,575	-	95,007	-	538,582	-
Unamortized bond premium	(1,624,420)	-	-	-	(1,624,420)	-
Unamortized debt issuance costs	3,961,280	-	-	-	3,961,280	-
Total noncurrent assets	208,497,685	-	9,236,042	-	217,733,727	5,031,584
Total assets	\$ 229,903,060	\$ 1,254,318	\$ 10,485,219	\$ 68,859	\$ 241,711,456	\$ 6,755,615

City of Palm Coast, Florida
Statement of Net Assets (continued)
Proprietary Fund
September 30, 2007

	Business-type Activities-Enterprise Funds					Governmental Activities Internal Service Funds
	Utility	Solid Waste	Storm Water	(Nonmajor) Tennis Center	Total	
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 468,899	\$ 548,848	\$ 80,603	\$ 1,627	\$ 1,099,977	\$ 349,408
Loans payable	633,823	-	193,898	-	827,721	37,846
Compensated absences	210,668	-	35,584	-	246,252	3,547
Accrued liabilities	94,844	-	14,635	-	109,479	2,505
Customer deposits	3,144,183	-	-	-	3,144,183	-
Deferred Revenue	-	-	-	66,655	66,655	-
Accrued interest payable	103,113	-	6,033	-	109,146	-
Current liabilities payable from restricted assets:						
Current maturities of bonds payable	1,920,000	-	-	-	1,920,000	-
Accrued bond interest payable	3,264,264	-	-	-	3,264,264	-
Accounts payable	6,630,288	-	-	-	6,630,288	-
Contract payable	904,287	-	-	-	904,287	-
Total current liabilities	17,374,369	548,848	330,753	68,282	18,322,252	393,306
Noncurrent liabilities:						
Compensated absences	360,682	-	41,513	-	402,195	3,943
Bonds payable	140,845,000	-	-	-	140,845,000	-
Loans payable	22,500,500	-	3,794,126	-	26,294,626	-
Due to other funds	-	680,130	2,217,305	-	2,897,435	-
Total noncurrent liabilities	163,706,182	680,130	6,052,944	-	170,439,256	3,943
Total liabilities	181,080,551	1,228,978	6,383,697	68,282	188,761,508	397,249
NET ASSETS						
Invested in capital assets, net of related debt						
	21,718,906	-	5,241,762	-	26,960,668	4,993,738
Restricted for construction	12,968,598	-	-	-	12,968,598	-
Restricted for debt service	2,336,266	-	131,715	-	2,467,981	-
Unrestricted	11,798,739	25,340	(1,271,955)	577	10,552,701	1,364,628
Total net assets	48,822,509	\$ 25,340	\$ 4,101,522	\$ 577	\$ 52,949,948	\$ 6,358,366
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					682,023	
					<u>\$ 53,631,971</u>	

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



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City of Palm Coast, Florida
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2007

	Business-type Activities - Enterprise Funds				Totals	Governmental Activities - Internal Service Funds
	Utility	Solid Waste	Storm Water	(Nonmajor) Tennis Center		
Operating revenues:						
Charges for services:						
Water sales	\$ 16,299,818	\$ -	\$ -	\$ -	\$ 16,299,818	\$ -
Sewer charges	8,904,615	-	-	-	8,904,615	-
Garbage charges	-	6,831,097	-	-	6,831,097	-
Storm Water charges	-	-	4,046,556	-	4,046,556	-
Miscellaneous	689,004	12,143	-	-	701,147	2,810,582
Total operating revenues	<u>25,893,437</u>	<u>6,843,240</u>	<u>4,046,556</u>	<u>-</u>	<u>36,783,233</u>	<u>2,810,582</u>
Operating expenses:						
Administrative	3,898,226	-	-	-	3,898,226	1,671,026
Water system	6,320,160	-	-	-	6,320,160	-
Sewer system	4,571,111	-	-	-	4,571,111	-
Solid waste system	-	6,309,619	-	-	6,309,619	-
Storm water system	-	-	2,915,425	-	2,915,425	-
Depreciation	5,010,852	-	412,823	-	5,423,675	983,031
Total operating expenses	<u>19,800,349</u>	<u>6,309,619</u>	<u>3,328,248</u>	<u>-</u>	<u>29,438,216</u>	<u>2,654,057</u>
Operating income (loss)	6,093,088	533,621	718,308	-	7,345,017	156,525
Nonoperating income (expenses):						
Investment revenue	1,429,842	-	-	577	1,430,419	66,038
Interest/amortization expense	(5,014,030)	(43,550)	(153,674)	-	(5,211,254)	(4,290)
Other	-	-	-	-	-	66,891
Total nonoperating revenues (expenses)	<u>(3,584,188)</u>	<u>(43,550)</u>	<u>(153,674)</u>	<u>577</u>	<u>(3,780,835)</u>	<u>128,639</u>
Income (loss) before capital contributions and transfers	2,508,900	490,071	564,634	577	3,564,182	285,164
Capital grants and contributions	5,441,798	-	-	-	5,441,798	-
Transfers in	-	-	-	-	-	737,286
Transfers out	(1,146,535)	-	-	-	(1,146,535)	-
Change in net assets	<u>6,804,163</u>	<u>490,071</u>	<u>564,634</u>	<u>577</u>	<u>7,859,445</u>	<u>1,022,450</u>
Total net assets - beginning	<u>42,018,346</u>	<u>(464,731)</u>	<u>3,536,888</u>	<u>-</u>		<u>5,335,916</u>
Total net assets - ending	<u>\$ 48,822,509</u>	<u>\$ 25,340</u>	<u>\$ 4,101,522</u>	<u>\$ 577</u>		<u>\$ 6,358,366</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					78,419	
					<u>\$ 7,937,864</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, 2007

