

CITY OF PALM COAST, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Period From Incorporation on
December 31, 1999 to September 30, 2000

INTRODUCTORY SECTION

This section contains the following subsections:

- . Table of Contents
- . List of Principal Officials

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY OF PALM COAST, FLORIDA

TABLE OF CONTENTS

Period From Incorporation on December 31, 1999 to September 30, 2000

| | <u>Page</u> |
|---|-------------|
| I. Introductory Section: | |
| Table of Contents | i |
| List of Principal Officials | ii |
| II. Financial Section: | |
| Independent Auditor's Report | 1-2 |
| Management Discussion and Analysis (required supplementary information) | 3-8 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements: | |
| Governmental Fund Financial Statements - | |
| Balance Sheet | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund | |
| Balances | 12 |
| Reconciliation of the Statement of Revenues, Expenditures, | |
| and Changes in Fund Balances of Governmental Funds to the | |
| Statement of Activities | 13 |
| Notes to Financial Statements | 14-21 |
| Required Supplemental Information Other Than MD & A | |
| Budgetary Comparison Schedule - General Fund | 22 |
| Note to Budgetary Comparison Schedule | 23 |
| Combining Financial Statements | |
| Non-Major Governmental Funds | |
| Balance Sheet | 24 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 25 |
| III. Internal Control and Compliance Section: | |
| Report on Compliance and on Internal Control Over Financial Reporting Based | |
| on an Audit of Financial Statements Performed in Accordance with | |
| <i>Government Auditing Standards</i> | 26-27 |

CITY OF PALM COAST, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2000

ELECTED OFFICIALS

Mayor

Honorable Jim Canfield

City Council Members:

Bill Venne
Jerry Full
Jim Holland
Ralph Carter

CITY OFFICIALS

City Manager

Richard Kelton

Administrative Services Director

Oel Wingo

City Attorney

Stenstrom, McIntosh, Colbert, Whigham &
Simmons, P.A.

City Auditor

McDermitt, Davis, Puckett & Company, P.A.

FINANCIAL SECTION

This section contains the following subsections:

- . Independent Auditor's Report
- . Management Discussion and Analysis
- . Basic Financial Statements
- . Required Supplemental Information Other Than MD & A
- . Combining Financial Statements

MCDIRMIT, DAVIS, PUCKETT & COMPANY, P.A.

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council Members
City of Palm Coast, Florida

We have audited the accompanying basic financial statements of the *City of Palm Coast, Florida*, as of and for the period from incorporation on December 31, 1999 to September 30, 2000, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the *City of Palm Coast, Florida*, as of September 30, 2000, and the results of its operations for the period from incorporation on December 31, 1999 to September 30, 2000 in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 11, 2000 on our consideration of the *City of Palm Coast, Florida's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the required supplemental information other than Management's Discussion and Analysis, are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information identified in the table of contents as combining financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

McDirmit, Davis, Puckett & Company, P.A.

McDIRMIT, DAVIS, PUCKETT & COMPANY, P.A.

December 11, 2000

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Palm Coast'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.

HISTORICAL OVERVIEW

Palm Coast is situated in the eastern portion of Flagler County, mostly east of U.S. Route 1 and north of State Road 100. The community straddles Interstate Highway 95 and extends almost to AIA on the eastern side of the City.

Developed by ITT Corporation, in 1969, the original development plan encompassed 48,000 home sites on approximately 42,000 acres (65.62 square miles) of the 68,000 acres owned by ITT. Paved street and central water and sewer serve all lots developed within the plan. An extensive water management system was designed to replenish the area's water table, which includes 46 miles of freshwater canals and 23 miles of saltwater canals.

In 1975, the Flagler County Board of County Commissioners established Palm Coast Service District, including almost 40,000 acres. Funds for the district were derived primarily from ad valorem taxes and were utilized to provide fire services, fire hydrants, street lighting, animal control and emergency services.

In September 1999, the citizenry of Palm Coast voted overwhelmingly by a margin of two to one to incorporate as a City Manager/Council form of government. On December 31, 1999, the City of Palm Coast was officially incorporated. On October 1, 2000, all services were officially transferred from the former Service District to the City of Palm Coast.

The five member City Council is elected at large and serves staggered four-year terms. One member is elected as Mayor. The promulgation and adoption of policy are the responsibility of the Council and the execution of such policy is the responsibility of the council-adopted City Manager.

