

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



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## 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 2003 by \$186,078,415. Of this amount, \$14,698,845 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$5,826,874. The increase was attributable to ongoing operations of the City.
- The City of Palm Coast's total debt decreased by \$2,304,660 during the current fiscal year. Loans for the purchase of environmental lands were paid off during the year. These loans totaled \$2,520,000. There was an increase in compensated absences and the City took a \$75,000 loan from the State Revolving Fund.

### 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 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**

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

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Palm Coast, assets exceeded liabilities by \$186,078,415 at the close of the most recent fiscal year.

Of the net assets, 8 percent falls in the unrestricted category. These may be used to meet ongoing obligations to citizens and creditors. Investment in capital assets makes up 92 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	
	2003	2002
Current and other assets	\$ 17,969,648	\$ 15,155,934
Capital assets	171,415,015	169,790,535
Total assets	189,384,663	184,946,469
Long-term liabilities	768,946	3,073,606
Other liabilities	2,537,302	1,621,322
Total liabilities	3,306,248	4,694,928
Net assets:		
Invested in capital assets, net of related debt	171,361,402	167,192,568
Restricted	18,168	17,538
Unrestricted	14,698,845	13,041,435
Total net assets	\$ 186,078,415	\$ 180,251,541

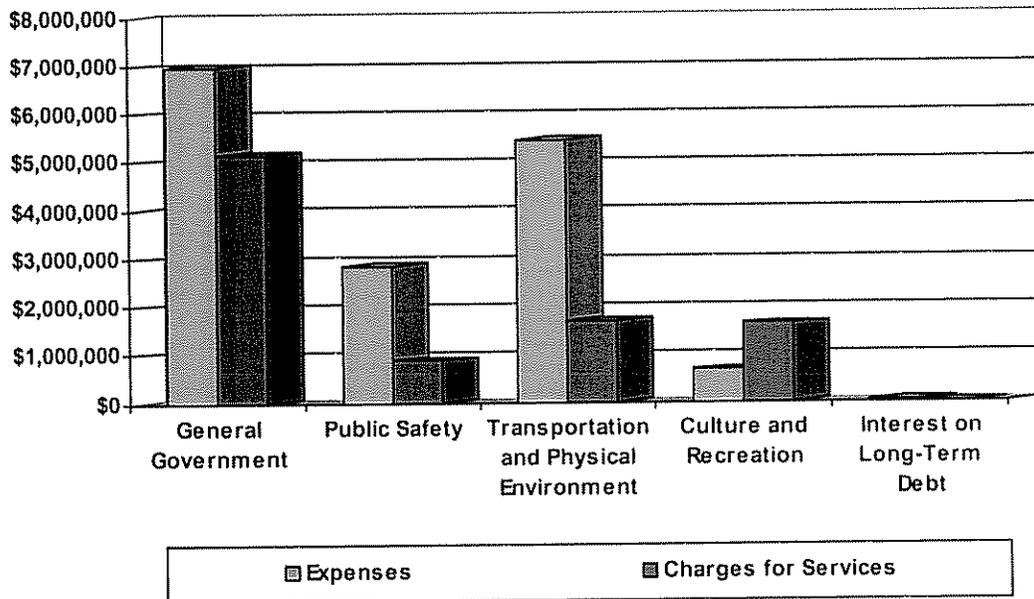
### Governmental Activities

The City's net assets increased by \$5,826,874 during the current fiscal year. Of this amount, approximately 29 percent of the increase was the result of excess revenues over expenditures. The other 71 percent was an increase in net capital assets.

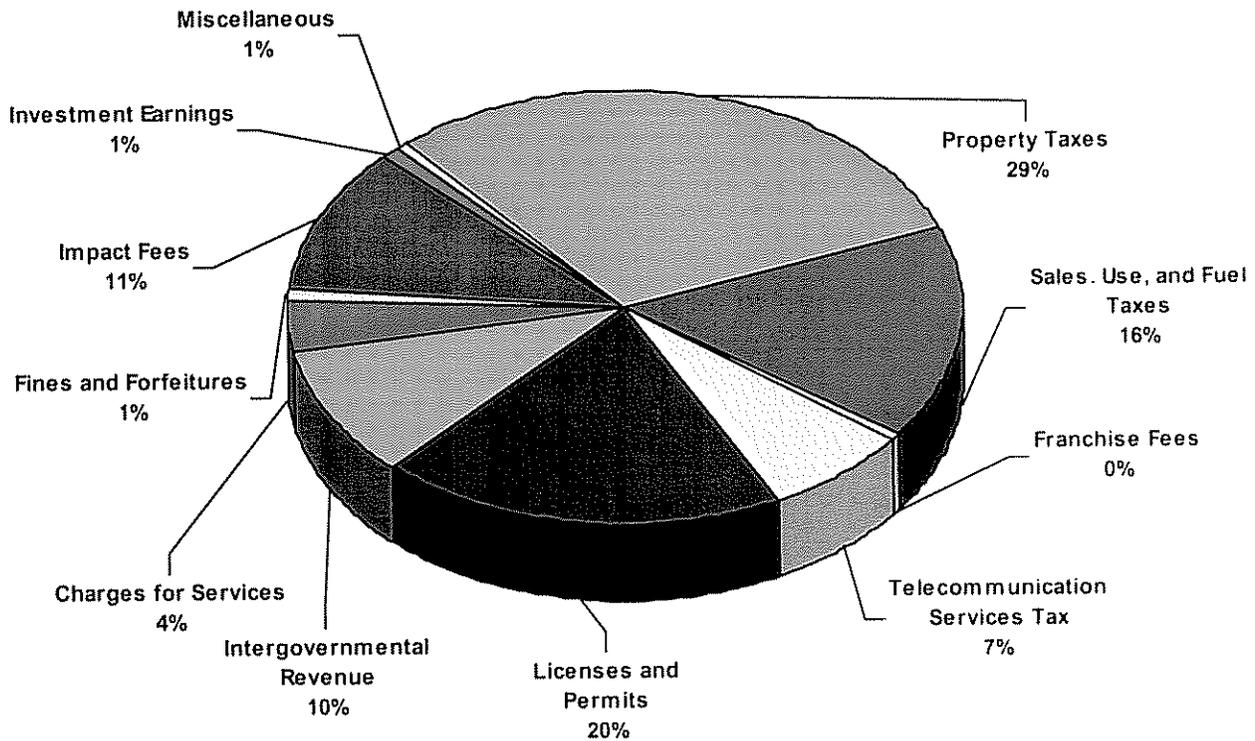
Table II  
City of Palm Coast's Changes in Net Assets

