

# **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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## 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 the City of Palm Coast, Florida (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palm Coast, Florida, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2013, on our consideration of the City'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 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.

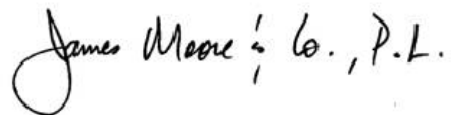
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City of Palm Coast, Florida's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules, fiduciary fund schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, fiduciary fund schedules, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

Daytona Beach, Florida  
February 7, 2013

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Palm Coast, we offer readers of the City of Palm Coast's financial statements this narrative overview and analysis of the financial activities of the City of Palm Coast for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages vii-x of this report.

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 2012 by \$405,913,279. Of this amount, \$19,122,008 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$5,680,346. Over \$4 million of the increase was attributable to a net increase in the Stormwater Fund for the year. This increase was driven by a combination of property taxes and transfers to address a deficiency in unrestricted fund balance created by an aggressive capital investment program. Over \$1 million of the increase was due to a program to increase reserves in the Internal Service Funds.
- As of the close of fiscal year 2012, the City's governmental funds reported combined ending fund balances of \$9,158,323 a decrease of \$4,170,199 over the prior year. The combined ending fund balances include negative unassigned fund balance of \$6,239,089, which was due to capital expenditures in advance of related revenues. The decrease in combined ending fund balance was primarily due to interfund loans to enterprise funds being reclassified as fund transfers.
- At the end of fiscal year 2012, unassigned fund balance in the general fund was \$4,485,999 or 18.7% of total general fund expenditures.
- The City of Palm Coast's total debt decreased by \$5,631,523 during the current fiscal year. This was due to principal payments on outstanding debt.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Palm Coast's basic financial statements. The City of Palm Coast's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City of Palm Coast's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Palm Coast's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or

decreases in net assets may serve as a useful indicator of whether the financial position of the City of Palm Coast is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Palm Coast that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Palm Coast include general government, public safety, transportation and physical environment, and culture and recreation. The business-type activities of the City of Palm Coast include a water and sewer utility, solid waste collection, stormwater management, building permits and inspections, information technology and communications (IT&C), a tennis center, and a golf course.

The government-wide financial statements can be found on pages **23-24** of this report.

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

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

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

The City of Palm Coast maintains eleven individual governmental funds. Six of the governmental funds are classified as nonmajor and are summarized under this heading in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, transportation impact fee fund, streets improvement fund, and SR100 CRA fund, which are considered to be major funds. Data from the nonmajor governmental funds are combined into a single, aggregated presentation.

Individual fund data for nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriation budget for its general, capital projects, transportation impact fee, streets improvement, SR100 CRA and nonmajor governmental funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

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

**Proprietary funds.** The City of Palm Coast maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Palm Coast uses enterprise funds to account for its water and sewer utility, solid waste collection, stormwater management, building permits and inspections, information technology and communications (IT&C), a tennis center, and golf course. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Palm Coasts various functions. The City of Palm Coast uses internal service funds to account for its fleet of vehicles and self-insured health program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer utility, stormwater management, and solid waste collection major funds, as well as the building permits and inspections, information technology and communications (IT&C), golf course and tennis center nonmajor funds. Data from the nonmajor proprietary funds are combined into a single, aggregated presentation. Individual fund data for nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report. The internal service funds are also presented in the proprietary fund financial statements, but not included in the totals for proprietary funds. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in this report.

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages **39-79** of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This includes budget and actual comparisons for the general fund and major special revenue funds with adopted budgets. This

also includes the City of Palm Coast's progress in funding its obligation to provide pension benefits to the volunteer firefighters and its Other Postemployment Benefits (OPEB) obligation. Required supplementary information can be found on pages **81-83** of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Palm Coast, assets exceeded liabilities by \$405,913,279 at the close of the most recent fiscal year.

Of the net assets, 4.7% falls in the unrestricted category. These may be used to meet ongoing obligations to citizens and creditors. Approximately 3.6% of net assets represent resources that are subject to external restrictions. By far the largest portion of the City of Palm Coast's net assets (91.7%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens and therefore are not available for future spending. Although the investment in capital assets is reported net of related debt used to acquire the assets, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the City of Palm Coast is able to report positive balances in all three categories of net assets for the government as a whole. For the prior fiscal year, all categories, except unrestricted net assets under the business-type activities, were positive.