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Utility	Solid Waste	Storm Water	(Nonmajor) Tennis Center	Totals	
Cash flows from operating activities						
Cash received from customers	\$ 26,435,679	\$ 6,346,183	\$ 3,626,914	\$ 66,655	\$ 36,475,431	\$ 2,816,549
Cash paid to suppliers	(8,618,501)	(6,046,236)	(1,979,532)	(2,889)	(16,647,158)	(1,236,332)
Cash paid to employees	(5,879,484)	(106,487)	(986,418)	-	(6,972,389)	(189,315)
Net cash provided by (used in) operating activities	11,937,694	193,460	660,964	63,766	12,855,884	1,390,902
Cash flow from noncapital financing activities						
Transfers in from other funds	-	-	-	-	-	737,286
Transfers out to other funds	(1,146,535)	-	-	-	(1,146,535)	-
Interfund Loan Repayment	-	-	-	-	-	(170,389)
Advances to other funds	(1,949,488)	-	-	-	(1,949,488)	-
Advances from other funds	-	(149,910)	2,099,398	-	1,949,488	-
Net cash provided by (used in) noncapital financing activities	(3,096,023)	(149,910)	2,099,398	-	(1,146,535)	566,897
Cash flow from capital and related financing activities						
Proceeds from issuance of long-term debt	56,204,726	-	1,464,008	-	57,668,734	-
Loan Principal Payments	(2,609,363)	-	(216,050)	-	(2,825,413)	(190,226)
Interest paid	(4,806,642)	(43,550)	(153,674)	-	(5,003,866)	(4,291)
Acquisition and construction of property, plant and equipment	(26,040,254)	-	(3,716,898)	-	(29,757,152)	(1,878,708)
Proceeds from the sale of capital assets	-	-	-	-	-	78,145
Impact fees and contributions	5,441,798	-	-	-	5,441,798	-
Net cash provided by (used in) capital and related financing activities	28,190,265	(43,550)	(2,622,614)	-	25,524,101	(1,995,080)
Cash flow from investing activities						
Interest on investments	1,429,842	-	-	577	1,430,419	66,038
Net cash provided by (used in) investing activities	1,429,842	-	-	577	1,430,419	66,038
Net increase in cash and cash equivalents	38,461,778	-	137,748	64,343	38,663,869	28,757
Beginning cash and cash equivalents	26,303,697	-	-	-	26,303,697	1,644,663
Ending cash and cash equivalents	<u>\$ 64,765,475</u>	<u>\$ -</u>	<u>\$ 137,748</u>	<u>\$ 64,343</u>	<u>\$ 64,967,566</u>	<u>\$ 1,673,420</u>

(continued)

City of Palm Coast, Florida
Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended September 30, 2007

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Utility	Solid Waste	Storm Water	(Nonmajor) Tennis Center	Totals	
Reconciliation of operating income to net cash provided by operating activities						
Operating income (loss)	\$ 6,093,088	\$ 533,621	\$ 718,308	\$ -	\$ 7,345,017	\$ 156,525
Adjustment to reconcile operating income to net cash provided by operating activities						
Depreciation and amortization	5,010,852	-	412,823	-	5,423,675	983,031
Change in assets and liabilities:						
Accounts receivable	(24,039)	(497,057)	(419,642)	-	(940,738)	5,967
Inventories	17,172	-	-	-	17,172	(344)
Prepays	-	-	-	(4,516)	(4,516)	-
Accounts payable	(20,620)	168,334	(83,612)	1,627	65,729	251,659
Accrued liabilities	115,145	(3,467)	2,014	66,655	180,347	32
Customer deposits	566,281	-	-	-	566,281	-
Compensated absences	179,815	(7,971)	31,073	-	202,917	(5,968)
Net cash provided by (used in) operating activities	<u>\$ 11,937,694</u>	<u>\$ 193,460</u>	<u>\$ 660,964</u>	<u>\$ 63,766</u>	<u>\$ 12,855,884</u>	<u>\$ 1,390,902</u>
Cash and cash equivalents classified as:						
Equity in pooled cash and investments in current assets	\$ 8,596,138	\$ -	\$ -	\$ 64,343	\$ 8,660,481	\$ 1,673,420
Restricted equity in pooled cash and investments						
Cash with fiscal agent	5,184,264	-	-	-	5,184,264	-
Debt service	519,379	-	137,748	-	657,127	-
Impact fees	14,976,016	-	-	-	14,976,016	-
Bond proceeds	35,489,678	-	-	-	35,489,678	-
Total restricted equity in pooled cash and investments	<u>56,169,337</u>	<u>-</u>	<u>137,748</u>	<u>-</u>	<u>56,307,085</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 64,765,475</u>	<u>\$ -</u>	<u>\$ 137,748</u>	<u>\$ 64,343</u>	<u>\$ 64,967,566</u>	<u>\$ 1,673,420</u>

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

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2007

	Volunteer Firefighter Pension Fund
ASSETS	
Cash and investments	\$ 371,631
Due from other governments	187,122
Total assets	<u>558,753</u>
LIABILITIES	
Tax withholding payable	405
Total liabilities	<u>405</u>
NET ASSETS	
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 558,348</u>

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, 2007

	<u>Volunteer Firefighter Pension Fund</u>
ADDITIONS	
Contributions:	
State contributions	\$ 242,231
Total contributions	<u>242,231</u>
Investment earnings:	
Interest	18,905
Total investment earnings	<u>18,905</u>
Total additions	261,136
DEDUCTIONS	
Administrative Expenses	4,537
Benefit Distributions	3,290
Total deductions	<u>7,827</u>
Net Increase (Decrease)	253,309
Net assets - beginning	305,039
Net assets - ending	<u><u>\$ 558,348</u></u>

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



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NOTES TO FINANCIAL STATEMENTS
September 30, 2007



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**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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. The pension trust fund is reported as a separate financial statement, and is not included in the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, 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. 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.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2007**

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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 transportation impact fee special revenue fund is used to track impact fees collected for the purpose of funding capital expenditures for the expansion of road capacity.

The streets improvement special revenue fund is used to account for the revenue from a half-cent local government infrastructure surtax, state revenue sharing, and a local option gas tax that is being used for road maintenance and improvements as well as to resurface city streets.

The SR100 CRA special revenue fund accounts for the tax increment financing and related expenditures of the State Road 100 community redevelopment area.

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.

The solid waste enterprise fund accounts for revenues and expenditures related to the collection and removal of solid waste.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 1 – Summary of Significant Accounting Policies (Continued)

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

The stormwater enterprise fund accounts for revenues and expenditures related to the collection and management of stormwater throughout the city.

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.

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, sewer, and stormwater functions 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.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2007**

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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 are 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 and payables

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

Receivables consist primarily of amounts due from other governments, as well as utility, solid waste, and stormwater billings. All General Fund receivables are deemed collectible, and an allowance for doubtful accounts has been set up in the Utility, Solid Waste, and Stormwater Funds for 15%, 14% and 20%, respectively, of the outstanding receivable amounts. Under Florida law, the assessment and collection of all county, municipal, and school district property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate up to 10 mills.

