

CITY OF PALM COAST, FLORIDA



COMPREHENSIVE ANNUAL FINANCIAL REPORT **For the fiscal year ended September 30, 2001**

CITY OF PALM COAST, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended September 30, 2001

Prepared by: Finance Department

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INTRODUCTORY SECTION

This section contains the following subsections:

- . Table of Contents
- . Letter of Transmittal
- . Organization Chart
- . List of Principal Officials

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

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To the Honorable Mayor, Members of the City Council, and Citizens of the City of Palm Coast:

This report consists of management representations concerning the finances of the City of Palm Coast. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Palm Coast's financial statements have been audited by McDirmit, Davis, Puckett & Company, P.A., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Palm Coast for the fiscal year ended September 30, 2001, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of the report.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Palm Coast's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

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 the Intercoastal Waterway 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 City. An extensive water management system was designed to replenish the area's water table, which includes 26 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 council/manager 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 appointed city manager. The City hired its first city manager on April 17, 2000.

The City of Palm Coast currently has a population of 35,443 residents and covers an area of approximately 50 square miles. Property within the City has a taxable value of \$1,775,084,386. The City's property tax rate for fiscal year 2002 is \$3.50 per \$1,000 of taxable value.

The City provides a wide range of services including development services, fire services, street construction and maintenance, parks, and recreational activities. Palm Coast contracts with the Flagler County Sheriff for law enforcement services.

Economic 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.

Future Programs

The City of Palm Coast plans on developing a comprehensive signage and lighting program during the upcoming fiscal year. This program is intended to improve safety on city streets as well as enhance the physical appearance of the City.

A public facilities and parks plan is scheduled for the coming year. This includes implementing a design build for a new City Hall, possibly coupled with the development of a town center; developing a plan for building both a northern and southern fire station and completing a needs assessment for a cultural arts center. Additionally, the City is pursuing the purchase of the privately owned water and sewer utility currently serving its citizens.

During fiscal year 2001 the City completed a Target Market Study designed to provide recommendations concerning future economic development within the City of Palm Coast. The results of the study will be initiated in fiscal year 2002 and will be an ongoing program. As a part of this economic development effort, the Council and staff are focusing their efforts on the annexation of lands for commercial and industrial development to broaden the tax base of the City.

The City initiated a major land acquisition program in fiscal year 2001. The bulk of this program will be completed in fiscal year 2002 culminating in the purchase of environmentally sensitive lands, which will be preserved as parklands for the citizens of Palm Coast.

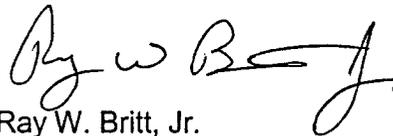
Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Financial Services and Administrative Services Departments. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the mayor and the city council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Palm Coast's finances.