ECONOMIC CONDITION AND OUTLOOK

Industrial parks within the City currently house more than 30 mid to large size businesses with the largest corporation, Palm Coast Data, employing close to 1,000 people. Flagler County has had one of the highest rates of population growth in the United States since 1990, according to the U.S. Bureau of the Census as well as one of the fastest growth rates in ad valorem taxable value using Florida Department of Revenue information. Further, the University of Florida's Bureau of Economic and Business Research predicts Flagler County will experience one of the highest job growth rates in Florida between 1995 and 2010.

HIGHLIGHTS

Financial Highlights

- The City's net assets increased by \$1,637,962 during the period from incorporation on December 31, 1999 to September 30, 2000.
- The City's revenues were comprised primarily of shared revenue from the state of \$1,031,124 and revenue from Flagler County for the Palm Coast Service District of \$840,995. The City's expenditures were primarily for general government since the City did not take over responsibility for most departmental functions until October 1, 2000.

City Highlights

- The City hired its first City Manager April 17, 2000. The City Manager began to build an implementation staff which numbered fifteen employees by September 30, 2000.
- During the first partial year of operations, Flagler County deeded the City Hall property to the City. Improvements were made and offices were established in the renovated facility on July 5, 2000.
- The City adopted and implemented the policies and procedures to guide the City's administrative operations to ensure the successful transfer of the Palm Coast Service District Services and approximately 50 additional employees on October 1, 2000.
- The City signed an Interlocal Agreement with Flagler County regarding the transition of Development related services on September 29, 2000. Subsequently, the City adopted and began implementation of Development Services ordinances and programs to facilitate the transfer of building permit, code enforcement and zoning and planning operations on October 1, 2000.
- The City signed an Interlocal Agreement with the Sheriff of Flagler County to provide Law Enforcement Services to the new City beginning October 1, 2000.

Future Programs

The following projects and programs are scheduled for fiscal year 2001:

- Transfer all services from the Palm Coast Service District.
- Implement Recreation and Parks programs, including summer activities for citizens.
- Continue land acquisition of priority target areas including developing an Interlocal Agreement resolving and outlining the plans for the transfer of the Palm Coast Services District Park Lands to the City.
- Develop a community investment plan.
- Develop short term and long term annexation plans.
- Develop a master plan for public safety.
- Develop a master recreation plan.
- Develop a comprehensive plan.
- Complete a Fire Department location study.
- Complete an Advanced Life Support services study.
- Complete a feasibility study on the Water Utility.
- Complete an Economic Development target market study.
- Conduct a Parks and Recreation program study.
- Prepare for an ISO evaluation.

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 financial statements also include notes that explain some of the information in the financial statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in single columns in the basic financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statement report the City's net assets and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

Since the City of Palm Coast has no business-type activities such as water and sewer systems, the government-wide financial statements include only governmental activities. Most of the City's basic services are included here, such as police, fire, public works, parks, and general administration. Property taxes and intergovernmental revenues finance most of these activities. During the City's first partial year of operations, there were no property taxes and most of the expenditures were for general government.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Florida Statute or other regulations. The City only has governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Since the City of Palm Coast was incorporated December 31, 1999, the following condensed financial information only shows current year with no comparison to prior year. A comparative analysis will be provided in future years when prior year information is available.

Table I
Statement of Net Assets
As of September 30, 2000

| | Governmental <u>Activities</u> |
|---|-----------------------------------|
| Current and other assets | \$1,620,991 |
| Capital assets | <u>469,395</u> |
| Total assets | <u>2,090,386</u> |
| Long-term liabilities | 86,467 |
| Other liabilities | <u>365,957</u> |
| Total liabilities | <u>452,424</u> |
| Net Assets: | |
| Invested in capital assets, net of related debt | 382,928 |
| Restricted | 147,938 |
| Unrestricted | <u>1,107,096</u> |
| Total net assets | <u>\$1,637,962</u> |

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table II
Changes in Net Assets

| | Governmental <u>Activities</u> |
|-------------------------------|-----------------------------------|
| Revenues: | |
| Program revenues | |
| Federal grant | \$ 60,207 |
| General revenues | |
| Intergovernmental - | |
| Palm Coast Service District | 840,995 |
| Shared revenue from the State | 1,031,124 |
| Fines and Forfeitures | 30,330 |
| Investment and other | <u>317,749</u> |
| Total revenues | <u>2,280,405</u> |
| Expenses: | |
| General government | 585,058 |
| Public safety | 1,148 |
| Economic environment | 55,580 |
| Interest on long-term debt | <u>657</u> |
| Total Expenses | <u>642,443</u> |
| Increase in Net Assets | <u>\$1,637,962</u> |

Governmental Activities

Most of the current period revenue came from the Palm Coast Service District, the half-cent sales tax and State Revenue Sharing. Starting next year the primary revenue source will be property taxes. A portion of the State Revenue Sharing is gas tax which is restricted to transportation expenses. Since none of this money was spent on roads or transportation expenses, it has been reflected as restricted net assets of the City.

