

**CITY OF PALM COAST, FLORIDA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**For The Year Ended September 30, 2004**

**Prepared by:**

**City of Palm Coast  
Financial Services Department**



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# INTRODUCTORY SECTION

This section contains the following subsections:

- . Table of Contents
- . Letter of Transmittal
- . Certificate of Achievement for Excellence in Financial Reporting
- . Organization Chart
- . List of Principal Officials



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

**For The Year Ended September 30, 2004**

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# **LETTER OF TRANSMITTAL**



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April 4, 2005

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 James Moore & Co., P.L., 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, 2004, 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 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 the 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 maintenance and 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 50,484 residents and covers an area of approximately 63 square miles. For fiscal year 2005, property within the City has a taxable value of \$3,107,596,014, an increase of over 29 percent. The City's property tax rate for fiscal year 2005 is \$3.40 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**

The City is pursuing commercial and industrial development within its corporate limits. The "Town Center" development has recently begun construction of the infrastructure necessary for the development. Commercial development is expected to begin in mid to late 2006. This development will cover approximately 1,500 acres and will include a downtown commercial area, industrial sites, and multi-family residential housing. A Development of Regional Impact for Palm Coast Park has been approved. Palm Coast Park is a 4,740 acre development located in the northwest portion of the City. This project will also provide property for commercial development along US Highway 1 and space for industrial development and single and multi-family housing. The European Village is near completion. It is a smaller development that combines commercial and residential development. As the City's population nears 60,000, there has been increasing interest shown by retail and restaurant operations, including inquiries about possible mall sites. On January 1, 2004 just under half of the existing commercial and industrial parcels within the city had been developed.

Palm Coast and Flagler County continues to be one of the fastest growing areas in the country. The City issued 4,153 single-family residential building permits during fiscal year 2004 and this trend has continued into 2005. There are currently over 28,000 platted, undeveloped, single-family residential lots within the city. Plans for other developments have been submitted and are currently under review.

### **Future Programs**

In fiscal year 2004, the City completed the purchase of the water and wastewater utility that serves the city and surrounding areas. An expansion of water plant #2 has been completed and the City recently broke ground on the expansion of the wastewater plant. Water plant #3 is being planned west of US Highway 1 within the Palm Coast Park development. Other smaller projects are also underway and the utility has received several inquiries concerning the expansion of services outside the city limits.

The City and the Palm Coast Community Service Corporation have reached an agreement that will bring the services provided by the Service Corporation under the City. This transition is expected to be complete in June 2005 and will provide efficiencies by making one entity responsible for the entire stormwater system. It will also eliminate confusion on the part of citizens when trying to address drainage issues.

Two additional fire stations are in the early planning stages and are expected to be completed in fiscal year 2006. This will bring the number of City fire stations to five.

Indian Trails Sports Complex was completed recently and has already hosted a soccer tournament and little league baseball. Two neighborhood parks are being designed and will be constructed in Seminole Woods and Cypress Knoll.

The City implemented a transportation impact fee effective October 1, 2004. The first major project to be funded will be the widening of Palm Coast Parkway in the area of the I-95 interchange. The four-laning of Belle Terre Parkway north of Palm Coast Parkway is also being planned. Construction on Belle Terre Parkway was scheduled to begin in 2008, however with the continued pace of development it is expected that the capacity needs and the available funding will cause this project to be accelerated.

The city hall space needs analysis has been updated and the design stage is about to begin. Construction is expected to begin in about one year, with completion anticipated for the fall of 2007. A referendum to determine whether the City will issue general obligation bonds to pay for city hall is planned for November 2005.

## **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Palm Coast for its comprehensive annual financial report for the fiscal year ended September 30, 2003. This was the third year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Palm Coast also received the GFOA Distinguished Budget Presentation Award for its Fiscal Year 2004 budget document. This is the first time that the City has received this award.

## **Acknowledgements**

The preparation of this report would not have been possible without the efficient and dedicated services of the entire Finance staff. We would like to express our appreciation to all members of the department 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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palm Coast,  
Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting



*Nancy L. Zielke*

President

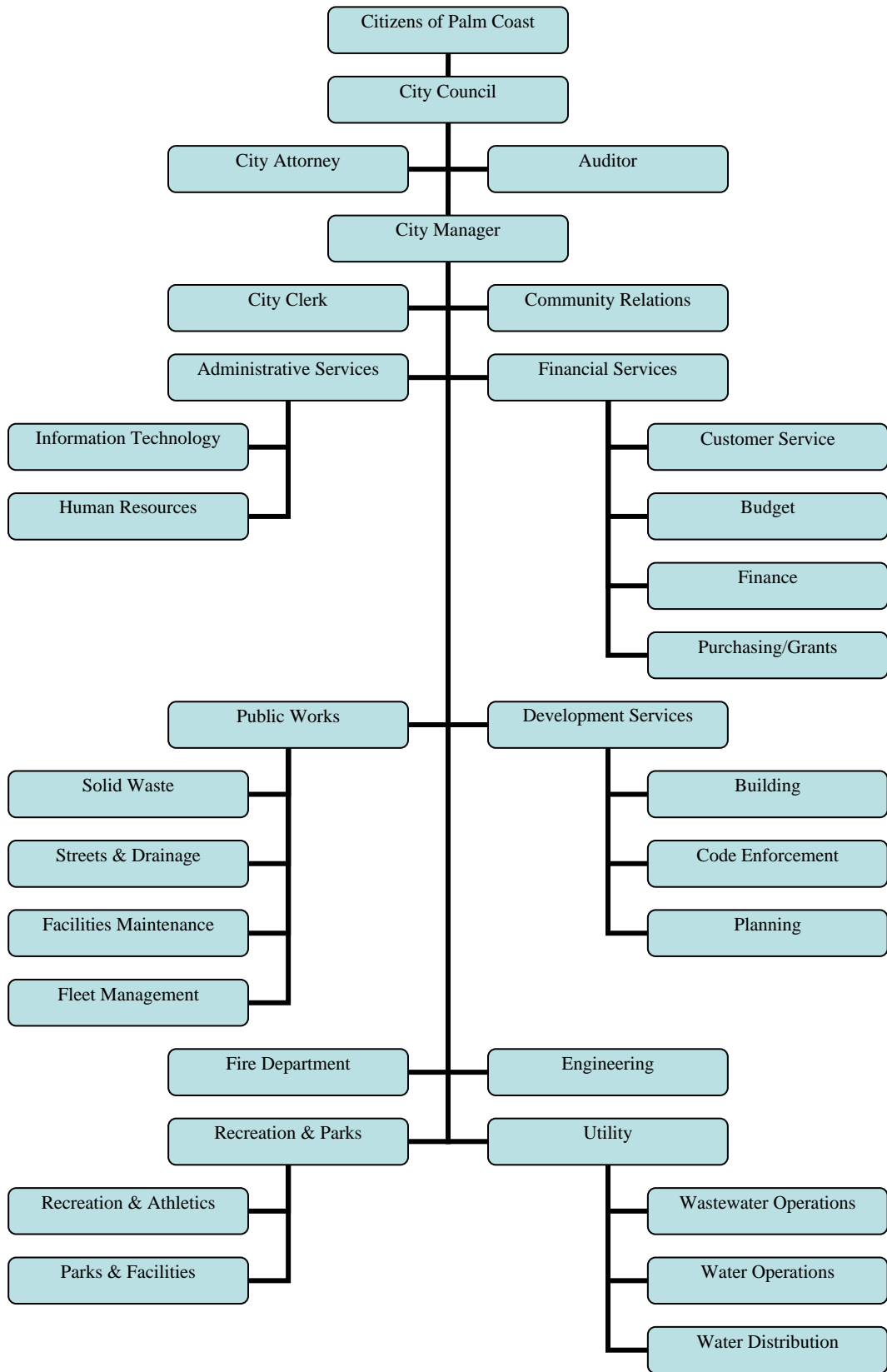
*Jeffrey R. Enos*

Executive Director



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# City of Palm Coast, Florida Organizational Chart



**CITY OF PALM COAST, FLORIDA**

**LIST OF PRINCIPAL OFFICIALS**

**September 30, 2004**

**ELECTED OFFICIALS**

Mayor

Honorable Jim Canfield

City Council Members:

Bill Venne  
Jon Netts  
Mary DiStefano  
Ralph Carter

**CITY OFFICIALS**

City Manager

Richard M. Kelton

City Attorney

William L. Colbert

City Auditor

James Moore & Co., P.L.