**CITY OF PALM COAST, FLORIDA
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2007**

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables and payables (Continued)

The property tax calendar is as follows:

Valuation Date January 1, 2006

Property Appraiser prepares the assessment roll with values as of January 1, 2006, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. July 1, 2006

City Council holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. September 2006

Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy date). November 1, 2006

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2006 through March 2007, with the following applicable discounts:

<u>Month Paid</u>	<u>Discount</u>	
November	4%	
December	3	November 1, 2006 through March 31, 2007
January	2	
February	1	
March	0	

All unpaid taxes on real and tangible personal property become delinquent. April 1, 2007

A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised. April and May 2007

Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date). June 1, 2007

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, 2007

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2007**

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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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 - 100
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
SEPTEMBER 30, 2007**

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. Bond and loan 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 \$ 220,744,581 difference are as follows:

Capital assets	\$ 223,782,450
Less: Accumulated Depreciation	(16,368,873)
Construction in progress	13,331,004
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ 220,744,581

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2007**

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 \$1,412,377 difference are as follows:

Loans payable	\$ 134,437
Compensated absences	1,277,940
	1,412,377
Net adjustment to decrease <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ 1,412,377

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation 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 \$ 37,318 difference are as follows:

Debt repayments:	
Loan	\$ 33,375
Capital lease	3,943
	37,318
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 37,318

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

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.

Deficit Fund Balance

The SR100 Community Redevelopment Fund had a deficit fund balance of \$5,074,072 as of September 30, 2007. This fund incurred redevelopment expenditures in advance of future anticipated property tax revenues.

Excess of Expenditures over Appropriations

For the year ended September 30, 2007, 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
SEPTEMBER 30, 2007**

Note 4 – Deposits and Investments

Deposits

At year-end, the carrying amount of the City's deposits was \$1,510,490 and the bank balance was \$3,424,521. 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 \$11,443 in petty cash. In addition, the City has a money market cash balance of \$13,250 in its investment account.

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.
5. Federal Agencies and instrumentalities.
6. Commercial paper
7. Corporate bonds

As of September 30, 2007, the City has the following investments:

Investment Type	Fair Value	Percentage of Total	Maturities
Florida SBA Investment Pool	\$ 68,884,463	62.48%	n/a
U.S. Government Agencies	21,602,107	19.59%	1-4 Years
Commercial Paper	9,728,767	8.82%	90-180 Days
U.S. Treasuries	5,426,414	4.92%	1-2 Years
Corporate Notes	<u>4,612,788</u>	4.18%	1-3 Years
	<u>\$ 110,254,539</u>		

The City's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The State Board of Administration (SBA) has taken the position that participants in the pool are not required to disclose information related to interest rate risk, custodial credit risk, concentration of credit risk, and foreign credit risk. The Local Government Surplus Funds Trust Fund is administered by the SBA pursuant to section 218.405 of the Florida Statutes. The investment pool was not rated by a nationally recognized statistical rating agency as of September 30, 2007, and the fair value of the City's position in the pool is the same as the value of the pool shares.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2007**

Note 4 – Deposits and Investments (Continued)

Interest Rate Risk. The City's investment policy limits the maturities of operating funds to a maximum of twenty-four (24) months. Bond reserves, construction funds, and other non-operating funds cannot exceed maturities of ten (10) years. Longer maturities, not to exceed thirty (30) years, may be used in special circumstances. The maximum length to maturity for an investment in any U.S. Government Agency security is ten (10) years from the date of purchase.

Credit Risk. The City's investment policy allows investment in high grade corporate notes and government sponsored agencies with a minimum AA rating by Standard and Poor's. Commercial paper is required to have a rating of A-1 by Standard and Poor's. As of September 30, 2007, the City's investments in U.S. Government Agencies were rated AAA, commercial paper rated A-1+, and corporate bonds rated AA to AAA by Standard & Poor's.

Concentrations of Credit Risk. The City's investment policy allows a maximum of seventy-five (75) percent of available funds to be invested in U.S. Government Agencies. As of September 30, 2007, the City's largest agency investment is in the Federal Home Loan Bank. These securities represent 10.1 percent of the City's total investments.

Cash with fiscal agent as of September 30, 2007 totaled \$5,184,264. This amount represents the semi-annual utility bond principal and interest payments on deposit with the distributing agent.

Note 5 – Receivables

Receivables consist of the following at September 30, 2007:

	General Fund	Utility Fund	Solid Waste Fund	Storm Water Fund	Fleet Management Fund	Totals
Accounts receivable	\$ 385,927	\$ 4,865,546	\$ 1,454,310	\$ 1,384,856	\$ 17,682	\$ 8,108,321
Notes receivable - current	34,735	-	-	-	-	34,735
Notes receivable - noncurrent	99,702	-	-	-	-	99,702
Less allowance for doubtful accounts	-	(700,226)	(199,992)	(267,171)	-	(1,167,389)
	<u>\$ 520,364</u>	<u>\$ 4,165,320</u>	<u>\$ 1,254,318</u>	<u>\$ 1,117,685</u>	<u>\$ 17,682</u>	<u>\$ 7,075,369</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
SEPTEMBER 30, 2007