City of Palm Coast's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 24,393,452	\$ 18,857,457	\$ 36,997,310	\$ 35,076,760	\$ 61,390,762	\$ 53,934,217
Capital assets	305,708,015	308,941,111	224,064,135	228,333,646	529,772,150	537,274,757
Total assets	330,101,467	327,798,568	261,061,445	263,410,406	591,162,912	591,208,974
Long-term liabilities	5,157,617	5,212,079	166,685,816	172,262,877	171,843,433	177,474,956
Other liabilities	11,219,526	3,058,227	2,186,674	10,442,858	13,406,200	13,501,085
Total liabilities	16,377,143	8,270,306	168,872,490	182,705,735	185,249,633	190,976,041
Net assets:						
Invested in capital assets, net						
of related debt	303,986,665	306,530,353	68,131,604	68,014,427	372,118,269	374,544,780
Restricted	840,001	1,097,652	13,833,001	13,716,132	14,673,002	14,813,784
Unrestricted	8,897,658	11,900,257	10,224,350	(1,025,888)	19,122,008	10,874,369
Total net assets	\$ 313,724,324	\$ 319,528,262	\$ 92,188,955	\$ 80,704,671	\$ 405,913,279	\$ 400,232,933

## Governmental Activities

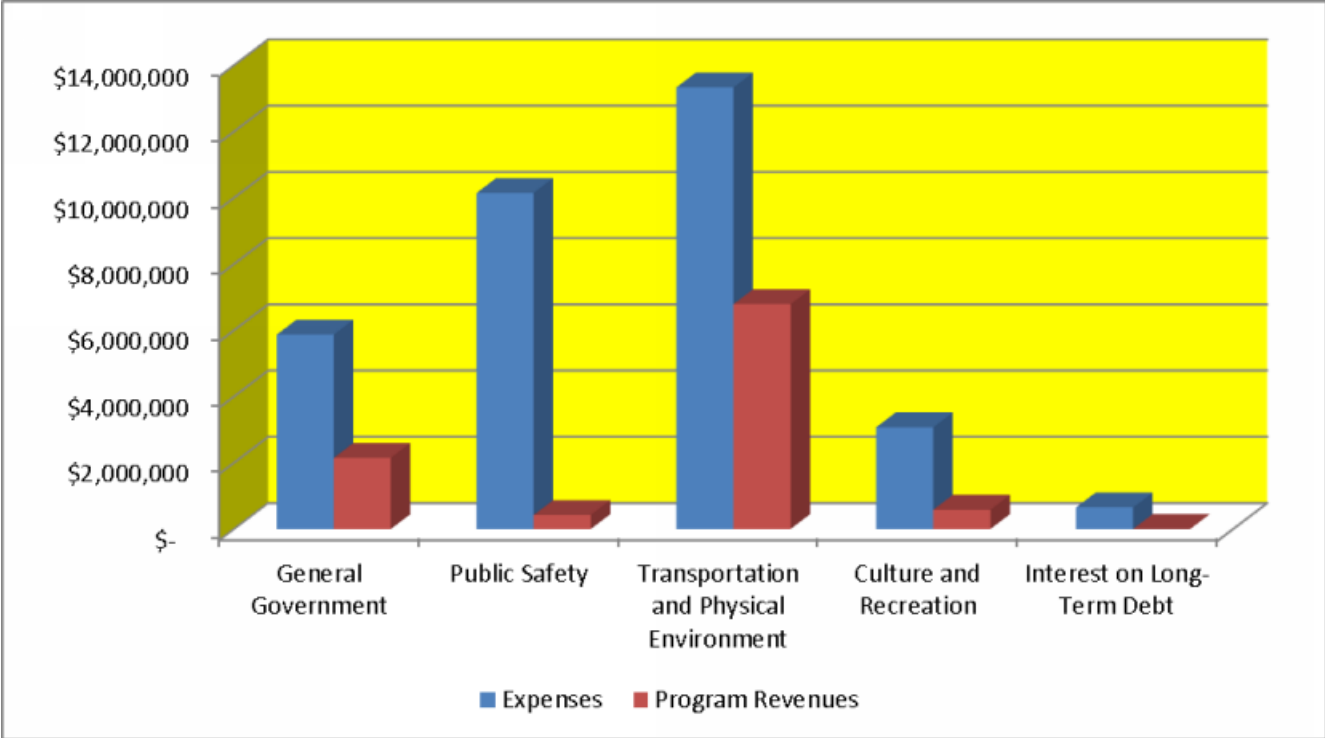
Governmental activities decreased the City of Palm Coast's net assets by \$5,803,938 during the current fiscal year. This was primarily due to the reclassification of \$7,420,998 in interfund loans to fund transfers. These loans were between the capital projects fund and the golf course and IT&C proprietary funds in order to fund golf course renovations and fiber optic network