Finance Director

Ray W. Britt, Jr.



# FINANCIAL SECTION

This section contains the following subsections:

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



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# **INDEPENDENT AUDITORS' REPORT**



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

**INDEPENDENT AUDITORS' REPORT**

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palm Coast, Florida, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2004, on our consideration of City of Palm Coast, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Palm Coast, Florida's basic financial statements. The introductory section, combining fund statements and schedules, schedule of expenditures of federal awards, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*James Moore & Co.*

Daytona Beach, Florida  
December 22, 2004

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Palm Coast management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

### Financial Highlights

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

### Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
  - The proprietary fund statements give the results of the City's business-type activities.

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

## **Government-Wide Statements**

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

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

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

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

## **Fund Financial Statements**

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

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

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

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

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Palm Coast's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains one fiduciary fund, which is the volunteer firefighters' pension fund.

### **Financial Analysis of the City as a Whole**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Palm Coast, assets exceeded liabilities by \$207,135,473 at the close of the most recent fiscal year.

Of the net assets, 5 percent falls in the unrestricted category. These may be used to meet ongoing obligations to citizens and creditors. Investment in capital assets makes up 88 percent of the City of Palm Coast's net assets. These capital assets are used to provide services to citizens and therefore are not available for future spending. Although the investment in capital assets is reported net of related debt used to acquire the assets, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table I  
City of Palm Coast's Capital Assets

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

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

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

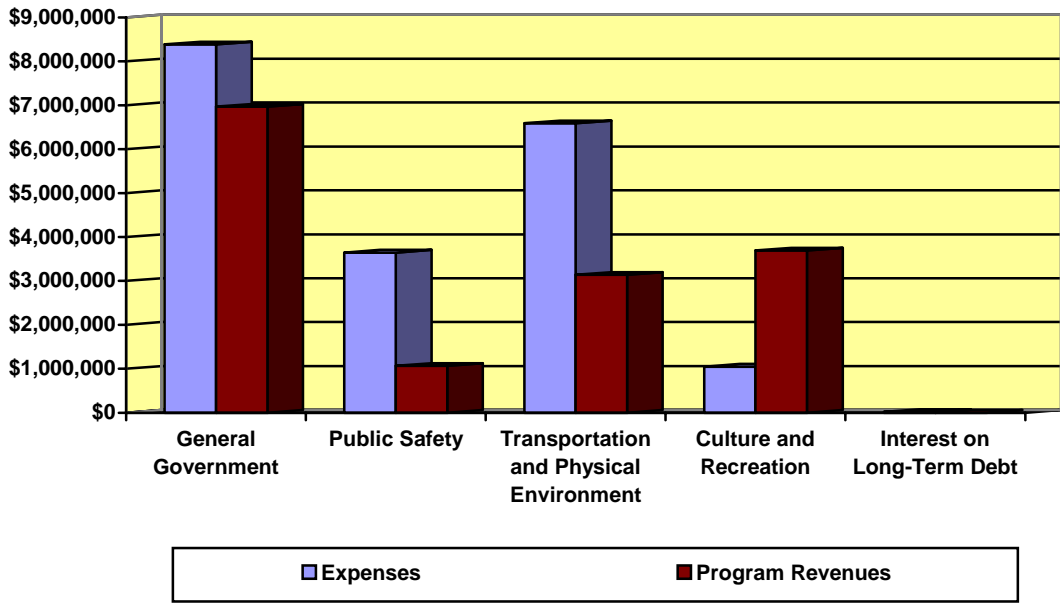
### **Governmental Activities**

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

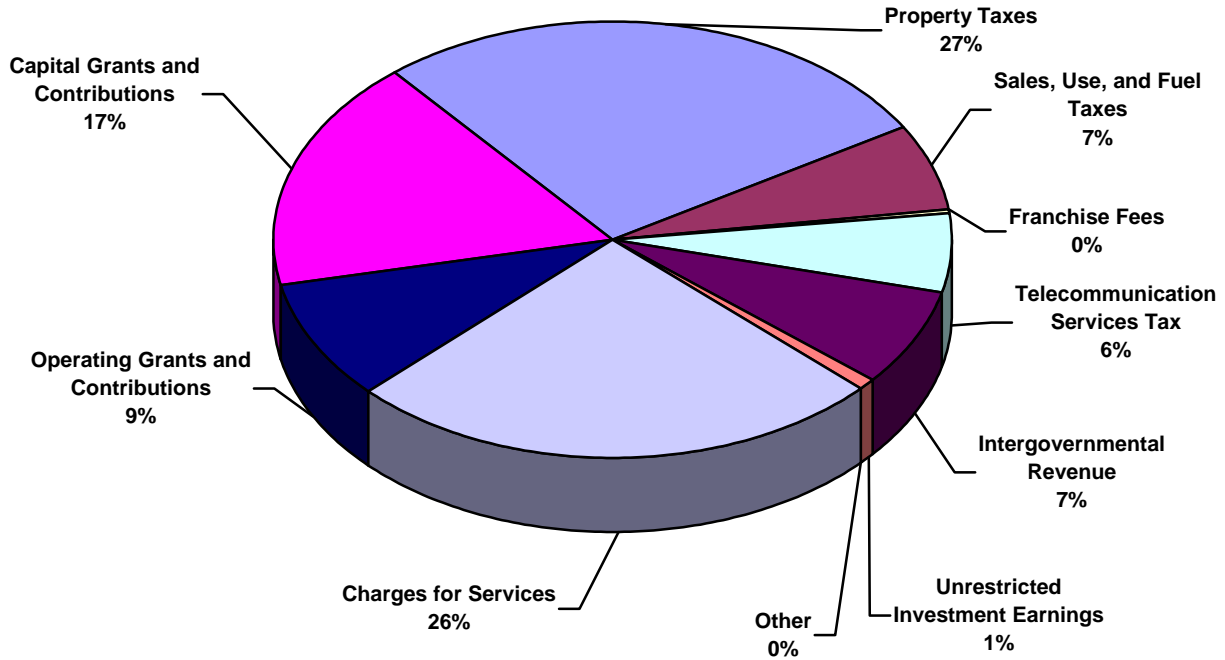
### **Business-type Activities**

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

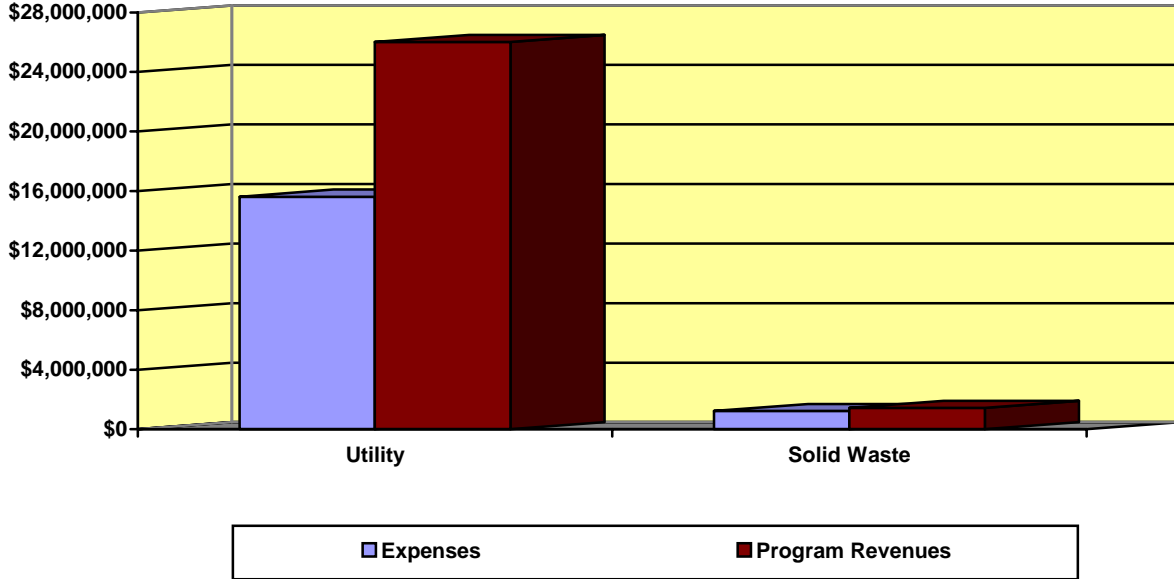
### Expenses and Program Revenues - Governmental Activities