Respectfully submitted,



Richard M. Kelton
City Manager

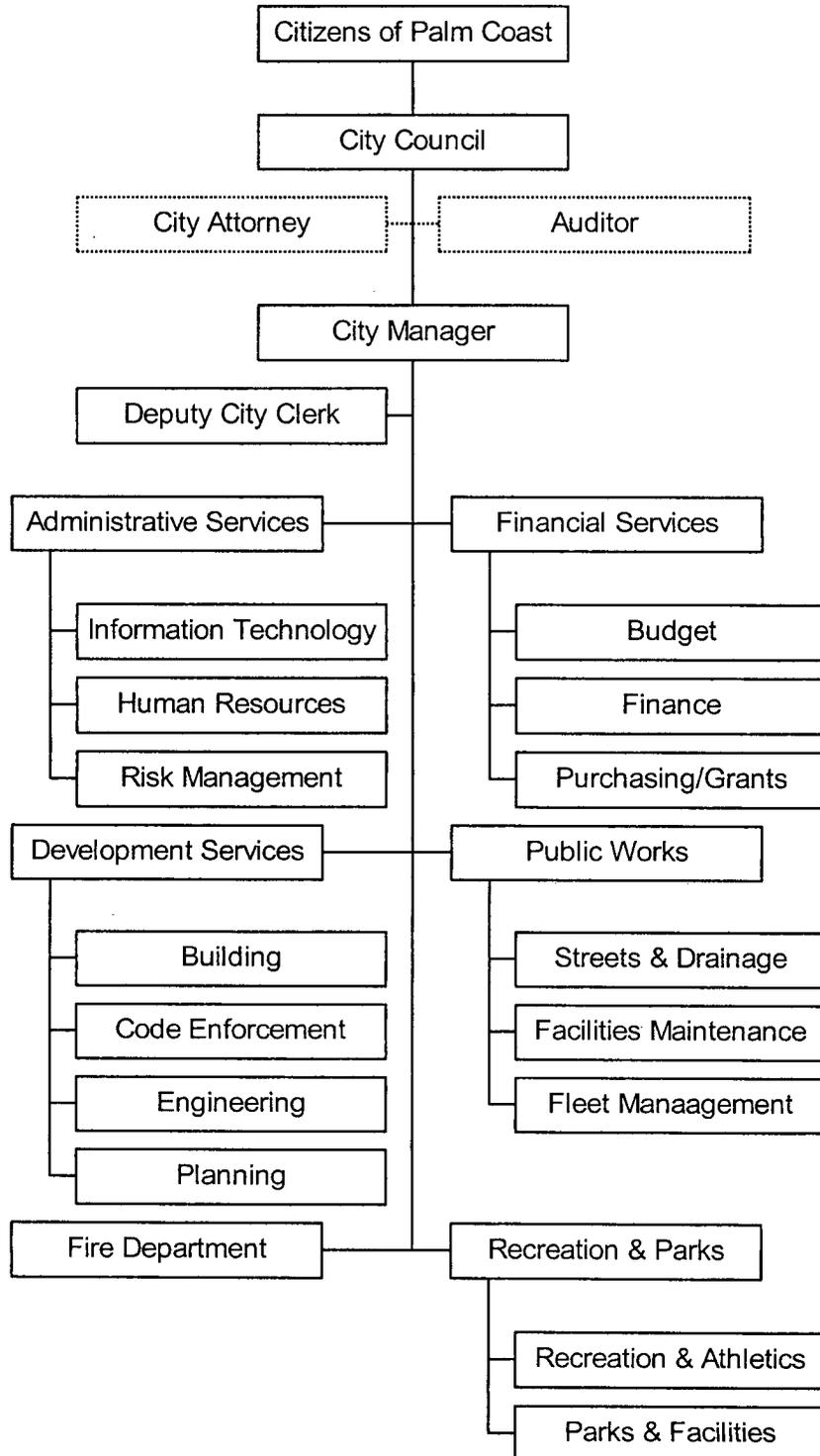


Ray W. Britt, Jr.
Finance Director

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City of Palm Coast Organizational Chart



CITY OF PALM COAST, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2001

ELECTED OFFICIALS

Mayor

Honorable Jim Canfield

City Council Members:

Bill Venne
Jerry Full
Jim Holland
Ralph Carter

CITY OFFICIALS

City Manager

Richard M. Kelton

Administrative Services Director

Oel Wingo

City Attorney

William L. Colbert

City Auditor

McDermitt Davis Puckett & Company, LLC

Finance Director

Ray W. Britt, Jr.

FINANCIAL SECTION

This section contains the following subsections:

- . Independent Auditor's Report
- . Management Discussion and Analysis
- . Basic Financial Statements
- . Combining Financial Statements

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MCDIRMIT DAVIS PUCKETT

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 year ended September 30, 2001, 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 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 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, 2001, and the results of its operations and cash flows of its proprietary fund for the year ended September 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 29, 2001 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 is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

MCDIRMIT DAVIS PUCKETT & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
605 E. ROBINSON STREET, SUITE 635 • ORLANDO, FLORIDA 32801
TELEPHONE 407-843-5406 • FAX 407-649-9339 • EMAIL: INFO@MDPCPA.COM

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, LLC

McDIRMIT DAVIS PUCKETT & COMPANY, LLC

November 29, 2001

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.

Financial Highlights

- The assets of the City of Palm Coast exceeded its liabilities at the close of fiscal year 2001 by \$12,146,574. Of this amount, \$7,355,731 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$10,508,613. Most of the increase was attributable to cash, land, machinery and equipment contributions from Flagler County.
- The City of Palm Coast's total debt increased by \$2,793,674 during the current fiscal year. Loans for the purchase of environmental lands were the primary reason for the increase.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, 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 financials 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.

This 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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.

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 law enforcement, fire, public works, parks, and general administration. Property taxes and intergovernmental revenues finance most of these activities.

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 can be divided into two categories: governmental funds and proprietary funds.

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

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Proprietary Funds - The City maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Financial Analysis of the City as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Palm Coast, assets exceed liabilities by \$12,146,574 at the close of the most recent fiscal year.

Of the net assets, 60 percent falls in the unrestricted category. These may be used to meet ongoing obligations to citizens and creditors. Investment in capital assets makes up 39 percent of the City of Palm Coast's net assets. These capital assets are used to provide services to citizens and therefore are not available for future spending. Although the investment in capital assets is reported net of related debt, used to acquire the assets, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table I
City of Palm Coast's Statement of Net Assets

	Governmental Activities	
	2001	2000
Current and other assets	\$ 8,946,724	\$1,620,991
Capital assets	6,445,949	469,395
Total assets	15,392,673	2,090,386
Long-term liabilities	1,999,754	86,467
Other liabilities	1,246,345	365,957
Total liabilities	3,246,099	452,424
Net Assets:		
Invested in capital assets, net of related debt	4,763,505	382,928
Restricted	27,338	147,938
Unrestricted	7,355,731	1,107,096
Total net assets	\$12,146,574	\$1,637,962

Governmental Activities

This was the first full year of operations for the City of Palm Coast. The first property tax levy generated more than \$4.8 million. The City also received contributions from the County in the form of cash property, and equipment. Charges for services increased significantly as the City assumed the responsibility for planning and development from the County.