Note 6 – Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	Balance 09/30/06	Increases	Decreases	Balance 09/30/07
A. Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 69,808,144	\$ 11,072,914	\$ -	\$ 80,881,058
Construction in progress	5,021,830	17,439,689	(9,130,515)	13,331,004
Total capital assets, not being depreciated	74,829,974	28,512,603	(9,130,515)	94,212,062
Capital assets, being depreciated				
Buildings and improvements other than buildings	14,422,092	1,495,634	-	15,917,726
Infrastructure	114,415,528	6,840,949	-	121,256,477
Equipment	10,393,248	3,083,204	(221,464)	13,254,988
Total capital assets, being depreciated	139,230,868	11,419,787	(221,464)	150,429,191
Less accumulated depreciated for:				
Buildings and improvements other than buildings	(931,803)	(628,912)	-	(1,560,715)
Infrastructure	(9,228,604)	(3,181,994)	-	(12,410,598)
Equipment	(3,357,115)	(1,699,964)	163,304	(4,893,775)
Total accumulated depreciation	(13,517,522)	(5,510,870)	163,304	(18,865,088)
Total capital assets, being depreciated, net	125,713,346	5,908,917	(58,160)	131,564,103
Governmental activities capital assets, net	\$ 200,543,320	\$ 34,421,520	\$ (9,188,675)	\$ 225,776,165
	Balance 09/30/06	Increases	Decreases	Balance 09/30/06
B. Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 13,032,557	\$ 106,634	\$ -	\$ 13,139,191
Construction in progress	7,091,134	34,786,834	(9,190,284)	32,687,684
Total capital assets, not being depreciated	20,123,691	34,893,468	(9,190,284)	45,826,875
Capital assets, being depreciated				
Buildings and improvements other than buildings	50,052,467	808,232	-	50,860,699
Infrastructure	69,150,936	8,367,787	-	77,518,723
Equipment	885,203	505,988	-	1,391,191
Total capital assets, being depreciated	120,088,606	9,682,007	-	129,770,613
Less accumulated depreciated for:				
Buildings and improvements other than buildings	(4,360,891)	(2,191,557)	-	(6,552,448)
Infrastructure	(4,843,254)	(3,060,283)	-	(7,903,537)
Equipment	(131,639)	(171,835)	-	(303,474)
Total accumulated depreciation	(9,335,784)	(5,423,675)	-	(14,759,459)
Total capital assets, being depreciated, net	110,752,822	4,258,332	-	115,011,154
Business-type activities capital assets, net	\$ 130,876,513	\$ 39,151,800	\$ (9,190,284)	\$ 160,838,029

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 6 – Capital Assets (Continued)

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

Governmental activities:			
General government		\$	589,637
Public safety			143,838
Transportation and Physical Environment			3,334,147
Culture and recreation			460,217
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets			<u>983,031</u>
Total depreciation expense - governmental activities		\$	<u><u>5,510,870</u></u>
Business activities:			
Utility		\$	5,010,852
Solid Waste			-
Stormwater			<u>412,823</u>
Total depreciation expense - business activities		\$	<u><u>5,423,675</u></u>

Note 7 – Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2007, is as follows:

Advances from/to other funds:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	SR100 CRA Fund	Purchase and redevelopment of land	\$ 5,260,727
Utility Fund	Solid Waste Fund	Supplement operating cash flow	680,130
Utility Fund	Stormwater Fund	Supplement operating cash flow	2,217,305
Total			<u><u>\$ 8,158,162</u></u>

CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007

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. Transfers to the CRA Fund represent base property tax collections within the redevelopment area. Transfers from the Utility Fund are in lieu of tax transfers, maintenance transfers, and to establish reserves for future capital expenditures.

Transfer out:	Transfer In:				
	General Fund	Capital Projects	SR 100 CRA Fund	Internal Service	Total
General Fund	\$ -	\$ -	\$ 160,522	\$ 345,126	\$ 505,648
Utility Fund	686,375	68,000	-	392,160	1,146,535
Capital Projects Fund			48,157		48,157
Nonmajor Governmental	-	88,024	-	-	88,024
Total transfers out	\$ 686,375	\$ 156,024	\$ 208,679	\$ 737,286	\$ 1,788,364

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 on a County-wide basis. For 2007 the total cost was \$2,165,619 and provided 21.5 additional personnel.

Operating Leases:

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

General Fund	<u>\$ 6,194</u>
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**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

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
2008	\$ 34,735	\$ 4,745
2009	36,150	3,330
2010	37,622	1,858
2011	25,930	390
	<u>\$ 134,437</u>	<u>\$ 10,323</u>

Equipment Loan

During the fiscal year ended September 30, 2006, the City of Palm Coast entered into a loan agreement for the purchase of equipment. The loan principal of \$302,752 is payable at \$12,615 per month at 0% interest through December 22, 2007.

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

Year Ending <u>September 30</u>	Principal	Interest
2008	\$ 37,846	-
	<u>\$ 37,846</u>	<u>\$ -</u>

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 9 – Long-Term Debt (Continued)

B. Business Activities

Utility

Utility System Revenue Bonds, Series 2003

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. The interest rate on these bonds ranges from 2.0 - 5.25%. 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 a utility capital projects account 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

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 9 – Long-Term Debt (Continued)

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.

Debt Service

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

Year Ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,920,000	\$ 4,329,873
2009	1,955,000	4,284,908
2010	2,000,000	4,230,908
2011	2,055,000	4,167,203
2012	2,120,000	4,097,243
2013-2017	11,880,000	19,026,053
2018-2022	15,120,000	15,516,513
2023-2027	19,440,000	11,026,313
2028-2032	24,745,000	5,477,263
2033	11,690,000	299,496
	<u>\$ 92,925,000</u>	<u>\$ 72,455,773</u>

Utility System Revenue Bonds, Series 2007

On January 25, 2007 the City issued debt to finance the construction of a water treatment plant and associated infrastructure. Construction proceeds, capitalized interest, and issuance costs were included in the bond issue and brought the total debt issued to \$49,840,000. The interest rate on these bonds ranges from 3.625 - 5.0%. 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.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 9 – Long-Term Debt (Continued)

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 a utility capital projects account 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 2007 bonds maturing on or after October 1, 2017 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 April 1, 2017, at the redemption prices equal to the principal amount of the Series 2007 Bonds to be redeemed plus interest accrued to the date of redemption.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 9 – Long-Term Debt (Continued)

Debt Service

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

Year Ending <u>September 30</u>	Principal	Interest
2008	\$ -	\$ 2,160,256
2009	-	2,160,256
2010	970,000	2,121,456
2011	1,005,000	2,081,256
2012	1,050,000	2,039,256
2013-2017	5,880,000	9,554,681
2018-2022	7,180,000	8,166,856
2023-2027	8,910,000	6,317,081
2028-2032	11,075,000	4,078,381
2033-2037	13,770,000	1,260,015
	<u>\$ 49,840,000</u>	<u>\$ 39,939,494</u>

State Revolving Fund Loans

During year ended September 30, 2005, the City executed an agreement with the Florida Department of Environmental Protection to borrow through the State Revolving Fund loan program, for the purpose of lift station and force main improvements. The loan principal of \$2,734,789 is payable semi-annually in the amount of \$88,586 at an interest rate 2.71% through December 15, 2025.