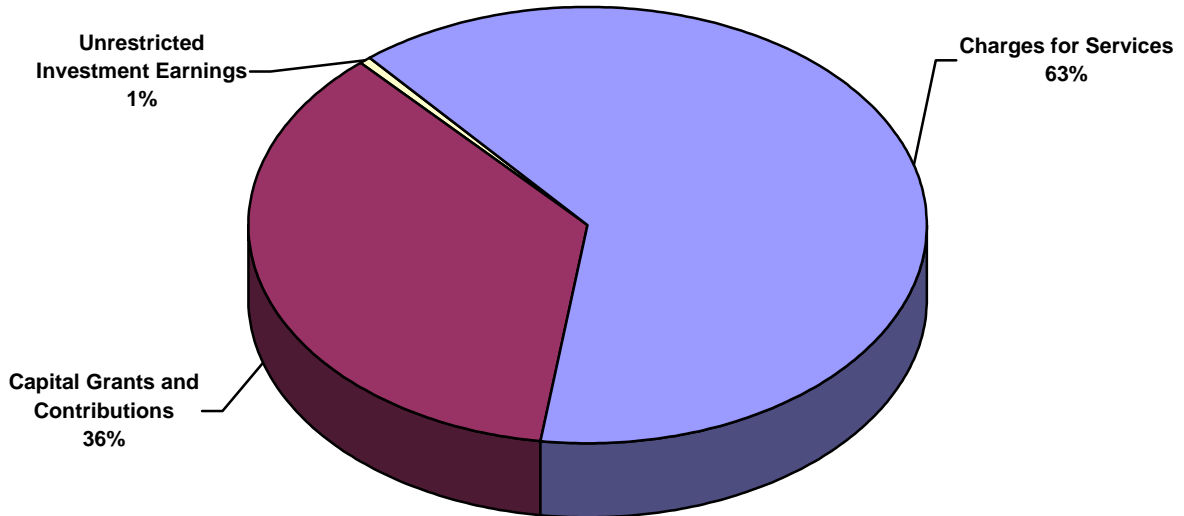
### Revenues by Source - Governmental Activities



### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities



## Financial Analysis of the Government's Funds

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

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

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

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

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

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

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

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

## General Fund Budgetary Highlights

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

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



## Capital Asset and Debt Administration

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

Table III  
City of Palm Coast's Capital Assets

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

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

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

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

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

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

### **Next Year's Budget and Rates**

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

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

### **Requests for Information**

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

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

Or

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

# **BASIC FINANCIAL STATEMENTS**



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

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

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

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

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

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

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

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

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

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

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

**LIABILITIES AND FUND BALANCES**

Liabilities:

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

Fund balances:

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

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



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

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

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

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

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

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

Net change in fund balances - total governmental funds		\$ 281,606
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.</p>		
Expenditures for capital assets	11,260,891	
Less current year depreciation	<u>(2,507,995)</u>	8,752,896
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Contributed property and equipment		709,125
Revenue collections expected after 60 days		47,051
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets.</p>		
		(1,054,067)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs when debt is first issued, whereas amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		23,699
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Compensated absences		(124,054)
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities.</p>		
		<u>350,535</u>
Change in net assets of governmental activities		<u>\$ 8,986,791</u>

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

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

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

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

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



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

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

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

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

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

(continued)



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

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

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

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

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

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

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

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

The notes to the 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**

**Note 1 – Summary of Significant Accounting Policies**

***Reporting Entity***

The *City of Palm Coast, Florida* (the "City") was incorporated December 31, 1999 under the laws of the State of Florida. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (fire and law enforcement), highways and streets, parks and recreation, public improvements, planning and zoning, and general administrative services. The accompanying financial statements include all those separately administered departments and funds for which the City has financial accountability. There are no potential component units or related organizations of the City.

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

The government reports the following major proprietary funds:

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

Additionally, the government reports the following fund types:

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

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



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

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

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

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

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

Amounts reported as program revenues included 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing activities. The principal operating revenues of the City's enterprise funds and the internal service fund are charges to customers for sales and services. Operating expenses for the enterprise funds and the internal service fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

***Deposits and Investments***

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

***Receivables***

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

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

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

***Receivables (Continued)***

Under Florida law, the assessment and collection of all county, municipal, and school district property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate up to 10 mills.

The property tax calendar is as follows:

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

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

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

***Inventories***

Inventories are valued at cost using the first-in/first-out (FIFO) method for the fleet management fund and the utility fund. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time inventory is used. No required minimum levels of inventory are maintained.

***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

***Capital Assets***

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

Depreciation on assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	20 - 40
Improvements other than buildings	7 - 30
Infrastructure	15 - 50
Equipment	5 - 20

***Interfund Transactions***

Interfund transactions reflect as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

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

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

***Compensated Absences***

Employees may accumulate vacation and sick leave with certain limitations as to the number of hours of accumulation. Employees are paid 100% of their accumulated vacation pay and sick leave when they terminate up to a maximum of 320 hours for vacation and 320 hours for sick leave, as long as they are not dismissed with cause or fail to meet the 10 day notice requirement for voluntary resignations.

***Long-term Obligations***

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

***Fund Equity***

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

**Note 2 – Reconciliation of Government-wide and Fund Financial Statements**

***Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets***

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are deferred in the funds.” The details of this \$178,941,844 difference are as follows:

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

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

**Note 2 – Reconciliation of Government-wide and Fund Financial Statements (Continued)**

A second element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$866,678 difference are as follows:

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs when debt is first issued, whereas amounts are deferred and amortized in the statement of activities.” The details of this \$23,699 difference are as follows:

Debt issued or incurred:		
Capital lease financing	\$	(53,811)
Debt repayments:		
Loan		29,607
Capital lease		47,903
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>		\$ 23,699

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

**Note 3 – Stewardship, Compliance and Accountability**

***Compliance with Finance-Related Legal and Contractual Provision***

The City has no material violations of finance-related legal and contractual provisions.

***Excess of Expenditures Over Appropriations***

For the year ended September 30, 2004 no departments exceeded appropriations.

***Budgetary Information***

The City follows these procedures in adopting the budget:

1. On or before the 30<sup>th</sup> day of September of each year, the City Council by resolution adopts an annual budget for all funds, after public hearings are conducted to obtain taxpayer comments.
2. If, during the fiscal year, revenues in excess of those estimated in the budget are available for appropriation, the Council may, by resolution, make supplemental appropriations for the year in an amount not to exceed such excess.
3. The City cannot legally exceed the budget; however, the City Manager is authorized to transfer budgeted amounts within a department. Any revisions that change the total expenditures of any department must be approved by the City Council. The legal level of budgetary control is the department level.
4. Budgeted amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budget during the year. Encumbrance accounting is employed. Unexpended and unencumbered appropriations lapse at the end of the fiscal year and may be reappropriated in the ensuing year.
5. The budget includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as a budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior periods' excess of revenues over expenditures.