expansion. The reclassifications are also the reason for the increase of \$8,161,299 in Other Liabilities for the year. Governmental activities unrestricted net assets decreased by \$3,002,599. The reclassification of interfund loans noted above, offset by increases in primarily the general and streets improvement funds, account for the decrease. The general fund increase was due to expense savings versus the budget, and the streets improvement fund increase was due to capital projects being delayed until fiscal year 2013. Property taxes decreased \$1,788,482 from the previous year. This was primarily due to the allocation of \$1,686,100 of property taxes to the stormwater enterprise fund. Capital grants and contributions increased \$2,092,244 due to several transportation related grant projects in the City. The significant change in transfers was due to the interfund loan reclassifications noted above. General government expenses decreased \$1,042,885. This was primarily due to one-time expenditures in the capital project fund in fiscal year 2011, and a decrease in grant activity in the NSP fund for the current year.

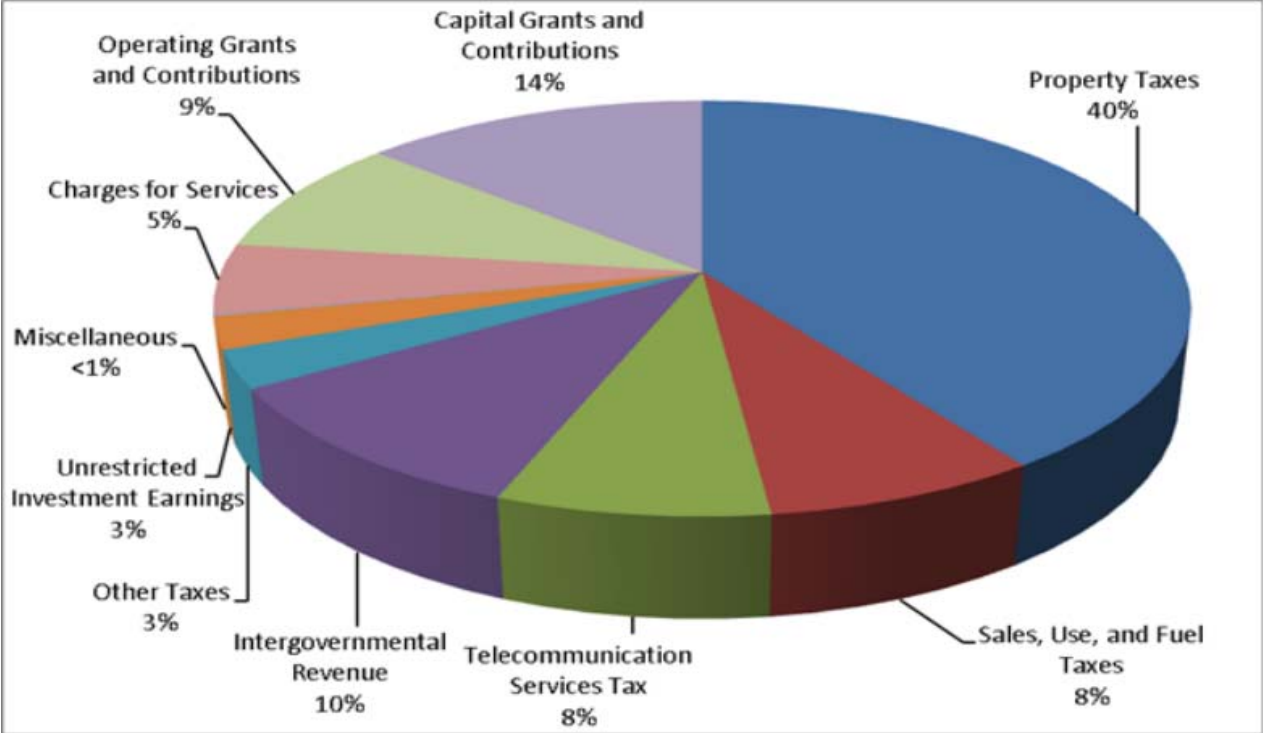
Table II  
City of Palm Coast's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,927,224	\$ 1,504,375	\$ 45,213,517	\$ 44,005,616	\$ 47,140,741	\$ 45,509,991
Operating grants and contributions	3,239,141	4,053,082	477,582	-	3,716,723	4,053,082
Capital grants and contributions	4,771,908	2,679,664	2,112,690	1,047,855	6,884,598	3,727,519
General revenues:					-	-
Property taxes	14,180,455	15,968,937	1,686,100	-	15,866,555	15,968,937
Other taxes	6,456,874	6,339,778	-	-	6,456,874	6,339,778
Intergovernmental	3,649,676	3,405,849	-	-	3,649,676	3,405,849
Other	503,800	431,727	226,183	467,954	729,983	899,681
Total revenues	34,729,078	34,383,412	49,716,072	45,521,425	84,445,150	79,904,837
Expenses:						
General government	5,867,359	6,910,244	-	-	5,867,359	6,910,244
Public safety	10,144,341	10,653,813	-	-	10,144,341	10,653,813
Transportation and physical environment	13,333,183	13,325,228	-	-	13,333,183	13,325,228
Culture & recreation	3,072,489	2,904,535	-	-	3,072,489	2,904,535
Utility	-	-	30,545,189	31,205,110	30,545,189	31,205,110
Solid Waste	-	-	7,533,852	7,631,425	7,533,852	7,631,425
Stormwater	-	-	3,904,173	4,216,027	3,904,173	4,216,027
Building Permits and Inspections	-	-	1,286,637	1,463,027	1,286,637	1,463,027
IT&C	-	-	351,525	182,643	351,525	182,643
Golf Course	-	-	1,806,088	1,910,096	1,806,088	1,910,096
Tennis Center	-	-	267,918	353,796	267,918	353,796
Interest on long-term debt	652,050	698,126	-	-	652,050	698,126
Total expenses	33,069,422	34,491,946	45,695,382	46,962,124	78,764,804	81,454,070
Increase (decrease) in net assets before transfers	1,659,656	(108,534)	4,020,690	(1,440,699)	5,680,346	(1,549,233)
Transfers	(7,463,594)	506,290	7,463,594	(506,290)	-	-
Increase (decrease) in net assets	(5,803,938)	397,756	11,484,284	(1,946,989)	5,680,346	(1,549,233)
Net assets - beginning	319,528,262	319,130,506	80,704,671	82,651,660	400,232,933	401,782,166
Net assets - ending	\$ 313,724,324	\$ 319,528,262	\$ 92,188,955	\$ 80,704,671	\$ 405,913,279	\$ 400,232,933