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

Year Ending <u>September 30</u>	Principal	Interest
2008	\$ 108,407	\$ 68,765
2009	111,365	65,808
2010	114,403	62,769
2011	117,524	59,648
2012	120,731	56,441
2013-2017	654,898	230,963
2018-2022	749,248	136,613
2023-2027	587,813	32,290
	<u>\$ 2,564,389</u>	<u>\$ 713,297</u>

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 9 – Long-Term Debt (Continued)

During year ended September 30, 2005, the City executed an agreement with the Florida Department of Environmental Protection to borrow through the State Revolving Fund loan program, for the purpose of wastewater treatment facilities improvements. The loan principal of \$13,281,775 is payable semi-annually in the amount of \$424,354 at an interest rate 2.60% through June 15, 2026.

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

Year Ending September 30	Principal	Interest
2008	\$ 525,416	\$ 323,293
2009	536,577	312,131
2010	550,619	298,089
2011	565,028	283,680
2012	579,814	268,894
2013-2017	3,134,768	1,108,774
2018-2022	3,566,973	676,569
2023-2027	3,204,543	190,291
	<u>\$ 12,663,738</u>	<u>\$ 3,461,721</u>

During the year ended September 30, 2006, the City executed an agreement with the Florida Department of Environmental Protection to borrow up to \$4,295,200 at an interest rate of 2.55% through the State Revolving Fund loan program, for the purpose of stormwater drainage improvements and swale rehabilitation. On August 10, 2007, the loan amount was amended to \$4,847,060 with the additional principal bearing an interest rate of 2.43%. As of September 30, 2007 the total amount of funding received on this loan was \$3,968,727. The total expended on this project, including capitalized interest, was \$4,109,067 with \$131,492 in funding pending as of year end.

Description	Interest Rate	Disbursable Amount	Amount Funded	Repayment Date	Semi-Annual Payment	Term (Years)
Stormwater system improvements	2.55%	\$4,285,694	\$3,968,727	2/13/2007	\$155,246	20
	2.43%	561,366	-	-	-	-

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 9 – Long-Term Debt (Continued)

During the year ended September 30, 2007, the City executed an agreement with the Florida Department of Environmental Protection to borrow up to \$14,607,514 through the State Revolving Fund loan program, for the purpose of biosolids, reclaimed water and aerobic digestion improvements. As of September 30, 2007 the total amount of funding received on this loan was \$5,298,651. The total expended on this project, including capitalized interest, was \$7,752,308 with \$2,449,232 in funding pending as of year end. Estimated repayment dates are subject to change pending the completion of the project.

Description	Interest Rate	Disbursable Amount	Amount Funded	Estimated Repayment	Semi-Annual Payment	Term (Years)
Biosolids, reclaimed water, aerobic digestion improvements	2.54%	\$ 14,607,514	\$ 5,298,651	12/15/2008	\$ 468,031	20

Changes in long-term debt

During the year ended September 30, 2007, the following changes in long-term debt occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
CDBG Loan	\$ 167,812	\$ -	\$ (33,375)	\$ 134,437	\$ 34,735
Capital leases	3,944	-	(3,944)	-	-
Equipment Loan	228,072	-	(190,226)	37,846	37,846
Compensated Absences	1,025,816	901,865	(642,251)	1,285,430	475,547
Long-term debt	<u>\$ 1,425,644</u>	<u>\$ 901,865</u>	<u>\$ (869,796)</u>	<u>\$ 1,457,713</u>	<u>\$ 548,128</u>
Business Type Activities:					
Utility Revenue Bonds	\$ 94,805,000	\$ 49,840,000	\$ (1,880,000)	\$ 142,765,000	\$ 1,920,000
State Revolving Fund Loans	18,844,279	9,340,484	(1,062,416)	27,122,347	827,721
Compensated Absences	447,654	460,182	(259,389)	648,447	246,252
Long-term debt	<u>\$ 114,096,933</u>	<u>\$ 59,640,666</u>	<u>\$ (3,201,805)</u>	<u>\$ 170,535,794</u>	<u>\$ 2,993,973</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 \$37,846 and \$7,490 of internal service fund compensated absences are included in the above amounts. For governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF PALM COAST, FL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2007

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. The plan is administered by a third party administrator, Great West Retirement Services. The authority to establish and amend benefits rests with the City Council. Under this plan, the City contributes a certain percentage of employees' eligible wages based upon their job classification as determined by City Council. For the fiscal year ended September 30, 2007, general employees received a 10% contribution, with department heads receiving 13% and special risk employees receiving 17.5%. Employees do not participate in the plan funding. Pension contributions are subject to a five year (5) vesting schedule. Withdrawals from the plan may be made due to retirement, attainment of age 59 ½, separation from service, disability, or death. For the period ended September 30, 2007, contributions to this plan totaled \$1,558,834

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 of Retirement, to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions.

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

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 10 – Retirement Plans (Continued)

Florida Retirement System (Continued)

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>10/1/2006 - 09/30/2007</u>
Regular employees – members not qualifying for other classes	9.85%
Special Risk Employees – members employed as law enforcement officers and firefighters	20.92%
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>
09/30/2005	\$203,845	100%
09/30/2006	232,212	100%
09/30/2007	278,471	100%

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

Plan Description and Summary of Benefits

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. On February 15, 2005, the City adopted a "local law" plan that will provide benefits based on years of service. The plan is a single-employer defined benefit pension plan.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 10 – Retirement Plans (Continued)

Volunteer Firefighters' Pension Plan (Continued)

The City of Palm Coast Volunteer Retirement Trust Fund is administered by a Board of Trustees. The Board has administrative authority over the Fund, and acts as supervisor and plan administrator.

Volunteer firefighters who meet minimum City-established standards are eligible to participate in the plan. Minimum standards are based on a system that awards points used to certify years of credited service for completing training courses, attending drills, responding to emergency and non-emergency calls, and participating in other fire emergency related activities. The minimum number of years of active service shall be five years to qualify for retirement. Members with up to five years of consecutive service to the City prior to July, 2002 shall be eligible for up to five years credit providing such members satisfy pension requirements in at least one of the two years following July, 2002. The minimum age for receiving benefits shall be 52 with twenty-five years of service, or 55 and after ten years of service, or for volunteers 62 and over, five years of service. Early retirement may be arranged with consent of the Board for a member who has attained age 50 with ten years of continuous service. The retirement benefit shall be actuarially reduced by three percent for each year by which the member's age at retirement precedes the member's normal retirement age. Each member shall become one hundred percent vested at normal retirement age, subject only to the actuarial reduction for early retirement at age fifty (50).