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

**Note 4 – Deposits and Investments**

***Deposits***

At year-end, the carrying amount of the City's deposits was \$7,630,122 and the bank balance was \$7,651,783. All bank deposits were fully covered by federal depository insurance and by deposits held in banks that are members of the State of Florida's Collateral Pool as specified under Florida law. Florida Statutes provide for collateral pooling by banks and savings and loans. This limits local government deposits to "authorized depositories". Included in the carrying amount of the City deposits is \$23,550 in petty cash.

***Investments***

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

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

At September 30, 2004, the City had no investments that were required to be categorized as to level of risk. The City had a \$27,469,551 investment in the State Board of Administration Pooled Cash and \$156,445 in a money market account. The Volunteer Firefighters' Pension monies totaling \$22,397 are invested in a bank money market account.

**Note 5 – Receivables**

Receivables consist of the following at September 30, 2004:

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

Notes receivable, both current and noncurrent, is a loan to Flamingo Development of Flagler, Inc. The City received a Community Development Block Grant loan for the same amount. The amount owed by the City is included in long-term debt.

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

**Note 6 – Capital Assets**

Capital asset activity for the year ended September 30, 2004 was as follows:

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



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

**Note 6 – Capital Assets (Continued)**

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

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

**Note 7 – Interfund Receivables, Payables, and Transfers**

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

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

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

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

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

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

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

**Note 8 – Leases and Agreements**

Interlocal Agreements:

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

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

**Note 8 – Leases and Agreements (Continued)**

Operating Leases:

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

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

Capital Leases:

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

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

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

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

<u>Year Ending September 30</u>	
2005	\$ 37,898
2006	25,312
2007	<u>4,065</u>
Total minimum lease payments	67,275
Less amount representing interest	<u>(7,755)</u>
Present value of minimum lease payments	<u>\$ 59,520</u>

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

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

**Note 9 – Long-Term Debt**

**A. Governmental Activities**

***CDBG Loan***

During the fiscal year ended September 30, 2000, the City of Palm Coast entered into an agreement with Florida Department of Community Affairs (DCA). DCA agreed to lend \$324,953 to the City who then entered into an agreement to lend the same amount to a private company who agreed to construct and operate a day care center.

This loan is payable to DCA at \$3,290 per month at 4% interest through May 14, 2011. The same terms apply to the note receivable from the day care center.

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

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

***State Revolving Fund Loan***

On June 18, 2001 the City executed an agreement with the Florida Department of Environmental Protection that would allow the City to borrow up to \$150,000, through the State Revolving Fund loan program, for the purpose of preparing a stormwater facilities plan. On February 14, 2003 the City made a draw of \$75,000.

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

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

**Note 9 – Long-Term Debt (Continued)**

**B. Business Activities**

**Utility**

***Utility System Revenue Bonds***

On October 30, 2003 the City issued debt and closed on the purchase of the water and wastewater utility that serves the City of Palm Coast and some surrounding areas. The purchase price was \$82,774,934. Another \$10,690,000 was borrowed to complete some capital projects that were in process or needed in the near future and to fund a renewal and replacement reserve. Acquisition and closing costs included in the bond issue brought the total debt issued to \$96,650,000. This debt will be paid over 30 years from water and wastewater revenues.

***Disposition of Revenue in order of Priority***

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

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

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

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

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

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

**Early Redemption**

***A. Optional Redemption***

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

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

**Note 9 – Long-Term Debt (Continued)**

***Changes in long-term debt***

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

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

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

**Note 10 – Retirement Plans**

***Defined Contribution Plan***

The City maintains a single employer defined contribution plan. All full-time employees are eligible to participate. The name of the plan is the City of Palm Coast 401(a) Pension Plan. Under this plan, the City contributes a certain percentage of employees' eligible wages determined by City Council. Employees do not participate in the plan funding. For the period ended September 30, 2004, contributions to this plan totaled \$565,300.

***Florida Retirement System***

Former Flagler County and Palm Coast Service District employees hired as transfers during the 1999-2000 or 2000-2001 fiscal years have a one-time option to remain a member of the Florida State Retirement System (FRS). No employees for FYE 1999-2000 elected to be part of FRS. However, during 2001 there were former Palm Coast Service District employees hired who did elect to remain in FRS.

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

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

**Note 10 – Retirement Plans (Continued)**

***Florida Retirement System (Continued)***

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

There is no requirement for employees to contribute to the System; the employer pays all contributions.

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

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

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

<u>Fiscal Year Ending</u>	<u>Required Contribution</u>	<u>% Contributed</u>	<u>Net Pension Obligation</u>
09/30/2002	\$ 159,692	100%	\$ 0
09/30/2003	\$ 144,803	100%	\$ 0
09/30/2004	\$ 177,984	100%	\$ 0

For a stand-alone report of the Florida Retirement System, refer to the State of Florida Comprehensive Annual Financial Report or various publications available from the Florida Department of Management Services.

During the fiscal year, the System held no securities issued by the employer.

***Volunteer Firefighters' Pension Plan***

On July 2, 2002, the City of Palm Coast established a volunteer firefighters' pension plan pursuant to Florida Statute, Chapter 175. The volunteer positions are unpaid and therefore there is no benefit provided under Chapter 175. In order to provide a benefit for the volunteers, the City will need to approve a "local law" plan that will provide a benefit based on years of service. As of September 30, 2004, there is no liability and no required contribution.

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

**Note 11 – Risk Management**

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

**Note 12 – Prior Year Restatements**

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

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



## **REQUIRED SUPPLEMENTARY INFORMATION**

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

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

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

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



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# **COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**



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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.

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

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

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

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

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

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

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

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

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

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



**Funds**

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

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

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

**Funds**

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

# **STATISTICAL SECTION**

**Table I**  
**City of Palm Coast, Florida**  
**General Fund Expenditures and Other Uses By Function**  
**Last Five Fiscal Years**  
**September 30, 2004**

FISCAL YEAR ENDED	TOTALS	GENERAL GOVERNMENT	PUBLIC SAFETY	TRANSPORTATION PHYSICAL ENVIRONMENT	CULTURE AND RECREATION	DEBT SERVICE	TRANSFERS
2000	\$ 662,420	\$ 661,272 100%	\$ 1,148 0%	\$ - 0%	\$ - 0%	\$ - 0%	\$ - 0%
2001	8,996,894	4,106,869 46%	2,167,932 24%	1,717,410 19%	435,724 5%	31,046 0%	537,913 6%
2002	11,958,946	4,707,342 39%	2,288,508 19%	3,359,335 28%	475,326 4%	85,250 1%	1,043,185 9%
2003	15,457,390	6,187,444 40%	2,603,326 17%	4,858,978 31%	615,163 4%	95,957 1%	1,096,522 7%
2004	20,599,533	8,573,226 42%	3,666,151 18%	6,434,359 31%	1,021,668 5%	95,493 0%	808,636 4%

Source: City of Palm Coast Financial Services Department.

**Table II**  
**City of Palm Coast, Florida**  
**General Fund Revenues and Other Financing Sources**  
**Last Five Fiscal Years**  
**September 30, 2004**

FISCAL YEAR ENDED	TOTALS	TAXES	LICENSES AND PERMITS		INTER GOVERNMENTAL REVENUES		CHARGES FOR SERVICES		FINES AND FORFEITURES		MISCELLANEOUS REVENUES		DEBT PROCEEDS AND TRANSFERS		
2000	\$ 15,683,179	\$ 11,117,500	71%	\$ 522,785	4%	\$ 1,516,280	10%	\$ 1,244,375	8%	\$ 374,751	2%	\$ 530,841	3%	\$ 376,647	2%
2001	16,800,075	12,065,825	72%	641,552	4%	1,441,682	9%	1,325,298	8%	388,448	2%	521,709	3%	415,561	2%
2002	14,121,229	8,391,748	59%	2,790,824	20%	2,234,698	16%	461,819	3%	71,297	1%	131,564	1%	39,279	0%
2003	17,517,349	9,691,984	55%	4,209,977	24%	2,244,660	13%	805,027	5%	134,490	1%	332,400	2%	98,811	1%
2004	21,308,033	11,063,544	51%	5,910,993	27%	2,447,643	11%	1,523,459	7%	106,067	0%	106,716	1%	149,611	1%

Source: City of Palm Coast Financial Services Department.