The assumption of services, formerly provided by the County and the Palm Coast Service District, resulted in cost increases in all government functions. In addition to planning and development, the City started providing fire and rescue services, law enforcement, street and drainage maintenance, park maintenance, and recreation activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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

	Governmental Activities	
	<u>2001</u>	<u>2000</u>
Revenues:		
Program revenues		
Charges for services	\$ 2,306,181	\$ -
Operating grants and contributions	4,660	60,207
General revenues:		
Property taxes	4,882,939	-
Other taxes	174,310	-
Intergovernmental	8,869,143	1,872,119
Contributed property and equipment	2,015,508	-
Other	<u>558,020</u>	<u>348,079</u>
Total revenues	<u>18,810,761</u>	<u>2,280,405</u>
Expenses:		
General government	3,998,319	585,058
Public safety	2,229,349	1,148
Physical environment	1,617,073	-
Economic environment	5,092	55,580
Culture & recreation	442,020	-
Interest on long-term debt	<u>10,296</u>	<u>657</u>
Total expenses	<u>8,302,149</u>	<u>642,443</u>
Increase in Net Assets	10,508,612	1,637,962
Net Assets – October 1, 2000	<u>1,637,962</u>	-
Net Assets – September 30, 2001	<u>\$12,146,574</u>	<u>\$1,637,962</u>

Capital Asset and Debt Administration

The City of Palm Coast's investment in capital assets as of September 30, 2001, amounts to \$6,445,949 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. This is an increase of \$5,976,554 for the current fiscal year. The City received \$2,015,508 worth of land, buildings, machinery, and equipment from the County. The City also purchased land for an additional \$3,889,411.

Table III
City of Palm Coast's Capital Assets

	Governmental Activities	
	<u>2001</u>	<u>2000</u>
Land	\$4,224,510	\$ 60,000
Building	1,316,302	264,777
Equipment	<u>905,137</u>	<u>144,618</u>
	<u>\$6,445,949</u>	<u>\$469,395</u>

During the next fiscal year ending September 30, 2002, the City will be receiving additional contributed property from Flagler County.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Next Year's Budget and Rates

As the City of Palm Coast grows and expands services, departments are being added. In fiscal year 2002, Financial Services will be added. Financial Services will take over responsibility for Budget, Finance, and Purchasing, formerly under Administrative Services. The City will also become responsible for solid waste collection, within the city, beginning in January 2002. This will fall under the Public Works Department.

During the current fiscal year, unreserved fund balance in the General Fund increased to \$2,661,069. The City of Palm Coast has appropriated \$1,449,568 of this amount for spending in the 2002 fiscal year budget.

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 information you may contact the City of Palm Coast as follows:

City of Palm Coast
Financial Services Department
264 Palm Coast Parkway, N.E.
Palm Coast, FL 32137-8217
Telephone: (386) 447-4255 ext. 201
Fax: (386) 446-6749
E-mail: rbritt@ci.palm-coast.fl.us

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BASIC FINANCIAL STATEMENTS

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CITY OF PALM COAST, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2001

	<u>Governmental Activities</u>
Assets:	
Cash	\$ 7,572,349
Receivables	61,346
Due from other governmental units	965,062
Prepays	54,557
Deferred charges	4,663
Note receivable	288,747
Capital Assets:	
Non-depreciable	4,224,510
Depreciable, net	<u>2,221,439</u>
Total assets	<u>15,392,673</u>
 Liabilities:	
Accounts payable	475,756
Retainage payable	18,734
Accrued liabilities	266,989
Compensated absences	204,236
Due to other governments	86,085
Developer deposit	92,257
Unearned revenue	102,288
Long-term liabilities -	
Due within one year	59,957
Due in more that one year	<u>1,939,797</u>
Total liabilities	<u>3,246,099</u>
 Net Assets:	
Invested in capital assets, net of related debt	4,763,505
Restricted for police education & automation	23,143
Restricted for community development grant	4,195
Unrestricted	<u>7,355,731</u>
Total net assets	<u>\$12,146,574</u>

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

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CITY OF PALM COAST, FLORIDA

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2001

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense) Revenue and Changes in <u>Net Assets</u> Governmental <u>Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
Governmental activities:				
General government	\$3,998,319	\$1,866,209	\$ -	\$ (2,132,110)
Public safety	2,229,349	90,248	-	(2,139,101)
Physical environment	1,617,073	232,634	-	(1,384,439)
Economic environment	5,092	-	4,660	(432)
Culture & recreation	442,020	117,090	-	(324,930)
Interest on long-term debt	<u>10,296</u>	<u>-</u>	<u>-</u>	<u>(10,296)</u>
Total governmental activities	<u>\$8,302,149</u>	<u>\$2,306,181</u>	<u>\$4,660</u>	<u>(5,991,308)</u>
General revenues:				
Property taxes				4,882,939
Franchise taxes				174,310
Intergovernmental				8,869,143
Investment income and miscellaneous				558,020
Contributed property and equipment				<u>2,015,508</u>
Total general revenues				<u>16,499,921</u>
Change in net assets				10,508,612
Net assets, beginning				<u>1,637,962</u>
Net assets, ending				<u>\$12,146,574</u>

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

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CITY OF PALM COAST, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2001

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash	\$ 3,522,279	\$ 3,487,583	\$ 334,814	\$ 7,344,676
Receivables	61,346	-	-	61,346
Due from other governments	203,016	759,282	2,764	965,062
Note receivable-long term	288,747	-	-	288,747
Other assets	54,557	-	-	54,557
Total assets	<u>\$ 4,129,945</u>	<u>\$ 4,246,865</u>	<u>\$ 337,578</u>	<u>\$ 8,714,388</u>