Contributions from the state to the plan are reported as revenues and expenditures in the general fund before being reported in the pension fund. The amount recorded for the period ended September 30, 2007 was \$242,231. Administrative costs are paid from plan assets. A separate, audited GAAP-basis pension plan report is not available for the plan. Currently, two members are receiving retirement benefits. There are 38 active participants, with eight being eligible for normal retirement.

An actuarial valuation, utilizing the entry age normal method (level dollar), has been completed as of October 1, 2006. Plan assets are reported at fair value. The actuarial assumption included an 8.0 percent investment rate of return, and 3.0 percent inflation rate. The amortization period is no more than 30 years and is closed.

Basis of Accounting

The Volunteer Firefighter Pension Plan financial statements are prepared using the accrual basis of accounting. City contributions, if any, are required when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2007**

Note 10 – Retirement Plans (Continued)

Volunteer Firefighters’ Pension Plan (Continued)

Cash and Investments

Cash required for current operating needs is invested in a money market account. The remaining plan assets are invested in the Local Government Surplus Trust Fund administered by the Florida State Board of Administration (SBA) and are reported at fair value. The total invested with the SBA as of September 30, 2007 was \$357,241

Funding Policy

The authority to establish and amend benefits rests with the City Council. City contribution requirements to the plan are adopted as part of the City’s annual budget. The current retirement benefit is based on \$35 per month for each year of credited service. Volunteers do not contribute to the plan.

Three Year Trend Information			
Fiscal Year Ending	Actuarially Required Contribution (ARC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2006	0	100%	0
9/30/2005	0	100%	0
9/30/2004	0	100%	0

Note 11 – Prepaid Water and Sewer Impact Fees

The original developers of the City of Palm Coast collected impact fees to establish utility infrastructure. These amounts are considered a prepayment of current impact fees and are subtracted from the total impact fees due when a building lot is developed. As of September 30, 2007, the amount of prepaid impact fees is estimated to be \$24,375,000.

Note 12 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. There has been no significant reduction in insurance coverage from the previous year. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

**CITY OF PALM COAST, FL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2007**

Note 13 – Community Redevelopment Area

The City has established the SR100 Community Redevelopment special revenue fund to account for revenues and expenditures related to the SR100 community redevelopment area. For the fiscal year ended September 30, 2007, the fund received \$1,000 in grant revenue, \$299,163 in property tax revenue, \$50,732 in investment earnings, and \$500 in miscellaneous revenue. In addition, the fund received a \$3,760,727 working capital loan from the General Fund. Expenditures for the fiscal year of \$4,646,107 are for the purchases of land, related redevelopment costs and interest expense.

Note 14 – Reserved for Enabling Legislation

As per chapter 553.80 of the Florida Statutes, Building Construction Standards Enforcement, local governments can establish fees for the enforcement of the Florida Building Code. Such fees shall be used solely for carrying out the City's responsibility for this enforcement function. The requirement of this enabling legislation represents \$2,467,197 reserved in the General Fund.

Note 15 – Subsequent Events

Local Government Surplus Funds Trust Fund Investment Pool

As discussed in Note 4 and 10, at September 30, 2007, the City had \$68,884,463 and the Volunteer Firefight Pension Plan had \$357,241 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

Currently, Pool A participants may withdraw 37% of their balance or \$4 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to a 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

**CITY OF PALM COAST, FL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2007**

Note 15 – Subsequent Events (Continued)

Local Government Surplus Funds Trust Fund Investment Pool (Continued)

Currently, Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not yet been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable.

As of December 31, 2007, the city has \$45,142,776 and \$7,552,951 invested in Pool A and B, respectively. As of the same date, the Volunteer Firefighter Pension Plan has \$469,471 and \$78,548 invested in Pool A and B, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

Property Contribution

In January 2008, the City received a donation of property, totaling approximately 160 acres, which was recently used as an active golf course. The City plans on renovating the site for use as a municipal golf course. The assessed value of the property, as determined by the Flagler County Property Appraiser, is approximately \$2.2 million.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PALM COAST, FL
REQUIRED SUPPLEMENTARY INFORMATION
VOLUNTEER FIREFIGHTERS PENSION PLAN
SEPTEMBER 30, 2007**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2006	305,039	440,413	135,374	69.26%	0	N/A
10/1/2005	108,758	356,671	247,913	30.49%	0	N/A

Information relating to periods prior to October 1, 2005 is not available. The previous valuations were prepared using the aggregate actuarial cost method.

Schedule of Employer and Other Contributing Entities				
Year Ended September 30	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
2006 *	0	0	\$ 112,408	100%
2005	0	0	95,546	100%
2004	0	0	62,130	100%
2003	0	0	14,239	100%

* The 2006 State contribution is "frozen" pursuant to Chapter 175, Florida Statutes, as amended.

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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 17,224,400	\$ 17,570,890	\$ 17,941,467	\$ 370,577
Licenses and permits	5,038,700	5,038,700	2,695,100	(2,343,600)
Intergovernmental	47,600	522,600	547,585	24,985
Charges for services	4,501,530	4,501,530	4,641,523	139,993
Fines and forfeitures	896,300	896,300	701,103	(195,197)
Contributions	-	-	1,200,000	1,200,000
Investment earnings	441,600	441,600	1,095,946	654,346
Miscellaneous	33,765	33,765	248,808	215,043
Total revenues	28,183,895	29,005,385	29,071,532	66,147
EXPENDITURES				
Current:				
General government:				
Mayor and Council	69,020	69,020	68,979	41
City Administration	2,673,469	2,698,656	2,308,720	389,936
City Attorney	374,215	374,215	297,698	76,517
Financial Services	979,986	1,029,986	1,023,273	6,713
Information Technology and Communications	2,717,931	2,717,931	2,589,871	128,060
Community Development	6,145,474	6,145,474	5,036,899	1,108,575
Nondepartmental	2,111,778	3,352,078	3,322,450	29,628
Total general government	15,071,873	16,387,360	14,647,890	1,739,470
Public safety:				
Fire	5,129,096	5,475,586	5,209,011	266,575
Law Enforcement	2,765,669	2,765,669	2,372,637	393,032
Total public safety	7,894,765	8,241,255	7,581,648	659,607
Transportation and physical environment:				
Streets and Drainage	7,199,546	7,559,059	5,288,251	2,270,808
Engineering	668,526	668,526	651,050	17,476
Capital Projects	784,011	784,011	527,054	256,957
Total transportation and physical environment	8,652,083	9,011,596	6,466,355	2,545,241
Culture and recreation	2,322,122	2,322,122	2,088,759	233,363
Total expenditures	33,940,843	35,962,333	30,784,652	5,177,681
Excess of revenues over (under) expenditures	(5,756,948)	(6,956,948)	(1,713,120)	5,243,828
Other financing sources (uses):				
Transfers in	686,375	686,375	686,375	-
Transfers out	(2,489,705)	(3,151,369)	(505,648)	2,645,721
Loan and capital lease proceeds	-	-	-	-
Total other financing sources (uses)	(1,803,330)	(2,464,994)	180,727	2,645,721
Net change in fund balance	(7,560,278)	(9,421,942)	(1,532,393)	7,889,549
Fund balance - beginning	14,675,850	14,675,850	14,675,850	-
Fund balance - ending	\$ 7,115,572	\$ 5,253,908	\$ 13,143,457	\$ 7,889,549