	Governmental Activities	
	2003	2002
Revenues:		
Program revenues:		
Charges for services	\$ 9,356,356	\$ 3,411,386
Operating grants	83,102	3,600
Capital grants	151,000	5,032,608
General revenues:		
Property taxes	6,539,567	5,981,826
Other taxes	3,716,554	5,377,374
Intergovernmental	1,676,669	3,319,553
Contributed property and equipment	-	156,393,098
Other	297,041	1,523,164
Total revenues	<u>21,820,289</u>	<u>181,042,609</u>
Expenses:		
General government	6,979,556	4,735,135
Public safety	2,837,067	2,391,106
Transportation and physical environment	5,449,800	5,003,610
Culture & recreation	687,477	723,718
Interest on long-term debt	39,515	84,073
Total expenses	<u>15,993,415</u>	<u>12,937,642</u>
Increase in net assets	5,826,874	168,104,967
Net assets - beginning	180,251,541	12,146,574
Net assets - ending	<u>\$ 186,078,415</u>	<u>\$ 180,251,541</u>

## Expenses and Charges for Services



## Revenues by Source



## **Financial Analysis of the Government's Funds**

Since the City of Palm Coast does not have any business-type activities, citywide financial statements are made up of only governmental activities. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance in the general fund was \$3,714,792. The total fund balance stood at \$4,535,367. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balance to fund expenditures. Unreserved fund balance represents 25 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount. These percentages represent a 3 percent and a 1 percent increase, respectively.

The fund balance of the City of Palm Coast's general fund increased by \$924,531 during the current fiscal year. Key factors in this growth are as follows:

- Tax revenue increased by just over one million dollars. Property taxes accounted for about \$500,000 of the increase and the telecommunication services tax accounted for another \$400,000 of the increase. Property tax revenue increased even though the millage rate was reduced by one-tenth of a mill.
- License and permit revenue increased by almost \$1.5 million. Most of this increase was generated from the issuance of building permits.

The park impact fee fund has a fund balance of \$2,757,558. This represents an increase of \$1,533,269. Park impact fees are used for additional parks and recreation facilities.

The capital projects fund has a total fund balance of \$5,832,194, a decrease of \$1,930,885. Repayment of a \$2,520,000 loan accounted for the decrease.

The other governmental funds have a total fund balance \$2,201,183. This was an increase of \$1,459,492 during the current fiscal year. The city instituted a fire impact fee, effective January 1, 2003. Revenue from this new fee accounted for half of the fund balance increase in the other governmental funds.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget totaled \$3,053,600. Building inspection costs were more than expected due to the high level of building activity. This additional cost was covered by increases in permit revenue. Other major budget increases were for contractual services related to street and stormwater facility repairs and maintenance. These were covered by contingency funds and reserves.

## Capital Asset and Debt Administration

**Capital assets.** The City of Palm Coast's investment in capital assets as of September 30, 2003, amounts to \$171,361,402 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment. This is an increase of \$1,570,867 for the current fiscal year. A portion of the infrastructure cost was allocated to land and depreciation on infrastructure was started in 2003. Most of the increase in capital assets is attributable to improvements to city streets.

Table III  
City of Palm Coast's Capital Assets

	Governmental Activities	
	2003	2002
Land	\$ 67,812,181	\$ 27,564,331
Buildings and improvements other than buildings	2,225,765	1,277,878
Infrastructure	97,648,849	136,908,974
Equipment	2,472,144	3,044,892
Construction in progress	1,256,076	994,460
Total	<u>\$ 171,415,015</u>	<u>\$ 169,790,535</u>

Additional information on the City of Palm Coast's capital assets can be found in note 6 on page 42 of this report.

**Long-term debt.** The City of Palm Coast paid off a loan for \$2,520,000 that was borrowed to purchase environmental land. This loan was repaid with the proceeds of a grant from the State that was accrued in 2002 and received in 2003. The City has a CDBG loan with a balance of \$260,300 and a State Revolving Fund loan of \$75,000. The remainder of the long-term debt is made up of capital leases and compensated absences. The total long-term debt of the City is \$768,946.

Additional information on the City of Palm Coast's long-term debt can be found in note 9 beginning on page 44 of this report.

### Next Year's Budget and Rates

During the current fiscal year, unreserved fund balance in the General Fund increased to \$3,714,792 plus an additional \$571,714 reserved for encumbrances. The City of Palm Coast has appropriated \$1,364,615 of the unreserved fund balance for spending in the 2003 fiscal year budget. After encumbrance and project carryovers, the available fund balance, as a percentage of prior year expenditures and transfers out is 12 percent.

The City Council approved a millage rate of 3.4 mills for fiscal year 2004. This is the same rate as fiscal year 2003.

## Requests for Information

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

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

Or

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