**Table III**  
**City of Palm Coast, Florida**  
**Property Tax Levies and Collection**  
**Last Five Fiscal Years**  
**September 30, 2004**

FISCAL YEAR ENDED	TOTAL TAX LEVY	CURRENT TAX COLLECTION	PERCENT OF LEVY COLLECTED	TAXABLE VALUE (1)	JUST VALUE (1)	% OF FAIR MARKET VALUE
2000	\$ -	\$ -	0.0%	\$ 1,511,340,432	N/A	N/A
2001	5,021,775	4,882,939	97.2%	1,594,214,203	N/A	N/A
2002	6,206,826	5,981,826	96.4%	1,773,378,865	2,337,479,058	75.9%
2003	6,744,718	6,539,567	97.0%	1,983,740,628	2,615,267,294	75.9%
2004	8,174,413	7,855,523	96.1%	2,404,239,111	3,195,891,228	75.2%

Source: (1) County of Flagler, Florida, Property Appraisers Office.

(1) The difference between these columns is comprised of various types of exemptions, including Save Our Homes (SOH), homestead, senior homestead, governmental, and institutional.



**Table IV**  
**City of Palm Coast, Florida**  
**Property Tax Rates and Tax Levies - All Direct and Overlapping Governments**  
**Last Five Fiscal Years**  
**September 30, 2004**

FISCAL YEAR ENDED	PALM COAST	SCHOOL DISTRICT	FLAGLER COUNTY	EAST FLAGLER MOSQUITO CONTROL DISTRICT	ST JOHNS RIVER WATER MANAGEMENT DISTRICT	FLORIDA INLAND NAVIGATION DISTRICT
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**Tax Rates Per Thousand Dollars of Assessed Valuation**

2000	-	9.58700	5.51670	0.34200	0.48200	0.04400
2001	3.15000	9.46900	5.10910	0.33300	0.47200	0.04100
2002	3.50000	9.11900	5.29120	0.31500	0.46200	0.03850
2003	3.40000	9.04900	5.26700	0.29100	0.46200	0.03850
2004	3.40000	8.81700	5.39380	0.25200	0.46200	0.03850

**Tax Levies**

2000	\$ -	\$ 14,489,221	\$ 8,337,612	\$ 516,878	\$ 728,466	\$ 66,499
2001	5,021,775	15,095,614	8,145,000	530,873	752,469	65,363
2002	6,206,826	16,171,442	9,383,302	558,614	819,301	68,275
2003	6,744,718	17,950,869	10,448,362	577,269	916,488	76,374
2004	8,174,413	21,198,176	12,967,985	605,868	1,110,758	92,563

**Table V**  
**City of Palm Coast, Florida**  
**Ratio of Net General Obligation Debt to Assessed Value and Net Bonded Debt Per Capita**  
**Last Five Fiscal Years**  
**September 30, 2004**

Fiscal Year Ended	Assessed Taxable Value (2)	Gross General Bonded Debt	Less Debt Service Fund	Net General Bonded Debt	Assessed Net General Bonded Debt	Estimated Population (1)	Net General Bonded Debt Per Capita
2000	\$ 1,511,340,432	\$ -	\$ -	\$ -	0.00%	32,732	\$ -
2001	1,594,214,203	1,605,000	-	1,605,000	0.10%	35,443	45.28
2002	1,773,378,865	2,520,000	-	2,520,000	0.14%	38,348	65.71
2003	1,983,740,628	-	-	-	0.00%	42,850	-
2004	2,404,239,111	-	-	-	0.00%	50,484	-

Note: FY 2001 and 2002 information presented above relates to a loan from the Florida Association of Counties loan pool.

Source: (1) FY 2000 United States Census Bureau, FY 2001 through 2003  
"Florida Estimates of Population", Bureau of Economic and Business Research, University of Florida.  
(2) County of Flagler, Florida, Property Appraisers Office.

**Table VI**  
**City of Palm Coast, Florida**  
**Computation of Legal Debt Margin**  
**September 30, 2004**

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The Constitution of the State of Florida,  
Florida Statutes 200.181 and the City of Palm Coast Charter  
sets no legal debt margin.

**Table VII**  
**City of Palm Coast, Florida**  
**Computation of Direct and Overlapping Debt**  
**September 30, 2004**

Governmental Unit	Net Debt Outstanding	Percent Applicable to this Governmental Unit	City of Palm Coast Share of Debt
Flagler County	\$ 2,630,000	54.16%	\$ 1,424,408
School District	54,978,838	53.88%	29,622,598
Palm Coast	-	100.00%	-
Total Direct & Overlapping Debt			\$ 31,047,006

Source: Independent Taxing Districts

**Table VIII**  
**City of Palm Coast, Florida**  
**Ratio of Annual Debt Service Expenditures for General Bonded Debt to General Fund Operating Expenditures**  
**Last Five Fiscal Years**  
**September 30, 2004**

Fiscal Year Ended	Principal	Interest	Total Debt Service	Total General Fund Operating Expenditures	Ratio of Debt Service to General Fund Operating Expenditures
2000	\$ -	\$ -	\$ -	\$ 662,420	0.00%
2001	-	2,735	2,735	8,996,894	0.03%
2002	-	63,822	63,822	11,958,946	0.53%
2003	-	16,013	16,013	15,457,390	0.10%
2004	-	-	-	20,599,533	0.00%

Source: City of Palm Coast Financial Services Department.

**Table IX**  
**City of Palm Coast, Florida**  
**Demographic Statistics**  
**September 30, 2004**

Fiscal Year Ended		Palm Coast Population		% Change During the Period		Flagler County Population		% Change During the Period
1999	(1)	30,767		N/A		45,818		N/A
2000	(1)	32,732		6.4%		49,832		8.8%
2001	(1)	35,443		8.3%		53,061		6.5%
2002	(1)	38,348		8.2%		56,785		7.0%
2003	(1)	42,850		11.7%		61,541		8.4%
2004	(1)	50,484		17.8%		69,683		13.2%
2010	(1)	58,968	Est.	16.8%		81,900	Est.	17.5%
2020	(1)	88,282	Est.	49.7%		119,300	Est.	45.7%

Source: (1) 2000 - U.S. Census Bureau  
1999, 2001 - 2003, 2010, and 2020 "Florida Estimates of Population"  
Bureau of Economic and Business Research, University of Florida.