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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 6,771,200	\$ 6,771,200	\$ 6,467,452	\$ (303,748)
Intergovernmental revenue	120,000	120,000	-	(120,000)
Charges for services	60,000	60,000	70,846	10,846
Contributions	-	-	-	-
Investment earnings	59,500	59,500	538,104	478,604
Total revenues	7,010,700	7,010,700	7,076,402	65,702
EXPENDITURES				
Current:				
General government	241,000	241,000	23,171	217,829
Capital outlay:				
General government	429,636	429,636	196,610	233,026
Public safety	5,351,121	5,351,121	193,610	5,157,511
Transportation and physical environment	5,210,672	5,210,672	2,399,397	2,811,275
Culture and recreation	3,557,717	3,557,717	1,311,931	2,245,786
Total expenditures	14,790,146	14,790,146	4,124,719	10,665,427
Excess of revenues over (under) expenditures	(7,779,446)	(7,779,446)	2,951,683	10,731,129
Other financing sources (uses):				
Transfers in	242,222	242,222	156,024	(86,198)
Transfers out	(17,876)	(17,876)	(48,157)	(30,281)
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	224,346	224,346	107,867	(116,479)
Net change in fund balance	(7,555,100)	(7,555,100)	3,059,550	10,614,650
Fund balance - beginning	7,469,926	7,469,926	7,469,926	-
Fund balance - ending	\$ (85,174)	\$ (85,174)	\$ 10,529,476	\$ 10,614,650

City of Palm Coast, Florida
 Required Supplementary Information
 Transportation Impact Fee Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -
Impact fees	8,167,500	8,167,500	3,888,866	(4,278,634)
Special Assessments	21,000,000	21,000,000	-	(21,000,000)
Developer Contributions	-	-	-	-
Intergovernmental revenue	-	-	149,342	149,342
Investment earnings	410,000	410,000	1,124,659	714,659
Total revenues	<u>29,577,500</u>	<u>29,577,500</u>	<u>5,162,867</u>	<u>(24,414,633)</u>
EXPENDITURES				
Current:				
Transportation and physical environment	138,434	138,434	84,864	53,570
Capital outlay:				
Transportation and physical environment	53,228,466	53,228,466	8,334,800	44,893,666
Total expenditures	<u>53,366,900</u>	<u>53,366,900</u>	<u>8,419,664</u>	<u>44,947,236</u>
Excess of revenues over (under) expenditures	(23,789,400)	(23,789,400)	(3,256,797)	20,532,603
Fund balance - beginning	22,902,665	22,902,665	22,902,665	-
Fund balance - ending	<u>\$ (886,735)</u>	<u>\$ (886,735)</u>	<u>\$ 19,645,868</u>	<u>\$ 20,532,603</u>

City of Palm Coast, Florida
Required Supplementary Information
Streets Improvement Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Taxes	\$ 2,747,600	\$ 2,747,600	\$ 2,434,474	\$ (313,126)
Intergovernmental revenue	3,090,800	3,090,800	3,055,783	(35,017)
Investment earnings	25,000	25,000	194,178	169,178
Miscellaneous	-	-	-	-
Total revenues	<u>5,863,400</u>	<u>5,863,400</u>	<u>5,684,435</u>	<u>(178,965)</u>
EXPENDITURES				
Capital outlay:				
Transportation and physical environment	7,884,500	7,884,500	4,137,703	3,746,797
Total expenditures	<u>7,884,500</u>	<u>7,884,500</u>	<u>4,137,703</u>	<u>3,746,797</u>
Excess of revenues over (under) expenditures	(2,021,100)	(2,021,100)	1,546,732	3,567,832
Fund balance - beginning	2,564,984	2,564,984	2,564,984	-
Fund balance - ending	<u>\$ 543,884</u>	<u>\$ 543,884</u>	<u>\$ 4,111,716</u>	<u>\$ 3,567,832</u>

City of Palm Coast, Florida
 SR100 Community Redevelopment Area Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Taxes	\$ 115,200	\$ 299,163	\$ 299,163	\$ -
Intergovernmental revenue	-	-	1,000	1,000
Investment earnings	6,000	6,000	50,732	44,732
Miscellaneous	-	-	500	500
Total revenues	<u>121,200</u>	<u>305,163</u>	<u>351,395</u>	<u>46,232</u>
EXPENDITURES				
Current:				
Physical environment	127,489	127,650	52,807	74,843
Capital outlay:				
Physical environment	2,141,414	4,361,311	4,312,573	48,738
Debt Service:				
Principal	-	-	-	-
Interest and Other	-	280,730	280,727	3
Total expenditures	<u>2,268,903</u>	<u>4,769,691</u>	<u>4,646,107</u>	<u>123,584</u>
Excess of revenues over (under) expenditures	(2,147,703)	(4,464,528)	(4,294,712)	169,816
Other financing sources (uses):				
Transfers in	2,077,464	3,939,128	208,679	(3,730,449)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>2,077,464</u>	<u>3,939,128</u>	<u>208,679</u>	<u>(3,730,449)</u>
Net change in fund balance	(70,239)	(525,400)	(4,086,033)	(3,560,633)
Fund balance - beginning	(988,039)	(988,039)	(988,039)	-
Fund balance - ending	<u>\$ (1,058,278)</u>	<u>\$ (1,513,439)</u>	<u>\$ (5,074,072)</u>	<u>\$ (3,560,633)</u>

**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, SR100 CRA special revenue fund, streets improvement special revenue fund and the transportation 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.



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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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.

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.