The cost of general government activities on the current period was \$585,058 and was paid from the general revenues of the City. The cost of economic environment activities was \$55,580 and was paid from a federal grant.

CAPITAL ASSETS

At September 30, 2000, the City had total capital assets of \$469,395, which includes property and equipment valued at \$304,579 contributed by Flagler County. Following is a summary of capital assets owned by the City:

Table III
Statement of Net Assets
(Net of Depreciation)

| | Governmental <u>Activities</u> |
|--------------|-----------------------------------|
| Land | \$ 60,000 |
| Building | 236,667 |
| Improvements | 28,110 |
| Equipment | <u>144,618</u> |
| | <u>\$469,395</u> |

During the next fiscal year ending September 30, 2001, the City will be receiving additional contributed property from Flagler County.

NEXT YEARS BUDGET

The initial organization of the City of Palm Coast includes five Departments: Administrative Services with the responsibility for Budget, Finance, Purchasing, Personnel, Risk and Management Information Services; Development Services which includes Planning and Zoning, Code Enforcement and contracted services for Engineering and Building Services; the Fire Department which includes two fire stations, Public Works which incorporates the former Palm Coast Service District Road and Bridges Department and will be expanded to include facilities and fleet maintenance divisions and Recreation and Parks located in the Community Center.

The budget for fiscal year ending September 30, 2001 includes projected general fund revenues of \$9,512,002 with projected expenditures the same. Projected Capital Project Fund revenues are \$3,388,461 with projected expenditures the same.

Almost half of the estimated revenues of the General Fund are ad valorem taxes. The budget for expenditures includes departments such as development services, fire department, law enforcement, public works, and parks and recreation which the City will be responsible for beginning October 1, 2000.

CONTRACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's financial 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, contact the City of Palm Coast's Administrative Services Director at 264 Palm Coast Parkway, NE, Palm Coast, FL 32137.

CITY OF PALM COAST, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2000

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Cash | \$1,395,239 |
| Due from other governmental units | 211,939 |
| Other assets | 13,813 |
| Capital Assets: | |
| Non-depreciable | 60,000 |
| Depreciable, net | <u>409,395</u> |
| Total assets | <u>2,090,386</u> |
| Liabilities: | |
| Accounts payable | 231,497 |
| Retainage payable | 2,450 |
| Accrued liabilities | 40,071 |
| Compensated absences | 6,732 |
| Developer deposit | 85,207 |
| Long-term liabilities - | |
| Due within one year | 26,900 |
| Due in more that one year | <u>59,567</u> |
| Total liabilities | <u>452,424</u> |
| Net Assets: | |
| Invested in capital assets, net of related debt | 382,928 |
| Restricted for transportation expenses | 147,938 |
| Unrestricted | <u>1,107,096</u> |
| Total net assets | <u>\$1,637,962</u> |

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

CITY OF PALM COAST, FLORIDA

STATEMENT OF ACTIVITIES

Period From Incorporation on December 31, 1999 to September 30, 2000

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues Operating Grants and Contributions</u> | Net (Expense) Revenue and Changes in <u>Net Assets</u> <u>Governmental Activities</u> |
|-------------------------------------|------------------------|---|---|
| Governmental activities: | | | |
| General government | \$585,058 | \$ - | \$(585,058) |
| Public safety | 1,148 | - | (1,148) |
| Economic environment | 55,580 | 60,207 | 4,627 |
| Interest on long-term debt | 657 | - | (657) |
| Total governmental activities | <u>\$642,443</u> | <u>\$60,207</u> | <u>(582,236)</u> |
| General revenues: | | | |
| Intergovernmental: | | | |
| Palm Coast Service District | | | 840,995 |
| Shared revenue from the state | | | 1,031,124 |
| Fines and Forfeitures | | | 30,330 |
| Investment income and miscellaneous | | | 13,171 |
| Contributed property and equipment | | | <u>304,578</u> |
| Total general revenues | | | <u>2,220,198</u> |
| Change in net assets | | | 1,637,962 |
| Net assets, beginning | | | - |
| Net assets, ending | | | <u>\$1,637,962</u> |