**Table X**  
**City of Palm Coast, Florida**  
**Miscellaneous Statistical Data**  
**September 30, 2004**

DATE OF INCORPORATION:	December 31, 1999	PUBLIC LIBRARY:	1
CHARTER ADOPTED:	November 2, 1998	RECREATIONAL FACILITIES:	
		Baseball / Softball Fields	6
		Basketball Courts	3
POPULATION:	50,484	Bocce Ball Courts	5
		Community Centers	1
		Handball / Racquetball Courts	7
FORM OF GOVERNMENT:	Council/Manager	Horseshoe Pits	2
		Playgrounds	2
		Shuffleboard Courts	2
POLICE PROTECTION (Contract Service)		Tennis Courts	6
		Volleyball Courts	1
FIRE PROTECTION:		EDUCATION:	
Number of Stations	3	SCHOOLS	
Number of Firefighters	35	Elementary	3
Number of Volunteers	25	Middle	1
		High	1
AREA:		STUDENTS	9,500
Square Miles	63		
Miles of:			
Paved Streets	528		
Unpaved Streets	0.5		
Sidewalks, Walkways, Bikepaths	15		
SOLID WASTE:			
Customers	23,835		

**Table XI**  
**City of Palm Coast, Florida**  
**Ten Largest Employers**  
**September 30, 2004**

Employer	Number of Employees
Flagler County Schools	1,400
Palm Coast Data	1,000
Wal Mart Stores	575
Flagler Hospital	485
Palm Coast Golf Resort	400
City of Palm Coast	235
Publix Supermarket	200
American Radionics, Inc.	137
Albertson's	127
Grand Oaks Health & Rehabilitation	120

Source: Enterprise Flagler



**Table XII**  
**City of Palm Coast, Florida**  
**Schedule of Utility Revenue Bond Debt Service Coverage**  
**Last Fiscal Year**  
**September 30, 2004**

Fiscal Year Ended	Gross Revenues(1)	Operating Expenses (2)	Rate Stabilization Transfers To / (From) (3)	Net Revenues	Maximum Debt Service Requirements	Debt Service Coverage
2004	\$ 16,044,561	\$ 9,149,504	\$ 1,900,000	\$ 4,995,057	\$ 4,442,038	1.12

(1) Gross revenues include operating revenue of the system and interest earnings.

Interest earnings from construction funds are excluded.

(2) Operating expenses include operating and administration expenses of the system.

(3) Transfers to the Rate Stabilization account decrease net revenues and transfers from the Rate Stabilization account increase net revenues per the bond resolution.

Source: City of Palm Coast Financial Services Department.

**Table XIII**  
**City of Palm Coast, Florida**  
**Volunteer Firefighters' Pension Trust Fund**  
**Schedule of Revenues by Source and Expense by Type**  
**Last Three Fiscal Years**  
**September 30, 2004**

Revenues by Source									
Fiscal Year Ended	Employee Contribution	Employer Contribution	Employer Contributions as a Percent of Total Contributions	Total Annual Contributions as a Percent of Payroll	State Contributions	Investment Income	Total		
2002	\$ -	\$ -	0.0%	0.0%	\$ -	\$ -	\$ -	\$ -	
2003	-	-	0.0%	0.0%	-	-	-		
2004	-	-	0.0%	0.0%	22,312	85	22,397		

Expenditures by Type					
Fiscal Year Ended	Benefits	Refunds	Administrative Expense	Total	
2002	\$ -	\$ -	\$ -	\$ -	
2003	-	-	-	-	
2004	-	-	-	-	

# **OTHER REPORTS**



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

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

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

We have audited the financial statements of City of Palm Coast, Florida (the City), as of and for the year ended September 30, 2004, and have issued our report thereon dated December 22, 2004. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered 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 financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Palm Coast, Florida's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

**1) Bank Account Reconciliations**

At present, the Director of Finance is responsible for monthly reconciliations of the City's bank accounts. However, during the year under audit, we noted the City's operating bank account had not been fully reconciled since May 2004. The majority of problems with the bank reconciliation process appear to have commenced when the City began processing accounting transactions (billings and cash receipts) for the Utility system. During the performance of our year-end auditing procedures, the operating bank account was reconciled as of September 30, 2004, which resulted in significant correcting entries to cash.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. An unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. We recommend bank reconciliations be prepared timely, and then reviewed for accuracy and completeness by someone independent of the reconciliation process. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary as a result be recorded.

## 2) **Utility Department**

### **Inventory Management**

At present, there are no perpetual inventory records available. We believe that maintenance of perpetual inventory records would serve as a check on the storekeepers, provide information essential to adequate purchasing control, and be particularly useful in taking of physical inventories and implementing a cycle inventory program. Sound procedures for the taking of physical inventories are important in assuring that inventory reflected in the financial records does physically exist. We recommend that perpetual inventory records be established for the utility system inventories. Once established, perpetual records would:

- Provide better accounting control over the flow of goods and increase the possibility of detecting theft or unrecorded shipments.
- Provide more reliable cost and accounting data as a basis for determining the costs associated with certain projects.

Further, one person in the Utility Department is responsible for ordering new materials, stocking the warehouse, maintaining security and control over inventory, and performing the inventory counts. We recommend the City modify their use of prenumbered purchase orders and prenumbered service orders so that the inflow and outflow of inventory can be accounted for. Those purchase orders and service orders should be reviewed and signed off by an employee independent of inventory control. Inventory counts should also be supervised by an employee independent of inventory control. These controls will help reduce the City's susceptibility to theft and misstatement of inventory.

### **Lack of Segregation of Duties in Utility Billing**

At present, two employees in the Utility Department are responsible for reviewing uploaded meter readings into the billing system, correcting any errors, generating monthly bills, posting daily batch reports to the general ledger, reviewing daily reconciliations, and making bank deposits. The present environment allows the two employees unlimited access to adjust customer accounts prior to generating monthly bills. (For instance, upon uploading meter readings, individual accounts can be changed to show lower or zero consumption, which could result in smaller or zero bills being generated for the accounts chosen by staff.) The ability to make corrections or adjustments to the Consumption Report (generated after uploading meter readings) should not be performed by the same person responsible for generating monthly bills. Adjustment reports should also be generated to document all adjustments to meter readings and approved by an individual independent of the billing process.

### **Reconciliation Process**

At present, the City does not have a formal policy addressing how to handle discrepancies in the daily cash drawer reconciliations. We recommend the City implement a policy that addresses proper procedures to be followed to resolve discrepancies in the daily reconciliations. This will help the Customer Service Supervisor know how discrepancies need to be handled.

Further, the City has not been issuing and accounting for the sequence of prenumbered receipts to City residents who come to the Utility Department to pay their utility bills. This allows a cashier the opportunity to issue a fake receipt to the resident and pocket the cash received. We recommend the City use prenumbered receipts to be issued to the residents as proof of payment. The City can use manual receipts or can have the utility billing computer system issue prenumbered receipts. The numerical sequence of those receipts should be accounted for daily by an employee independent of cash duties.

After discussions with the Accounting Department, it was noted that monthly reconciliations of utility billings, cash receipts, adjustments and accounts receivable had not been done by Accounting personnel since the first utility bills generated by the City in April 2004. This caused several large adjustments to be made at year-end to adjust balances to actual. This lack of a reconciliation process exposes the City to potential misappropriation of City assets and misstatement of the financial statements. We recommend that as part of the monthly reconciliation process, all billings, cash receipts, adjustments, and accounts receivable be reconciled to the general ledger by the Accounting Department, and any discrepancies should be investigated immediately. This will provide the City an oversight of the Utility Department and ensure that the general ledger agrees to the subsidiary ledger reports produced by the Utility Department.

### 3) **Miscellaneous Cash Receipts and Building Permits**

We understand that during the year under audit, the City did not have an employee independent of cash receipt duties for the Community Center or City Hall reconcile log reports or receipts issued to residents. We recommend that someone independent of cash receipts review the log reports issued by the Community Center. The Community Center should also use prenumbered receipts when deposits are received so that the sequence of receipts can be accounted for. We also recommend that when collecting cash receipts at City Hall, the cashiers should be required to issue prenumbered receipts with 3 carbon copies (one given to customer, one filed numerically in City's files, and one filed with the daily deposit). Additionally, a visible sign should be posted at City Hall informing the residents that the cashier should always produce a receipt.

We also understand that the City's PERCONTI software, which is used to issue building permits, prints out prenumbered building permits. However, the City has not been accounting for the sequence in those building permits to ensure that all permits issued in PERCONTI have been paid for. It is also our understanding that the PERCONTI software can be directly linked to the City's Accounting System, which would alleviate the manual inputting of those permits into the City's accounting system. We recommend that the PERCONTI software be linked to the City's accounting package to reduce the risk of inputting errors and unapproved corrections to permit fees, and to assist the City's Building Department in accounting for all building permits.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider the Bank Account Reconciliation and Utility Department comments to be material weaknesses.