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City of Palm Coast, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2007

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Police Education	Police Automation	Park Impact Fee	Fire Impact Fee	
ASSETS					
Equity in pooled cash and investments	\$ 43,352	\$ 131,408	\$ 3,746,672	\$ 2,684,654	\$ 6,606,086
Due from other governments	-	-	8,910	-	8,910
Prepaid items	-	-	7,050	-	7,050
Total assets	\$ 43,352	\$ 131,408	\$ 3,762,632	\$ 2,684,654	\$ 6,622,046
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 322,384	\$ 69,959	\$ 392,343
Accrued liabilities	-	-	130,073	-	130,073
Deferred Revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total liabilities	-	-	452,457	69,959	522,416
FUND BALANCES					
Reserved for encumbrances	-	-	293,805	237,955	531,760
Unreserved/undesignated	43,352	131,408	3,016,370	2,376,740	5,567,870
Total fund balances	43,352	131,408	3,310,175	2,614,695	6,099,630
Total liabilities and fund balance	\$ 43,352	\$ 131,408	\$ 3,762,632	\$ 2,684,654	\$ 6,622,046

City of Palm Coast, Florida
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2007

	<u>Special Revenue Funds</u>				Total Nonmajor Governmental Funds
	Police Education	Police Automation	Park Impact Fee	Fire Impact Fee	
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Developer Contributions	-	-	-	608,376	608,376
Intergovernmental revenue	-	-	130,779	-	130,779
Charges for services	-	-	-	-	-
Fines and forfeitures	12,928	53,905	-	-	66,833
Impact fees	-	-	435,933	284,173	720,106
Contributions	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Investment earnings	1,920	5,462	268,386	169,991	445,759
Total revenues	<u>14,848</u>	<u>59,367</u>	<u>835,098</u>	<u>1,062,540</u>	<u>1,971,853</u>
EXPENDITURES					
Current:					
Public safety	65	-	-	-	65
Transportation and physical environme	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Capital outlay:					
Public safety	-	-	-	1,862,478	1,862,478
Transportation and physical environme	-	-	-	-	-
Culture and recreation	-	-	2,568,778	-	2,568,778
Total expenditures	<u>65</u>	<u>-</u>	<u>2,568,778</u>	<u>1,862,478</u>	<u>4,431,321</u>
Excess (deficiency) of revenues over (under) expenditures	14,783	59,367	(1,733,680)	(799,938)	(2,459,468)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	(88,024)	-	(88,024)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(88,024)</u>	<u>-</u>	<u>(88,024)</u>
Net change in fund balances	14,783	59,367	(1,821,704)	(799,938)	(2,547,492)
Fund balances - beginning	28,569	72,041	5,131,879	3,414,633	8,647,122
Fund balances - ending	<u>\$ 43,352</u>	<u>\$ 131,408</u>	<u>\$ 3,310,175</u>	<u>\$ 2,614,695</u>	<u>\$ 6,099,630</u>

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, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Fines and forfeitures	\$ 8,000	\$ 8,000	\$ 12,928	\$ 4,928
Investment earnings	700	700	1,920	1,220
Total revenues	<u>8,700</u>	<u>8,700</u>	<u>14,848</u>	<u>6,148</u>
EXPENDITURES				
Current:				
Public safety	37,200	37,200	65	37,135
Total expenditures	<u>37,200</u>	<u>37,200</u>	<u>65</u>	<u>37,135</u>
Excess of revenues over (under) expendi	(28,500)	(28,500)	14,783	43,283
Fund balance - beginning	28,569	28,569	28,569	-
Fund balance - ending	<u>\$ 69</u>	<u>\$ 69</u>	<u>\$ 43,352</u>	<u>\$ 43,283</u>

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, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Fines and forfeitures	\$ 33,000	\$ 33,000	\$ 53,905	\$ 20,905
Investment earnings	1,000	1,000	5,462	4,462
Total revenues	<u>34,000</u>	<u>34,000</u>	<u>59,367</u>	<u>25,367</u>
EXPENDITURES				
Current:				
Public safety	106,000	106,000	-	106,000
Total expenditures	<u>106,000</u>	<u>106,000</u>	<u>-</u>	<u>106,000</u>
Excess of revenues over (under) expenditures	(72,000)	(72,000)	59,367	131,367
Other financing sources (uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(72,000)	(72,000)	59,367	131,367
Fund balance - beginning	72,041	72,041	72,041	-
Fund balance - ending	<u>\$ 41</u>	<u>\$ 41</u>	<u>\$ 131,408</u>	<u>\$ 131,367</u>

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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 1,000,000	\$ 1,000,000	\$ 130,779	\$ (869,221)
Impact fees	2,428,300	2,428,300	435,933	(1,992,367)
Investment earnings	115,000	115,000	268,386	153,386
Total revenues	3,543,300	3,543,300	835,098	(2,708,202)
EXPENDITURES				
Capital outlay:				
Culture and recreation	4,394,000	8,751,500	2,568,778	6,182,722
Total expenditures	4,394,000	8,751,500	2,568,778	6,182,722
Excess of revenues over (under) expenditures	(850,700)	(5,208,200)	(1,733,680)	3,474,520
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(88,024)	(88,024)
Total other financing sources (uses)	-	-	(88,024)	(88,024)
Net change in fund balance	(850,700)	(5,208,200)	(1,821,704)	3,386,496
Fund balance - beginning	5,131,879	5,131,879	5,131,879	-
Fund balance - ending	\$ 4,281,179	\$ (76,321)	\$ 3,310,175	\$ 3,386,496

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, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Impact fees	\$ 631,260	\$ 631,260	\$ 284,173	\$ (347,087)
Developer Contributions	-	-	608,376	608,376
Investment earnings	15,000	15,000	169,991	154,991
Total revenues	<u>646,260</u>	<u>646,260</u>	<u>1,062,540</u>	<u>416,280</u>
EXPENDITURES				
Current:				
Public safety	-	-	-	-
Capital outlay:				
Public safety	965,000	4,061,859	1,862,478	2,199,381
Total expenditures	<u>965,000</u>	<u>4,061,859</u>	<u>1,862,478</u>	<u>2,199,381</u>
Excess of revenues over (under) expenditures	(318,740)	(3,415,599)	(799,938)	2,615,661
Fund balance - beginning	3,414,633	3,414,633	3,414,633	-
Fund balance - ending	<u>\$ 3,095,893</u>	<u>\$ (966)</u>	<u>\$ 2,614,695</u>	<u>\$ 2,615,661</u>



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