Liabilities and Fund Balances:

Liabilities:				
Accounts payable	\$ 475,756	\$ -	\$ -	\$ 475,756
Retainage payable	18,734	-	-	18,734
Accrued liabilities	266,989	-	-	266,989
Compensated absences	138,020	-	-	138,020
Due to other governments	86,085	-	-	86,085
Developer deposit	92,257	-	-	92,257
Unearned revenue	102,288	-	-	102,288
Total liabilities	<u>1,180,129</u>	<u>-</u>	<u>-</u>	<u>1,180,129</u>

Fund balances:				
Reserved for:				
Long-term note receivable	288,747	-	-	288,747
Unreserved, reported in:				
General fund	2,661,069	-	-	2,661,069
Special revenue funds	-	-	337,578	337,578
Capital projects fund	-	4,246,865	-	4,246,865
Total fund balances	<u>2,949,816</u>	<u>4,246,865</u>	<u>337,578</u>	<u>7,534,259</u>
Total Liabilities and Fund Balances	<u>\$ 4,129,945</u>	<u>\$ 4,246,865</u>	<u>\$ 337,578</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	6,445,949
Internal service funds are used to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	227,673
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds	(2,061,307)
Net assets of governmental activities	<u>\$ 12,146,574</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 Year Ended September 30, 2001

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 4,882,939	\$ -	\$ -	\$ 4,882,939
Franchise	174,310	-	-	174,310
Licenses and permits	1,676,797	-	-	1,676,797
Intergovernmental revenues	2,535,700	6,333,443	4,660	8,873,803
Charges for services	500,914	-	-	500,914
Fines and forfeitures	60,920	-	15,685	76,605
Impact fees/special assessments	51,865	-	-	51,865
Investment Income	150,000	86,059	-	236,059
Miscellaneous	321,961	-	-	321,961
Total revenues	<u>10,355,406</u>	<u>6,419,502</u>	<u>20,345</u>	<u>16,795,253</u>
Expenditures:				
Current:				
General government	4,106,869	-	-	4,106,869
Public safety	2,167,932	-	-	2,167,932
Physical environment	1,717,409	3,770,164	-	5,487,573
Economic environment	-	-	5,092	5,092
Culture and recreation	435,724	-	-	435,724
Debt service:				
Principal retirement	23,485	-	-	23,485
Interest	7,561	2,735	-	10,296
Loan issuance costs	-	4,738	-	4,738
Total expenditures	<u>8,458,981</u>	<u>3,777,637</u>	<u>5,092</u>	<u>12,241,710</u>
Excess of Revenues Over Expenditures	1,896,425	2,641,865	15,253	4,553,543
Other Financing Sources(Uses):				
Transfers in	278,231	-	310,240	588,471
Transfers out	(537,913)	-	(278,231)	(816,144)
Loan and capital lease proceeds	23,402	1,605,000	278,231	1,906,633
Total other financing sources(uses)	<u>(236,280)</u>	<u>1,605,000</u>	<u>310,240</u>	<u>1,678,960</u>
Net Change in Fund Balances	1,660,145	4,246,865	325,493	6,232,503
Fund Balance - Beginning of Year:				
As previously stated	1,242,949	-	12,085	1,255,034
Prior period correction	46,722	-	-	46,722
As restated	<u>1,289,671</u>	<u>-</u>	<u>12,085</u>	<u>1,301,756</u>
Fund Balance - End of Year	<u>\$ 2,949,816</u>	<u>\$ 4,246,865</u>	<u>\$ 337,578</u>	<u>\$ 7,534,259</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 Year Ended September 30, 2001

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

Net change in fund balances – total governmental funds		\$ 6,232,503
<p>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.</p>		
Expenditures for capital assets	4,143,792	
Less current year depreciation	<u>(182,746)</u>	3,961,046
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Contributed property and equipment		2,015,508
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		(1,861,902)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.</p>		
		(66,216)
<p>The net revenue of the internal service fund is reported with governmental activities.</p>		
		<u>227,673</u>
Change in net assets of governmental activities		<u>\$10,508,612</u>