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

CITY OF PALM COAST, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2000

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---|---|
| Assets: | | | |
| Cash | \$ 1,387,781 | \$ 7,458 | \$ 1,395,239 |
| Due from other funds | 2,173 | - | \$ 2,173 |
| Due from other governments | 151,732 | 60,207 | \$ 211,939 |
| Other assets | 13,813 | - | \$ 13,813 |
| Total assets | <u>\$ 1,555,499</u> | <u>\$ 67,665</u> | <u>\$ 1,623,164</u> |
| Liabilities and Fund Balances: | | | |
| Liabilities: | | | |
| Accounts payable | \$ 178,090 | \$53,407 | \$ 231,497 |
| Retainage payable | 2,450 | - | 2,450 |
| Accrued liabilities | 40,071 | - | 40,071 |
| Compensated absences | 6,732 | - | 6,732 |
| Due to other funds | - | 2,173 | 2,173 |
| Developer deposit | 85,207 | - | 85,207 |
| Total liabilities | <u>312,550</u> | <u>55,580</u> | <u>368,130</u> |
| Fund balances: | | | |
| Reserved for: | | | |
| Gas tax transportation expenditures | 147,938 | - | 147,938 |
| Unreserved, reported in: | | | |
| General fund | 1,095,011 | - | 1,095,011 |
| Special revenue funds | - | 12,085 | 12,085 |
| Total fund balances | <u>1,242,949</u> | <u>12,085</u> | <u>1,255,034</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,555,499</u> | <u>\$ 67,665</u> | |
| Amounts reported for governmental activities | | | |
| in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | | | \$ 469,395 |
| Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the governmental funds | | | <u>(86,467)</u> |
| Net assets of governmental activities | | | <u>\$ 1,637,962</u> |

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

CITY OF PALM COAST, FLORIDA

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

For the Period from Incorporation on December 31, 1999 to September 30, 2000

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | |
| Intergovernmental: | | | |
| Palm Coast Service District | \$ 840,995 | \$ - | \$ 840,995 |
| Other | 1,031,124 | 60,207 | 1,091,331 |
| Fines and forfeitures | 22,872 | 7,458 | 30,330 |
| Investment Income | 13,096 | - | 13,096 |
| Miscellaneous revenues | 75 | - | 75 |
| Total revenues | <u>1,908,162</u> | <u>67,665</u> | <u>1,975,827</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 749,875 | - | 749,875 |
| Public safety | 1,148 | - | 1,148 |
| Economic environment | - | 55,580 | 55,580 |
| Debt service: | | | |
| Principal retirement | 2,136 | - | 2,136 |
| Interest | 657 | - | 657 |
| Total expenditures | <u>753,816</u> | <u>55,580</u> | <u>809,396</u> |
| Excess of Revenues Over Expenditures | 1,154,346 | 12,085 | 1,166,431 |
| Other Financing Sources | | | |
| Capital lease proceeds | 88,603 | - | 88,603 |
| Excess of Revenues and Other Sources Over Expenditures | 1,242,949 | 12,085 | 1,255,034 |
| Fund Balance - Beginning of Year | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance - End of Year | <u>\$ 1,242,949</u> | <u>\$ 12,085</u> | <u>\$ 1,255,034</u> |

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

CITY OF PALM COAST, FLORIDA

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNEMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For The Period from Incorporation on December 31, 1999 to September 30, 2000

Net change in fund balances - total governmental funds **\$1,255,034**

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

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

| | | |
|---------------------------------|---------|---------|
| Expenditures for capital assets | 171,620 | |
| Less current year depreciation | (6,803) | 164,817 |

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

| | |
|------------------------------------|---------|
| Contributed property and equipment | 304,578 |
|------------------------------------|---------|

Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increase long-term liabilities in the statement of net assets. Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

| | | |
|------------------------|----------|----------|
| Capital lease proceeds | (88,603) | |
| Principal payments | 2,136 | (86,467) |

Change in net assets of governmental activities **\$1,637,962**

NOTES TO FINANCIAL STATEMENTS

CITY OF PALM COAST, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2000

Note 1 – Summary of Significant Accounting Policies:

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 accounting policies of the *City of Palm Coast, Florida* conform to generally accepted accounting principles as applied to governmental units. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement #34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002 (for larger Florida local governments with a September 30 fiscal year). As a part of this Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.) This requirement permits an optional four-year further delay for implementation to the fiscal year ending 2006. The City is electing to implement the basic model for the period ending 1999/2000 and would hope to implement the infrastructure-related portion before the required date.