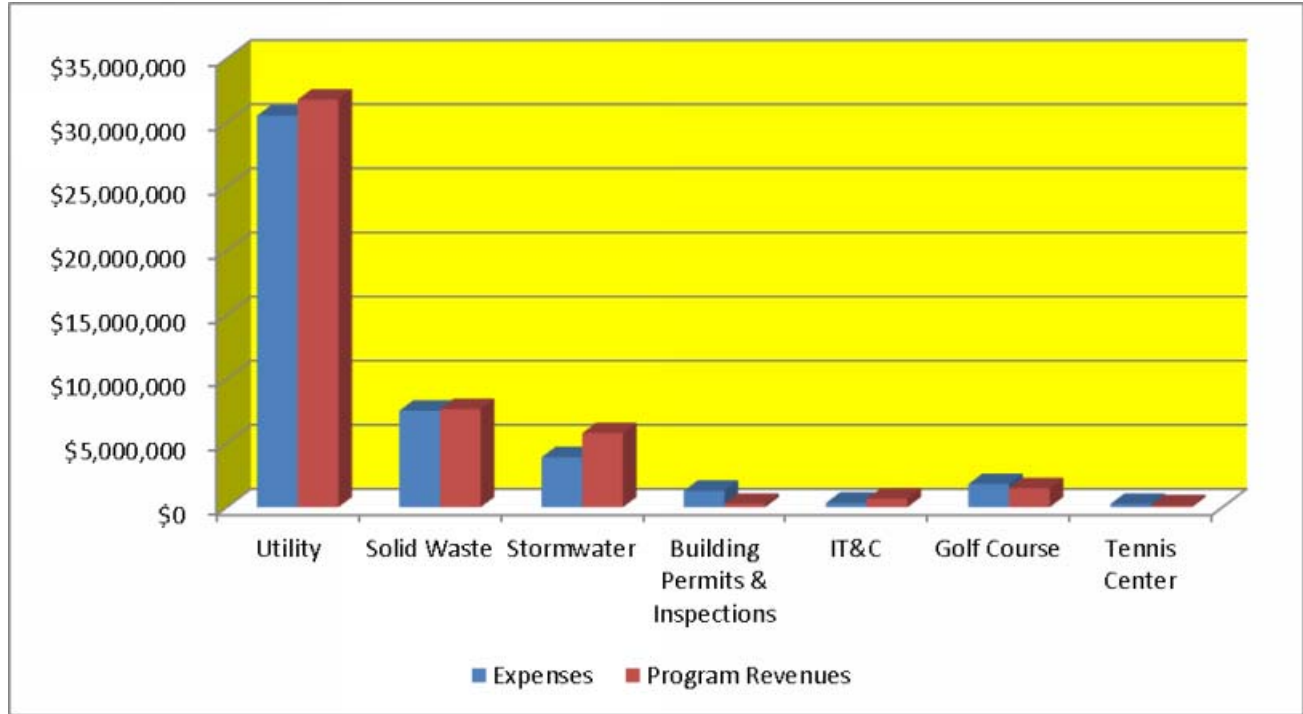
### Expenses and Program Revenues – Governmental Activities