### **Management Comments and Recommendations**

Our report on the internal control structure has been presented in the previous section of this report. The purpose of this section is to disclose conditions, which do not materially affect the financial statements of City of Palm Coast, Florida. The following comments and recommendations are made to assist the City Council and management in administering future operations.

### 4) **Disaster Recovery Plan and Information Technology**

The City does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT

facilities. We recommend that management develop a disaster recovery plan in writing that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage.
- A listing of all data files that would have to be obtained from the off-site storage location.
- Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.

#### 5) **Payroll Processing**

The City's Payroll Department consists of a Human Resources Director and an Accounting Specialist. We believe that the Accounting Specialist who processes the biweekly payroll should not have rights to change employee pay rates. This function should be limited to the Human Resources Director. We recommend that a control be put in place in the City's accounting system to restrict the Accounting Specialist's access to pay rates. This control will ensure that duties are properly segregated between pay rate approvals, payroll processing and payroll approval. It will also ensure that corrections to pay rates cannot be made by the employee responsible for inputting payroll entries into the City's accounting system.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Palm Coast, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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.

This report is intended solely for the information and use of management, the City Council, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*James Moore & Co.*

Daytona Beach, Florida  
December 22, 2004



**CITY OF PALM COAST, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

<u>Federal Agency/Pass-Through Entity/Federal Program</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<b>U.S. Department of Transportation Federal Highway Administration</b>				
Passed Through Florida Department of Transportation:				
Federal Aid Highway Program	20.205	FR-FL-04-02	\$ 40,000	\$ 40,000
<b>Department of Homeland Security</b>				
Passed Through Florida Department of Community Affairs:				
Citizen Corps/CERT	83.564	03CT-95-04-28-02-407	4,000	3,979
Public Assistance Grant-Hurricane Charley	97.036	N/A	184,262	184,262
Public Assistance Grant-Hurricane Frances	97.036	N/A	599,063	379,472
Public Assistance Grant-Hurricane Jeanne	97.036	N/A	85,900	85,900
<b>Total Expenditures of Federal Awards</b>			<b>\$</b>	<b><u>693,613</u></b>

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

(1) **Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards includes federal awards activity of City of Palm Coast, Florida and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**CITY OF PALM COAST, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**A. Summary of Auditors' Results:**

**Financial Statements:**

- Type of audit report issued on the basic financial statements: Unqualified.
- There were three reportable conditions related to internal control, two of which are reported as material weaknesses, disclosed by the audit of the basic financial.
- The audit did not disclose any noncompliance, which was material to the basic financial statements.

**Federal Awards:**

- There were no reportable conditions related to internal control over major programs disclosed by the audit.
- Type of report issued on compliance for each major program: Unqualified.
- The audit disclosed one audit finding required to be reported in accordance with Section 510(a) of Circular A-133, which is reported in this schedule.
- Major program identification:  
CFDA Number 97.036 – Department of Homeland Security, Public Assistance Grants.
- Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- The auditee did not qualify as a low-risk auditee.

**B. Financial Statement Findings:**

**1) Bank Account Reconciliations**

At present, the Director of Finance is responsible for monthly reconciliations of the City's bank accounts. However, during the year under audit, we noted the City's operating bank account had not been fully reconciled since May 2004. The majority of problems with the bank reconciliation process appear to have commenced when the City began processing accounting transactions (billings and cash receipts) for the Utility system. During the performance of our year-end auditing procedures, the operating bank account was reconciled as of September 30, 2004, which resulted in significant correcting entries to cash.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. An unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were

apparent. We recommend bank reconciliations be prepared timely, and then reviewed for accuracy and completeness by someone independent of the reconciliation process. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary as a result be recorded.

## **2) Utility Department**

### **Inventory Management**

At present, there are no perpetual inventory records available. We believe that maintenance of perpetual inventory records would serve as a check on the storekeepers, provide information essential to adequate purchasing control, and be particularly useful in taking of physical inventories and implementing a cycle inventory program. Sound procedures for the taking of physical inventories are important in assuring that inventory reflected in the financial records does physically exist. We recommend that perpetual inventory records be established for the utility system inventories. Once established, perpetual records would:

- Provide better accounting control over the flow of goods and increase the possibility of detecting theft or unrecorded shipments.
- Provide more reliable cost and accounting data as a basis for determining the costs associated with certain projects.

Further, one person in the Utility Department is responsible for ordering new materials, stocking the warehouse, maintaining security and control over inventory, and performing the inventory counts. We recommend the City modify their use of prenumbered purchase orders and prenumbered service orders so that the inflow and outflow of inventory can be accounted for. Those purchase orders and service orders should be reviewed and signed off by an employee independent of inventory control. Inventory counts should also be supervised by an employee independent of inventory control. These controls will help reduce the City's susceptibility to theft and misstatement of inventory.

### **Lack of Segregation of Duties in Utility Billing**

At present, two employees in the Utility Department are responsible for reviewing uploaded meter readings into the billing system, correcting any errors, generating monthly bills, posting daily batch reports to the general ledger, reviewing daily reconciliations, and making bank deposits. The present environment allows the two employees unlimited access to adjust customer accounts prior to generating monthly bills. (For instance, upon uploading meter readings, individual accounts can be changed to show lower or zero consumption, which could result in smaller or zero bills being generated for the accounts chosen by staff.) The ability to make corrections or adjustments to the Consumption Report (generated after uploading meter readings) should not be performed by the same person responsible for generating monthly bills. Adjustment reports should also be generated to document all adjustments to meter readings and approved by an individual independent of the billing process.

## **Reconciliation Process**

At present, the City does not have a formal policy addressing how to handle discrepancies in the daily cash drawer reconciliations. We recommend the City implement a policy that addresses proper procedures to be followed to resolve discrepancies in the daily reconciliations. This will help the Customer Service Supervisor know how discrepancies need to be handled.

Further, the City has not been issuing and accounting for the sequence of prenumbered receipts to City residents who come to the Utility Department to pay their utility bills. This allows a cashier the opportunity to issue a fake receipt to the resident and pocket the cash received. We recommend the City use prenumbered receipts to be issued to the residents as proof of payment. The City can use manual receipts or can have the utility billing computer system issue prenumbered receipts. The numerical sequence of those receipts should be accounted for daily by an employee independent of cash duties.

After discussions with the Accounting Department, it was noted that monthly reconciliations of utility billings, cash receipts, adjustments and accounts receivable had not been done by Accounting personnel since the first utility bills generated by the City in April 2004. This caused several large adjustments to be made at year-end to adjust balances to actual. This lack of a reconciliation process exposes the City to potential misappropriation of City assets and misstatement of the financial statements. We recommend that as part of the monthly reconciliation process, all billings, cash receipts, adjustments, and accounts receivable be reconciled to the general ledger by the Accounting Department, and any discrepancies should be investigated immediately. This will provide the City an oversight of the Utility Department and ensure that the general ledger agrees to the subsidiary ledger reports produced by the Utility Department.

### **3) Miscellaneous Cash Receipts and Building Permits**

We understand that during the year under audit, the City did not have an employee independent of cash receipt duties for the Community Center or City Hall reconcile log reports or receipts issued to residents. We recommend that someone independent of cash receipts review the log reports issued by the Community Center. The Community Center should also use prenumbered receipts when deposits are received so that the sequence of receipts can be accounted for. We also recommend that when collecting cash receipts at City Hall, the cashiers should be required to issue prenumbered receipts with 3 carbon copies (one given to customer, one filed numerically in City's files, and one filed with the daily deposit). Additionally, a visible sign should be posted at City Hall informing the residents that the cashier should always produce a receipt.