Basic Financial Statements - GASB Statement 34 - The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (police, fire, public works, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (police, public works, community and youth services, etc.) or a business-type activity. The net cost (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2000

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

Basic Financial Statements - GASB Statement 34 (Continued):

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. At September 30, 2000, the City of Palm Coast has only governmental funds. There are no business type activities.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

Reporting Entity - In evaluating how to define the government, for financial reporting purposes, the City has considered all potential component units. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. In applying the above criteria, management has determined that there are no components units to be included within the reporting entity.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2000

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

Basis of Presentation - The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The new model (Statement #34) sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The following fund types are used by the City:

1. Governmental Funds:

The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

- a. General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures of specified purposes.

2. Non-Current Governmental Assets/Liabilities:

GASB Statement #34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

Basis of Accounting – Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

1. Accrual:

All proprietary, internal service, and pension trust funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2000

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

Basis of Accounting (Continued):

2. Modified Accrual:

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Fund Balance Reserves - Reservations of the fund balance indicate the portions of fund balance which are not available to be appropriated for expenditures or which have been segregated for specific future uses.

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

Capital Assets – Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. 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 all 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 |
| Equipment | 5 - 20 |

Pursuant to GASB Statement #34, an extended period of deferral (FY2005/06) is available before the requirement to record and depreciate infrastructure assets become effective. This category is likely to be the largest asset class of the government and has historically not been reflected nor a measure of its consumption charged. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2000

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. Since management expects to liquidate claims for accumulated vacation pay with current resources, the liability has been recorded in the General Fund.

Note 2 – 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.

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 the General Fund, after public hearings are conducted at the City Hall 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 not employed. Unexpended and unencumbered appropriations lapse at the end of the fiscal year and are reappropriated in the ensuing year.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2000

Note 3 – Cash:

Deposits - At year-end, the carrying amount of the City's deposits was \$1,395,239 and the bank balance was \$1,417,639. 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".

Note 4 – Receivables:

Receivables consist of the following at September 30, 2000:

| | <u>General Fund</u> | <u>Special Revenue Funds</u> |
|-----------------------------------|--------------------------------|---|
| Due From Other Governments: | | |
| Half-Cent Sales Tax | \$151,732 | \$ - |
| Communtiy Development Block Grant | - | 60,207 |
| Total | <u>\$151,732</u> | <u>\$60,207</u> |

Note 5 – Capital Assets:

During the period from incorporation on December 31, 1999 to September 30, 2000, the following changes in capital assets occurred:

| | <u>Balance 12-31-99</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 9-30-00</u> |
|-------------------------------|------------------------------------|-------------------------|-------------------------|-----------------------------------|
| Land | \$ - | \$ 60,000 | \$ - | \$ 60,000 |
| Building | - | 240,000 | - | 240,000 |
| Improvements | - | 28,310 | - | 28,310 |
| Equipment | - | 147,888 | - | 147,888 |
| | | 476,198 | - | 476,198 |
| Less accumulated depreciation | - | 6,803 | - | 6,803 |
| Net Capital Assets | <u>\$ -</u> | <u>\$469,395</u> | <u>\$ -</u> | <u>\$469,395</u> |

Land and buildings totaling \$300,000 and equipment of \$4,578 were contributed to the City during this initial period of operations ending September 30, 2000. Depreciation expense for this period of \$6,803 was charged to the general government function in the Statement of Activities.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2000

Note 6 – Long-Term Liabilities:

During the period from incorporation on December 31, 1999 to September 30, 2000, the following changes in long-term liabilities occurred:

| | <u>Capital Lease Obligations</u> |
|----------------------------------|---|
| Balance, December 31, 1999 | \$ - |
| Additions | 88,603 |
| Principal payments | <u>(2,136)</u> |
| Balance, September 30, 2000 | 86,467 |
| Amount due within one year | <u>(26,900)</u> |
| Amount due in more than one year | <u>\$59,567</u> |

Note 7 – Capital Lease Obligation:

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

| | |
|--------------------------------|-----------------|
| Computer Equipment | \$88,603 |
| Less: Accumulated Amortization | <u>(1,231)</u> |
| | <u>\$87,372</u> |

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

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

| <u>Years Ending September 30 -</u> | |
|---|-----------------|
| 2001 | \$33,516 |
| 2002 | 33,516 |
| 2003 | <u>31,563</u> |
| Total Minimum Lease Payments | 98,595 |
| Less: Amount Representing Interest | <u>(12,128)</u> |
| Present Value of Net Minimum Lease Payments | <u>\$86,467</u> |

The current long-term obligation under capital lease is \$26,900 and \$59,567, respectively.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2000

Note 8 – Retirement Plans:

Defined Contribution Plan - The City maintains a single employer defined contribution plan. All full-time employees are eligible to participate. The name of the plan is the City of Palm Coast 401 (a) Pension Plan. Under this plan, the City contributes a certain percentage of employees' eligible wages determined by City Council. Employees do not participate in the plan funding. For the period ended September 30, 2000, contribution to this plan totaled \$14,517.

Florida Retirement System – Former Flagler County and Palm Coast Service District employees hired as transfers during the 1999-2000 or 2000-2001 fiscal year 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, subsequent to year end, there were former Palm Coast Service District employees hired who did elect to remain in FRS.

Note 9 – Commitments & Contingencies:

The City of Palm Coast entered into a series of interlocal agreements dated September 29, 2000 with Flagler County. The nature of these agreements is that effective October 1, 2000, the City shall assume and be responsible for various services, including development related services, road department, fire department, code enforcement and community center. In addition, the City entered into an interlocal agreement for law enforcement service with the Sheriff of Flagler County. This agreement is effective from October 1, 2000 and goes to September 30, 2001. The City must pay the Sheriff \$728,570 in monthly payments of \$60,714. In addition, prior to September 30, 2000, the City signed an agreement for \$85,000 for the license of financial software and other services related to installation. At September 30, 2000, the City had paid a deposit of \$13,813 for this software.

Note 10 – Subsequent Event:

Subsequent to September 30, 2000, Flagler County transferred to the City real property and buildings with an estimated fair market value of \$1,700,000. In addition, Flagler County transferred equipment and vehicles to the City, which had an estimated fair market value of \$680,000. The number of City employees increased from approximately 15 at September 30, 2000 to 74 at the date of this report, or December 11, 2000.

**REQUIRED SUPPLEMENTAL INFORMATION
OTHER THAN MANAGEMENT
DISCUSSION AND ANALYSIS**

CITY OF PALM COAST, FLORIDA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Period from incorporation on December 31, 1999 to September 30, 2000

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance Favorable (Unfavorable) |
|--|------------------|------------------|---|--|
| | Original | Final | | |
| Resources (Inflows): | | | | |
| Intergovernmental | | | | |
| Palm Coast Service District | \$ 200,000 | \$ 200,000 | \$ 840,995 | \$ 640,995 |
| Revenue sharing | 306,577 | 306,577 | 381,873 | 75,296 |
| Half-cent sales tax | 600,983 | 570,191 | 628,597 | 58,406 |
| Cigarette tax | 6,417 | 12,122 | 20,654 | 8,532 |
| Fines and forfeitures | - | 25,087 | 22,872 | (2,215) |
| Investment income | 6,851 | 6,851 | 13,096 | 6,245 |
| Miscellaneous | 200 | 200 | 75 | (125) |
| Amounts available for appropriation | <u>1,121,028</u> | <u>1,121,028</u> | <u>1,908,162</u> | <u>787,134</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government: | | | | |
| Legislative | 4,950 | 4,950 | 4,050 | 900 |
| Executive | 42,295 | 42,295 | 50,257 | (7,962) |
| Finance and administrative | 952,583 | 952,583 | 485,282 | 467,301 |
| Legal | 80,000 | 80,000 | 93,384 | (13,384) |
| Development services | 20,600 | 20,600 | 28,299 | (7,699) |
| Public safety | 20,600 | 20,600 | 1,148 | 19,452 |
| Debt service | - | - | 2,793 | (2,793) |
| Total expenditures | <u>1,121,028</u> | <u>1,121,028</u> | <u>665,213</u> | <u>455,815</u> |
| Excess (Deficiency) of Resources Over Charges to Appropriations | - | - | 1,242,949 | 1,242,949 |
| Fund Balance - Beginning of Year | - | - | - | - |
| Fund Balance - End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,242,949</u> | <u>\$ 1,242,949</u> |