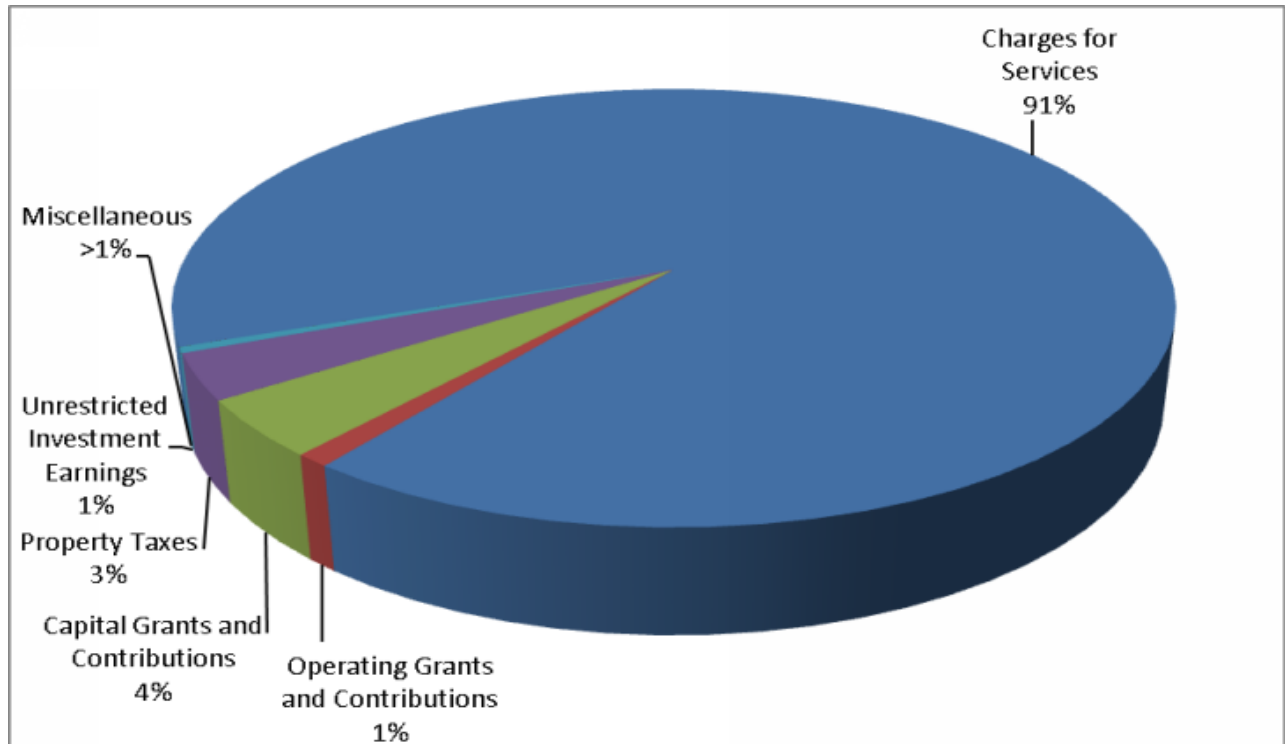
### Revenues by Source – Governmental Activities