We also understand that the City's PERCONTI software, which is used to issue building permits, prints out prenumbered building permits. However, the City has not been accounting for the sequence in those building permits to ensure that all permits issued in PERCONTI have been paid for. It is also our understanding that the PERCONTI software can be directly linked to the City's Accounting System, which would alleviate the manual inputting of those permits into the City's accounting system. We recommend that the PERCONTI software be linked to the City's accounting package to reduce the risk of inputting errors and unapproved corrections to permit fees, and to assist the City's Building Department in accounting for all building permits.

C. **Federal Award Findings and Questioned Costs:**

**Questioned  
Costs**

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DEPARTMENT OF HOMELAND SECURITY

Public Assistance Grants – CFDA Number 97.036

2004-1 *Condition and Criteria:* Two invoices were submitted twice to the Department of Homeland Security for reimbursement.

*Effect:* The costs eligible for reimbursement submitted by the City to the Department of Homeland Security were overstated by the sum of those two invoices submitted twice.

*Cause:* Due to the high volume of invoices submitted for reimbursement, duplicate invoices were submitted.

*Population and Items Tested:* A sample of 32 invoices totaling \$43,257 was selected for audit testing from a population totaling \$230,351. Two invoices with questioned costs totaling \$2,314 were found in noncompliance.

\$2,314

*Auditors' Recommendation:* The City should test for duplicate invoices by looking at all vendors with duplicate invoice numbers or invoice dates.

*Grantee Response:* The City agrees with finding. Future requests will be tested for duplicate invoices.

D. **Prior Audit Findings:**

- There were no audit findings for the year ended September 30, 2003 relative to federal programs requiring action on the part of the auditee for that fiscal year.

E. **Corrective Action Plan:**

- See City of Palm Coast, Florida's management responses to reportable conditions, management comments, and findings and questioned costs plan starting on page 107.

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of City of Palm Coast, Florida, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Palm Coast, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs under section C Federal Award Findings and Questioned Costs.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, City Council, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*James Moore & Co.*

Daytona Beach, Florida  
December 22, 2004



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

**MANAGEMENT LETTER OF INDEPENDENT AUDITORS  
REQUIRED BY CHAPTER 10.550 RULES OF THE AUDITOR GENERAL**

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

We have audited the basic financial statements of City of Palm Coast, Florida, as of and for the fiscal year ended September 30, 2004, and have issued our report thereon dated December 22, 2004.

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. We have also issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedules, which are dated December 22, 2004, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter. Those rules (Section 10.554(1)(h) 1.) require that we address in the management letter, if not already addressed in the auditors' report on internal control and on compliance and other matters, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations in the preceding annual financial report.

As required by the Rules of the Auditor General (Section 10.554(1)(h) 2.), City of Palm Coast, Florida, has complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The Rules of the Auditor General (Sections 10.554(1)(h) 3. and 4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on internal control or compliance and other matters: (1) recommendations to improve financial management, accounting procedures, and internal controls; (2) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and were discovered within the scope of the audit; (3) improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements; (4) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that came to the attention of, the auditor. Our audit disclosed none of these matters not already addressed in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

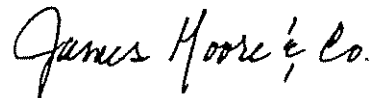
The Rules of the Auditor General (Section 10.554(1)(h) 5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. City of Palm Coast, Florida, was incorporated on December 31, 1999 under Chapter 99-448, Laws of the State of Florida. There are no component units related to City of Palm Coast, Florida as of September 30, 2004.

The Rules of the Auditor General (Section 10.554(1)(h) 6.a.), require that we comment as to whether or not one or more of the conditions described in Section 218.503(1), Florida Statutes, regarding determination of financial emergency have been met. In connection with our audit, we determined that City of Palm Coast, Florida, has not met one or more of the conditions described in Section 218.503(1), Florida Statutes, regarding determination of financial emergency.

The Rules of the Auditor General (Section 10.554(1)(h) 6.b.), require that we comment as to whether or not the financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the current audit period. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report.

As required by the Rules of the Auditor General (Section 10.554(1)(h) 6.c.), the scope of our audit included application of financial condition assessment procedures pursuant to Rule 10.556(8) of the Auditor General. It is Management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This report is intended solely for the information and use of the Auditor General of the State of Florida, management, others within the City, City Council, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Daytona Beach, Florida  
December 22, 2004



## **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 James Moore & Co., P.L. for the current year.

#### **1. Bank Account Reconciliations**

The Finance Director has been doing the monthly reconciliations, since this is the only position that is not directly involved in cash receipts, payroll processing, or accounts payable. Several factors contributed to the reconciliation problems. One issue that remains a problem is the ability to match daily reports to bank deposits when there have been payments made by credit card. All of the credit card deposits do not go into the bank account on the same day, creating a timing issue. We have instituted additional procedures and while the new procedures have improved the reconciliation process they have not completely corrected the problem. Two new positions are being added in Finance. An Accountant will be placed at the Utility Department to handle all of the financial records related to the Customer Service Division. This will allow us to correct the remaining reconciliation problems and also address some comments that follow. It will also take financial responsibility off of the customer service personnel so that they can focus on their primary tasks. The addition of a Chief Accountant will provide someone to prepare the reconciliations which can then be reviewed by the Finance Director.

#### **2. Utility Department**

##### **Inventory Management**

The City currently owns the inventory module to the MUNIS financial system. It has not been used previously because there was very little inventory maintained by City departments. The Utility had an inventory system in place when it was purchased. That system could not be linked to the City's financial system. One of the priorities of the new Accountant II position will be to get the inventory module operational. This will allow for a perpetual inventory and will be linked to purchase orders which are reviewed and approved by department heads or their designee. A work order system is also being implemented which will address the issuance of inventory items.

### **Lack of Segregation of Duties in Utility Billing**

As mention earlier, the addition of an Accountant at Utility will address this comment. The Accountant will be responsible for reviewing all corrections, daily reports, deposits, and posting to the general ledger.

### **Reconciliation Process**

Cash drawer discrepancies generally have been small when they have occurred. Even though there has not been a written policy, cashiers have been reimbursing from their own pockets for shortages. We will prepare a policy to address this comment.

We will provide some prenumbered receipts that can be used if computers are down. As long as the computers are functioning, receipts are electronically generated.

Because of the initial billing problems that occurred, the reconciliation of accounts receivable could not be accomplished in the appropriate manner. Again, the addition of the Accountant at Utility will help insure that all reports are posted in a timely manner so that an accurate reconciliation can be done.

### **3. Miscellaneous Cash Receipts and Building Permits**

Recreation deposits have always been verified by the cashier at City Hall. The Recreation Department is being set up to input cash receipts directly into the system. The deposit will then be verified against the daily report at City Hall and the daily report will be posted by Finance. Prenumbered receipts will be provided to Recreation for use when the computers are unavailable.

We were told by PERCONTI that their system could be linked to MUNIS for the purpose of recording payments for permits. They have never been able to make the link work. This has created extra work by requiring double keying to issue a permit. We can continue to try to link the two systems, but PERCONTI has not been helpful in this process. We are also analyzing the Permit and Code module that MUNIS offers to see if it is feasible for the City to purchase. If these two options are not feasible, we will consider other options that would provide the City with an integrated software package.

### **4. Disaster Recovery Plan and Information Technology**

A written disaster recovery plan is in process. We currently backup data and have an off-site storage location. We can contract with MUNIS for processing services should our system be disabled. This may be the best solution in the short-term since they already back up our data on a nightly basis.

## **5. Payroll Processing**

Because of a limited number of personnel, it has been necessary from time to time for the payroll technician to be able to make changes to pay rates to get payroll done in a timely manner. Payroll reports are reviewed by Human Resources which would find any discrepancies. Sufficient personnel are now available and we will take steps to change the current procedures.

Ray W. Britt, Jr.  
Finance Director

April 27, 2005



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