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CITY OF PALM COAST, FLORIDA

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

For the Year Ended September 30, 2001

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Ad Valorem	\$ 4,764,949	\$ 4,764,949	\$ 4,882,939	\$ 117,990
Franchise fees	400,000	400,000	174,310	(225,690)
Licenses and permits	690,200	490,200	1,676,797	1,186,597
Intergovernmental	2,372,742	2,372,742	2,535,700	162,958
Charges for services	320,000	320,000	500,914	180,914
Fines and forfeitures	75,000	75,000	60,920	(14,080)
Impact fees/special assessments	90,000	45,000	51,865	6,865
Investment income	100,000	100,000	150,000	50,000
Miscellaneous	320,000	320,000	321,961	1,961
Total revenues	<u>9,132,891</u>	<u>8,887,891</u>	<u>10,355,406</u>	<u>1,467,515</u>
Expenditures:				
General government:				
City Council	16,149	21,149	20,431	718
City Manager	179,165	194,349	200,216	(5,867)
City Clerk	42,880	81,978	80,953	1,025
Finance and administrative	666,473	781,280	791,550	(10,270)
Legal	120,000	154,685	153,807	878
Development services	1,832,356	2,307,356	2,334,564	(27,208)
General government	799,095	546,095	532,992	13,103
Public safety:				
Law enforcement	750,000	750,000	738,279	11,721
Fire	1,692,534	1,404,885	1,429,653	(24,768)
Physical environment:				
Facilities & fleet maintenance	377,834	304,529	281,917	22,612
Public works administration	260,694	267,790	282,016	(14,226)
Streets & drainage	1,619,866	1,662,075	1,124,815	537,260
Conservation	16,640	29,640	28,662	978
Culture and recreation	423,940	451,815	435,724	16,091
Total expenditures	<u>8,797,626</u>	<u>8,957,626</u>	<u>8,435,579</u>	<u>522,047</u>
Excess(Deficit) of Revenues Over Expenditures	335,265	(69,735)	1,919,827	1,989,562
Other Financing Sources(Uses)				
Transfers out	<u>(715,265)</u>	<u>(555,265)</u>	<u>(537,913)</u>	<u>17,352</u>
Net Change in Fund Balance	(380,000)	(625,000)	1,381,914	2,006,914
Fund Balance - Beginning of Year, As Restated	380,000	625,000	1,289,671	664,671
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,671,585</u>	<u>\$ 2,671,585</u>

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

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CITY OF PALM COAST, FLORIDA

STATEMENT OF NET ASSETS
PROPRIETARY FUND

September 30, 2001

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Cash	\$227,673
Liabilities	<u> -</u>
Net Assets:	
Unrestricted	<u>\$227,673</u>

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

CITY OF PALM COAST, FLORIDA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS – PROPRIETARY FUND**

September 30, 2001

	Governmental Activities - <u>Internal Service Fund</u>
Operating revenues	\$ -
Operating expenses	<u>-</u>
Operating income	-
Transfer in	<u>227,673</u>
Change in net assets	227,673
Total net assets – beginning	-
Total net assets – ending	<u>\$227,673</u>

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

CITY OF PALM COAST, FLORIDA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

September 30, 2001

	Governmental Activities - <u>Internal Service Fund</u>
Cash flows from noncapital financing activities:	
Transfer from other fund	<u>\$227,673</u>
Net increase in cash and cash equivalents	227,673
Cash and cash equivalents – Beginning of year	<u> -</u>
Cash and cash equivalents – End of year	<u>\$227,673</u>

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

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NOTES TO FINANCIAL STATEMENTS

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CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2001

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

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

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

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

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

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

Additionally, the government reports the following fund types:

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

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

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.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

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

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

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

Capital Assets – Capital assets are defined by the City as property and equipment with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on 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.

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.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

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

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Note 2 – Stewardship, Compliance and Accountability:

Compliance with Finance-Related Legal and Contractual Provision - The City has no material violations of finance-related legal and contractual provisions.

Excess of Expenditures Over Appropriations - For the year ended September 30, 2001 expenditures exceeded appropriations in the following departments: City Manager, Finance, Development Services, Fire and Public Works. These over expenditures were funded by greater than anticipated revenues.

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 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.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

Note 2 – Stewardship, Compliance and Accountability (Continued):

Budgetary Information (Continued)

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.

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. Also, the City does not budget for capital outlay expenditures and other financing sources related to the acquisition of assets through capital leases. In 2001, the CDBG money loaned out was transferred to the general fund and set up as a note receivable. This was not budgeted.

For the 2001 fiscal year, the following adjustments were necessary to convert General Fund expenditures on the GAAP basis to the budgetary basis:

	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
GAAP basis	\$8,458,981	\$(236,280)
Nonbudgeted capital lease transactions	(23,402)	(23,402)
Nonbudgeted transfer of note receivable	-	(278,231)
	<u>\$8,435,579</u>	<u>\$(537,913)</u>

Note 3 – Deposits and Investments:

Deposits - At year-end, the carrying amount of the City's deposits was \$7,572,349 and the bank balance was \$8,291,242. 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".

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

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

At September 30, 2001, the City had no investments which were required to be categorized as to level of risk.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

Note 4 – Receivables:

Receivables consist of the following at September 30, 2001:

	General Fund
Accounts receivable	\$34,012
Note receivable – current portion	<u>27,334</u>
Total	<u>\$61,346</u>

Note 5 – Capital Assets:

Capital asset activity for the year ended September 30, 2001 was as follows:

	Balance 9-30-00	Additions	Deletions	Balance 9-30-01
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 60,000	\$4,164,510	\$ -	\$4,224,510
Capital assets, being depreciated:				
Buildings and improvements	268,310	1,089,950	-	1,358,260
Equipment	<u>147,888</u>	<u>904,840</u>	-	<u>1,052,728</u>
Total capital assets being depreciated	416,198	1,994,790	-	2,410,988
Less accumulated depreciation for:				
Buildings	(3,533)	(38,425)	-	(41,958)
Equipment	<u>(3,270)</u>	<u>(144,321)</u>	-	<u>(147,591)</u>
Total accumulated depreciation	<u>(6,803)</u>	<u>(182,746)</u>	-	<u>(189,549)</u>
Total capital assets, being depreciated, net	<u>409,395</u>	<u>1,812,044</u>	-	<u>2,221,439</u>
Governmental activities capital assets, Net	<u>\$469,395</u>	<u>\$5,976,554</u>	<u>\$ -</u>	<u>\$6,445,949</u>