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



### Revenues by Source – Business-type Activities



## **Business-type Activities**

Business-type activities increased the City of Palm Coast's net assets by \$11,484,284, offsetting the Governmental activities decrease in net assets for the year. The increase in net assets was partially attributable to over \$7 million in interfund loans from the governmental capital projects funds being reclassified as transfers. These amounts were for capital investment in the golf course and IT&C Funds. Though initially recorded as loans, they were reclassified as transfers during fiscal year 2012 to better reflect the nature of these transactions. The stormwater fund primarily contributed the balance of the increase. A combination of transfers and a portion of property taxes were added to this fund during the fiscal year. This was to address ongoing capital investment and negative unrestricted fund balance. The net results of the above were the primary drivers of Business-type activities unrestricted net assets increasing by \$10,781,015, and other liabilities decreasing by \$8,256,184. Capital grants and contributions increased by \$1,064,835 for the year. This was primarily due to sewer impact fees received on an intergovernmental connection project to be completed during fiscal year 2013.

## **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, unassigned fund balance in the general fund was \$4,485,999, with an additional \$2,205,117 committed as a disaster reserve. The total fund balance stood at \$12,728,581. As a measure of the general fund's liquidity, it may be useful to compare both unassigned and total fund balance to fund expenditures. Unassigned fund balance represents approximately 19% of total general fund expenditures versus 12% for fiscal year 2011. Total fund balance represents approximately 53% of the total general fund expenditures versus 45% for fiscal year 2011.

The fund balance of the City of Palm Coast's general fund increased by \$1,516,238 during the current fiscal year. Key factors in this increase are as follows:

The primary driver for the overall increase in the fund balance is related to the establishment of a comprehensive cost containment program. Overall general fund revenues and net transfers remained level, but expenses and were \$779,272 less than in 2011. The decrease in expenses were in the general government, public safety, and transportation and physical environment functions due to the cost control program. This program includes both evaluation of personnel needs and operating expense reduction plans.

The capital projects fund has a total fund balance of \$1,909,520, a decrease of \$10,281,071. A portion of the total property tax revenue was previously allocated to this fund to cover capital expenditures, but was suspended in 2011 due to economic conditions in the City. Also, \$9,425,998 of interfund loans were reclassified as transfers for the year. Of this amount, \$7,350,998 was to the enterprise funds noted previously. The balance of \$2,075,000 was to the transportation impact fee fund in order to offset negative unassigned fund balance. The transportation impact fee total fund balance was (\$2,426,065), an increase of \$2,646,254. Due to limited impact fee collections from slow development, no projects expenditures were made from this fund. The streets improvement fund balance was \$4,460,530 representing an increase of \$1,772,024. Collection of revenue in advance of related capital projects is the primary reason for this increase. A major street expansion project expected to start during the fiscal year was delayed until 2013. The SR100 CRA fund balance was (\$3,099,816), an increase of \$570,402. Collection of revenue in advance of related capital projects is the primary reason for this increase. A major roadway and drainage project is budgeted for fiscal year 2013.



The other governmental funds have a total fund balance (\$4,414,427). This was a decrease of \$394,046 during the current fiscal year. The decrease is primarily due to the exhaustion of program income in the Neighborhood Stabilization Fund.

**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 \$3,582,119 at the end of the year, with the total fund balance at \$65,099,417. The unrestricted net assets increased \$1,110,407 for the year. The entire change was due to capital contributions. Operating expenses decreased \$370,578 over fiscal year 2011 due to the ongoing cost reduction program. Prior year's contributions to a regional water supply study totaling \$477,582 were also returned during the fiscal year. The balance of the increase is due to increased revenues for the year.

Unrestricted net assets of the solid waste fund were \$804,811, which represents an increase of \$122,025. An ongoing revenue maximization program is the primary factor for the change.

Unrestricted net assets of the stormwater fund were \$1,786,761, which represents an increase of \$4,257,198. Over \$2.5 million of this increase is due to transfers and property taxes budgeted in this fund for the fiscal year. These were to address the ending negative unrestricted fund balance for fiscal year 2011. The balance is primarily due to expected improved collections of outstanding stormwater fees due to the completion of a rate restructuring project.