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

CITY OF PALM COAST, FLORIDA

NOTE TO BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

Note 1 – Explanation of Difference Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/Inflows of Resources:

Actual amount (budgetary basis) “available for appropriation”
from the budgetary comparison schedule \$1,908,162

Differences – budget to GAAP:

Capital lease proceeds are not budgeted by the City 88,603

Total revenues and other financing sources reported on the
statement of revenues, expenditures, and changes in fund
balances - governmental funds \$1,996,765

Uses/Outflows of Resources:

Actual amounts (budgetary basis) “total charges appropriations”
from the budgetary comparison schedule \$ 665,213

Differences – budget to GAAP:

Capital lease expenditures are not budgeted by the City 88,603

Total expenditures and other financing sources reported on the
statement of revenues, expenditures, and changes in fund
balances - governmental funds \$ 753,816

COMBINING FINANCIAL STATEMENTS

CITY OF PALM COAST, FLORIDA

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

September 30, 2000

| | Special Revenue Funds | | | Total Other Governmental Funds |
|--|--|---------------------|----------------------|---|
| | Community Development Block Grant | Police Education | Police Automation | |
| Assets: | | | | |
| Cash and cash equivalents | \$ - | \$ 1,358 | \$ 6,100 | \$ 7,458 |
| Due from other governments | 60,207 | - | - | 60,207 |
| Total Assets | <u>\$ 60,207</u> | <u>\$ 1,358</u> | <u>\$ 6,100</u> | <u>\$ 67,665</u> |
| Liabilities and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 53,407 | \$ - | \$ - | \$ 53,407 |
| Due to other funds | 2,173 | - | - | 2,173 |
| Total liabilities | <u>55,580</u> | <u>-</u> | <u>-</u> | <u>55,580</u> |
| Fund balances: | | | | |
| Unreserved, reported in: | | | | |
| Special revenue funds | 4,627 | 1,358 | 6,100 | 12,085 |
| Total Liabilities and Fund Balances | <u>\$ 60,207</u> | <u>\$ 1,358</u> | <u>\$ 6,100</u> | <u>\$ 67,665</u> |

CITY OF PALM COAST, FLORIDA

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS**

For The Period from incorporation on December 31, 1999 to September 30, 2000

| | <u>Special Revenue Funds</u> | | | <u>Total Other Governmental Funds</u> |
|---|--|-----------------------------|------------------------------|---|
| | <u>Development Block Grant</u> | <u>Police Education</u> | <u>Police Automation</u> | |
| Revenues: | | | | |
| Intergovernmental revenues: | | | | |
| Federal grant | \$ 60,207 | \$ - | \$ - | \$ 60,207 |
| Fines and forfeitures: | | | | |
| Fines and forfeitures | - | 1,358 | 6,100 | 7,458 |
| Total Revenues | <u>60,207</u> | <u>1,358</u> | <u>6,100</u> | <u>67,665</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Economic environment | <u>55,580</u> | - | - | <u>55,580</u> |
| Total Expenditures | <u>55,580</u> | - | - | <u>55,580</u> |
| Excess of revenues over expenditures | 4,627 | 1,358 | 6,100 | 12,085 |
| Fund balance - beginning of year | - | - | - | - |
| Fund balance - ending of year | <u>\$ 4,627</u> | <u>\$ 1,358</u> | <u>\$ 6,100</u> | <u>\$ 12,085</u> |

INTERNAL CONTROL AND COMPLIANCE SECTION

MCDIRMIT, DAVIS, PUCKETT & COMPANY, P.A.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and Town Council
City of Palm Coast, Florida

We have audited the basic financial statements of the City of Palm Coast, *Florida*, as of and for the year ended September 30, 2000, and have issued our report thereon dated December 11, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance - As part of obtaining reasonable assurance about whether the *City of Palm Coast, Florida's* basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of *City of Palm Coast, Florida*, in a separate letter dated December 11, 2000.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the *City of Palm Coast, Florida's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *City of Palm Coast, Florida* in a separate letter dated December 11, 2000.



This report is intended solely for the information and use of management, the City Council and the Auditor General of the State of Florida and is not intended to be, and should not be used by anyone other than these specified parties.

McDirmit, Davis, Puckett & Company, P.A.

McDIRMIT, DAVIS, PUCKETT & COMPANY, P.A.

December 11, 2000