Land and buildings totaling \$1,365,050 and equipment of \$650,458 were contributed to the City during the year ended September 30, 2001. Depreciation expense was charged to the functions/programs as follows:

Governmental activities:	
General government	\$ 31,254
Public safety	67,577
Physical environment	73,815
Culture recreation	<u>10,100</u>
	<u>\$182,746</u>

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

Note 6 – Long-Term Liabilities:

During the year ended September 30, 2001, the following changes in long-term liabilities occurred:

	Local Government Pooled Loan	CDBG Loan (as restated)	Capital Lease Obligations
Balance, October 1, 2000	\$ -	\$ 46,722	\$ 86,467
Additions	1,605,000	278,231	23,402
Principal payments	<u>-</u>	<u>(6,643)</u>	<u>(33,425)</u>
Balance, September 30, 2001	1,605,000	318,310	76,444
Amount due within one year	<u>-</u>	<u>(29,563)</u>	<u>(30,394)</u>
Amount due in more than one year	<u>\$1,605,000</u>	<u>\$288,747</u>	<u>\$ 46,050</u>

Local Government Pooled Loan - During 2001, the City Council of Palm Coast authorized the borrowing of up to \$4,400,000 from the Florida Local Government Finance Commission to finance environmentally sensitive lands under the Palm Coast Parkway Corridor Land Acquisition Program. At September 30, 2001, the City had borrowed \$1,605,000 under the loan agreement. Subsequent to September 30, 2001 the City borrowed an additional amount of \$915,000. The interest rate on the loan varies, but was 2.7% at September 30, 2001. Required principal payments to maturity are as follows:

2002	\$ -
2003	-
2004	-
2005	-
2005	-
2007	<u>1,605,000</u>
	<u>\$1,605,000</u>

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. During fiscal 2000 year, \$46,722 of the total was advanced from DCA but was not properly recorded, as discussed under Note 10.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

Note 6 – Long-Term Liabilities (Continued):

CDBG Loan (Continued)

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. Following is a maturity schedule of principal payments on the loan:

<u>Year Ended Sept 30:</u>	
2002	\$ 29,563
2003	28,448
2004	29,607
2005	30,813
2006	32,068
Thereafter	<u>167,811</u>
	<u><u>\$318,310</u></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	\$95,422
Less: Accumulated Amortization	<u>(13,782)</u>
	<u>\$81,640</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>	
2002	\$36,682
2003	36,682
2004	<u>13,133</u>
Total Minimum Lease Payments	86,497
Less: Amount Representing Interest	<u>(10,053)</u>
Present Value of Net Minimum Lease Payments	<u>\$76,444</u>

The current and long-term obligation under capital lease is \$30,394 and \$46,050, respectively.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

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, 2001, contribution to this plan totaled \$110,606.

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, during 2001 there were former Palm Coast Service District employees hired who did elect to remain in FRS.

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

The System provides vesting of benefits after six (6) years of creditable service. Members are eligible for normal retirement after 6 years of service and attaining age 62, or 30 years of service regardless of age. Early retirement may be taken any time after completing 10 years of service; however, there is a five percent reduction in benefits for each year prior to normal retirement. Generally, membership is compulsory for all full-time and part-time employees. There is no requirement for employees to contribute to the System; the employer pays all contributions.

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

	<u>10/1/2001 - 6/30/2001</u>	<u>7/1/2001 - 9/30/2001</u>
Regular employees – members not qualifying for other classes	9.15%	7.30%
Special Risk Employees – members employed As law enforcement officers and firefighters	20.29%	18.44%

Included in the above rates is the employer's contribution of .94% to the Health Insurance Subsidy.

CITY OF PALM COAST, FLORIDA

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2001

Note 8 – Retirement Plans (Continued):

Florida Retirement System (Continued)

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

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>% Contributed</u>
9/30/2001	\$169,384	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.

Note 9 – 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.

Note 10 – Prior Period Adjustment:

During the year ended September 30, 2000, the City signed a note receivable agreement with a private company as discussed in Note 6. Amounts disbursed under this agreement were recorded as expenditures in error, resulting in the overstatement of expenditures and understatement of assets in the general fund. The fund balance at October 1, 2000 was increased by \$46,722 to correct this error. This correction has no effect on revenue and expenditures for the current year ending September 30, 2001.

COMBINING FINANCIAL STATEMENTS

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**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.

Community Development Block Grant Fund – This fund is used to account for the community development block grant that is funding a day care center.

Police Education Fund - This fund is used to account for the costs of educational expenses for police officers. It is funded by a portion of the collections 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.

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

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CITY OF PALM COAST, FLORIDA

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

September 30, 2001

	<u>Special Revenue Funds</u>				Total Other Governmental Funds
	Community Development Block Grant	Police Education	Police Automation	Storm Reserve	
Assets:					
Cash and cash equivalents	\$ 4,195	\$ 4,713	\$ 15,666	\$ 310,240	\$ 334,814
Due from other governments	-	634	2,130	-	2,764
Total Assets	<u>4,195</u>	<u>5,347</u>	<u>17,796</u>	<u>310,240</u>	<u>337,578</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Unreserved, reported in:					
Special revenue funds	4,195	5,347	17,796	310,240	337,578
Total Liabilities and Fund Balances	<u>\$ 4,195</u>	<u>\$ 5,347</u>	<u>\$ 17,796</u>	<u>\$ 310,240</u>	<u>\$ 337,578</u>

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CITY OF PALM COAST, FLORIDA

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

For The Year Ended September 30, 2001

	Special Revenue Funds				Total Other Governmental Funds
	Development Block Grant	Police Education	Police Automation	Storm Reserve	
Revenues:					
Intergovernmental revenues:					
Federal grant	\$ 4,660	\$ -	\$ -	\$ -	\$ 4,660
Fines and forfeitures:					
Fines and forfeitures	-	3,989	11,696	-	15,685
Total Revenues	4,660	3,989	11,696	-	20,345
Expenditures:					
Current:					
Economic environment	5,092	-	-	-	5,092
Total Expenditures	5,092	-	-	-	5,092
Excess of revenues over expenditures	(432)	3,989	11,696	-	15,253
Other Financing Sources(Uses):					
Note proceeds	278,231	-	-	-	278,231
Transfers in	-	-	-	310,240	310,240
Transfers out	(278,231)	-	-	-	(278,231)
Total Other Financing Sources(Uses)	-	-	-	310,240	310,240
Net Change in Fund Balances	(432)	3,989	11,696	310,240	325,493
Fund balance - beginning of year	4,627	1,358	6,100	-	12,085
Fund balance - ending of year	\$ 4,195	\$ 5,347	\$ 17,796	\$ 310,240	\$ 337,578

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INTERNAL CONTROL AND COMPLIANCE SECTION

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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, 2001, and have issued our report thereon dated November 29, 2001. 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.

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 November 29, 2001.

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 November 29, 2001.

MCDIRMIT DAVIS PUCKETT & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
605 E. ROBINSON STREET, SUITE 635 • ORLANDO, FLORIDA 32801
TELEPHONE 407-843-5406 • FAX 407-649-9339 • EMAIL: INFO@MDPCPA.COM

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, LLC

McDIRMIT DAVIS PUCKETT & COMPANY, LLC

November 29, 2001



MANAGEMENT COMMENTS

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

In connection with our audit of the basic financial statements of the City of Palm Coast, Florida, for the year ended September 30, 2001, we are submitting for your consideration the accompanying recommendations designed to help you improve the internal control structure and achieve operational efficiencies. Our comments deal exclusively with weaknesses noted in operational, accounting, and recordkeeping systems and procedures, and should not be regarded as reflecting on the integrity or capabilities of anyone in your organization. Our comments reflect our desire to be of continuing assistance to management.

Since the comments and observations contained in this letter are a by-product of the audit of financial statements, the cost justification and other aspects of our suggestions have not been fully evaluated; these evaluations should be made by management. Therefore, we recognize that, after consideration, certain suggestions and recommendations may not be practical to implement.

We have also provided comments as required by the Rules of the Auditor General of the State of Florida.

We appreciate the cooperation we have received from the City's personnel in connection with developing these recommendations. We appreciate the opportunity to have been of service to you. Should you have any questions about our recommendations, this letter, or other matters, please contact us at your convenience.

MCDIRMIT DAVIS PUCKETT & COMPANY, LLC

November 29, 2001

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A. Status of Prior Year Comments

1. Budget

The budget for the period from incorporation on December 31, 1999 to September 30, 2000 was not prepared using the uniform accounting system required by the State of Florida Department of Banking and Finance. For example, social security expense for all employees was charged to one account and not allocated to separate departments or functions. Therefore, the required supplementary information showing budgetary comparisons in the audited financial statements is not in the same format as the Statement of Revenues, Expenditures and Changes in Fund Balances.

Recommendation

GASB 34 does allow the budgetary comparison schedule to use a different format, however the uniform accounting system requires that separate account numbers be used for each function. We recommend the budget be prepared by department or function. The City's budget for the year ended September 30, 2001 appears to have been prepared properly.

Corrective Action

The budget for 2001 was prepared using the uniform accounting system and no further comment is required.

2. Bank Reconciliations

Bank reconciliations were not done for August and September 2000 and as a result we had to do several adjusting journal entries to correct the cash balance.

Recommendation

We recommend that the general ledger be reconciled monthly to the bank statements in order to make sure transactions are posted correctly. This reconciliation should be done by someone other than the persons who participate in the receipt or disbursement of cash.

Corrective Action

Bank reconciliations were done monthly during the fiscal year ended September 30, 2001.

3. Payroll Taxes

Payroll tax deposits were not made on time for the June 30, 2000 quarter. Also, the payroll tax deposit coupons were not always marked with the quarter to apply the payment.

Recommendation

We recommend that payroll tax deposits be made on time with coupons properly marked.

Corrective Action

Payroll tax deposits were made on a timely basis for the fiscal 2001 year. No further comment needed.

4. Property and Equipment

During the initial audit of the City of Palm Coast, we assisted with the preparation of a detailed listing of property and equipment. However, the City has not tagged this property and equipment in any way so that it can be inventoried on an annual basis and reconciled to the detail records.

Recommendation

Even though the Rules of the Auditor General Chapter 10.400, do not apply to municipalities unless they have adopted the Rules, we recommend that the City use these rules as a guideline. It is much easier to take an annual physical inventory and compare to detail records if assets are tagged with an identification number. The City needs to assign one person as custodian of fixed assets and that person will be responsible for recording changes such as transfers between departments and other additions and deletions.

Corrective Action

During the year ended September 30, 2001, the City tagged property and equipment and completed a detailed listing.

5. Purchasing Policies

During our testing of controls over purchasing for the year ended September 30, 2000, we noted that purchase orders were consistently used and signed by both the Mayor and City Manager. However, it is our understanding that the City does not have a written purchasing policy.

Recommendation

We recommend that the City adopt a purchasing policy and make sure it takes into account Florida Statutes Chapter 287.055, which is known as the "Consultants Competitive Negotiation Act." In addition, the policy should follow Florida Statutes Chapter 287.133 relating to the "Convicted Vendor List."

Corrective Action

The City has been working on a purchasing policy and should be adopting it in 2002.

6. Accounting Procedures Manual

We noted that the City does not have an accounting policies and procedures manual. We realize that the City has just completed its initial year of operations and installed new accounting software. However, written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised policies and procedures manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs.

Recommendation

We recommend that the City complete an accounting policies and procedures manual.

Corrective Action

The City has not done much to implement this recommendation, however the plan is to start on this in 2002.

B. Current Year Comments

1. Due to/Due from Other Funds

The City of Palm Coast starting using MUNIS accounting software during 2001. This software uses due to/due from accounts to keep track of pooled cash transactions in the various funds. At September 30, 2001, we had to do a large reclassification journal entry to clear out the various due to/due from accounts to properly show cash balances in each fund.

Recommendation

We recommend that the City discuss with MUNIS procedures to follow to prevent such large due to/due from balances from building up in various funds.

2. Allocation of Interest Income

There was no interest income recorded in the Internal Service Fund or the following Special Revenue Funds: Stormwater, Police Education or Police Automation. These funds all had cash balances that should have been allocated some interest income. This error was a result of the problem discussed above with due to/due from balances

Recommendation

We recommend that the City allocate interest income to each fund that has cash.

3. Duplicate Checks

The City does not have duplicate check copies and paid vendor invoices do not indicate the check number.

Recommendation

We recommend that the City should at least write the check number used on the paid invoice, especially if a duplicate check copy is not attached to the invoice.

Comments Required by the Rules of the Auditor General

1. The financial report filed with the Department of Banking and Finance pursuant to Section 218.32(1)(b), Florida Statutes, is in agreement in all material respects with the annual financial audit report for the same period.
2. The City is not, or during the fiscal year was not, in a state of financial emergency as a consequence of conditions described in Section 218.503(1) Florida Statutes.
3. The City of Palm Coast, Florida was created under State of Florida law in 1999. There were no component units identified by the City.
4. The City of Palm Coast, Florida, has complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

Recommendation

We recommend that the City allocate interest income to each fund that has cash.

3. Duplicate Checks

The City does not have duplicate check copies and paid vendor invoices do not indicate the check number.

Recommendation

We recommend that the City should at least write the check number used on the paid invoice, especially if a duplicate check copy is not attached to the invoice.

Comments Required by the Rules of the Auditor General

1. The financial report filed with the Department of Banking and Finance pursuant to Section 218.32(1)(b), Florida Statutes, is in agreement in all material respects with the annual financial audit report for the same period.
2. The City is not, or during the fiscal year was not, in a state of financial emergency as a consequence of conditions described in Section 218.503(1) Florida Statutes.
3. The City of Palm Coast, Florida was created under State of Florida law in 1999. There were no component units identified by the City.
4. The City of Palm Coast, Florida, has complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
5. As required by the Rules of the Auditor General, Section 10.554 (g)(6)c and 10.556(8), we applied financial condition assessment procedures.



FINANCIAL SERVICES DEPARTMENT

RESPONSE TO MANAGEMENT COMMENTS

Honorable Mayor and City Council Members:

The Financial Services Department would like to provide a response to the management comments and recommendations submitted by the audit firm of McDirmit, Davis, Puckett and Company, LLC for the current year.

1. Due to/Due from Other Funds

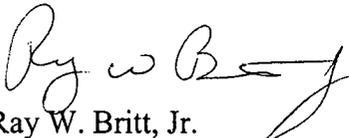
The Financial Services Department has established a pooled cash fund within the accounting system. Using the pooled cash fund will eliminate the use of the due to/due from accounts for every cash transaction. The due to/due from will be replaced with a pooled cash account in each fund, which will allow us to easily see the amount of cash available in the fund.

2. Allocation of Interest Income

This problem occurred because of the difficulty of determining the amount of cash in each fund. The resolution discussed under the previous comment will resolve this issue. Having cash balances for each fund will allow us to allocate interest income more appropriately to the funds.

3. Duplicate Checks

The Financial Services Department now stamps invoices paid and writes the check number and date on the invoice.


Ray W. Britt, Jr.
Finance Director

February 15, 2002