Unrestricted net assets in the golf course fund were (\$36), which represents an increase of \$5,534,878. This increase is primarily due to the reclassification of an interfund loan from the capital projects fund in the amount of \$5,556,500 to a transfer. These amounts were previously used to renovate the golf course for public use

Unrestricted net assets in the tennis center fund were (\$5,627), which represents an increase of \$17,957. This increase is primarily due to transfers from the general fund to support the operations of the center.

Unrestricted net assets in the building permits and inspections fund were \$2,253,608, which represents a decrease of \$1,009,168. This decrease is primarily due to a planned use of unrestricted net assets through a ninety percent reduction in building permit fees. This program is set to expire early in fiscal year 2013.

Unrestricted net assets in the information technology and communications fund (IT&C) were \$91,675, which represents an increase of \$2,072,651. This increase is primarily due to the reclassification of an interfund loan from the capital projects fund in the amount of \$1,794,498 to a transfer. These amounts were previously used to invest in the expansion of the City's fiber optic system infrastructure assets.

### **Fund Balance Policy Compliance**

**Governmental funds.** The general fund adjusted unassigned fund balance exceeds the policy minimum of ten percent of the following year's budgeted expenditures. The City Council has chosen to leave this excess in place to hedge against unanticipated future revenue decreases.

**Proprietary funds.** The utility fund and solid waste fund unrestricted net assets exceed the policy minimum of ten percent of the following year's budgeted expenses. The City Council has chosen to leave this excess in place to hedge against unanticipated future revenue decreases. The stormwater fund unrestricted net assets exceed the policy maximum of twenty percent of the following year's budgeted expenses. The excess amount will be reinvested into future year's infrastructure improvements. The golf course and tennis center fund unrestricted net assets are below the minimum fund balance threshold. A plan is currently in place to return unrestricted net assets to the minimum threshold within three years.

Additional information relating to the fund balance policy can be found in Note **15** on pages **77-79** of this report.

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budgeted expenses and transfers out totaled a decrease of \$246,937. The change was due to net budget revisions in various departments as part of our ongoing cost reduction program. During the year, final amended expenditures exceeded the revenues budget by \$4,133,514. This was the result of budgeted utilization of accumulated fund balance. Actual expenditures were less than the final amended budget by \$3,555,851. The overall cost reduction program, as well as not needing to use accumulated disaster reserve funds, are the primary reasons for this difference.

### Capital Asset and Debt Administration

**Capital assets.** The City of Palm Coast's investment in capital assets as of September 30, 2012, amounts to \$529,772,150 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment. This is a decrease of \$7,502,607 for the current fiscal year. The overall decrease is due to depreciation for the current fiscal year exceeding fixed asset additions.

Table III  
City of Palm Coast's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 85,752,095	\$ 85,722,690	\$ 16,067,448	\$ 16,051,194	\$ 101,819,543	\$ 101,773,884
Buildings and improvements						
other than buildings	30,321,086	28,829,474	71,183,365	73,419,372	101,504,451	102,248,846
Infrastructure	174,347,235	181,087,453	130,729,830	133,787,533	305,077,065	314,874,986
Equipment	7,237,040	7,940,685	653,750	919,716	7,890,790	8,860,401
Construction in progress	8,050,559	5,360,809	5,429,742	4,155,831	13,480,301	9,516,640
Total	\$ 305,708,015	\$ 308,941,111	\$ 224,064,135	\$ 228,333,646	\$ 529,772,150	\$ 537,274,757

Additional information on the City of Palm Coast's capital assets can be found in Note 6 on pages **54-55** of this report.

**Long-term debt.** The City of Palm Coast owes \$127,632,882 in revenue bonds, net of premiums and bond costs, used for the purchase and expansion of the utility system. There are State Revolving Fund loans and a bank loan totaling \$37,756,316 primarily for utility and stormwater improvements. The City also has a CRA revenue loan for redevelopment costs with a balance of \$3,360,000 at year end. The remainder of the long-term debt is made up of compensated absences, capital leases, and an unfunded net OPEB liability. The total long-term debt of the City is \$171,843,433.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Loans from other governments	\$ -	\$ -	\$ 29,198,491	\$ 30,757,946	\$ 29,198,491	\$ 30,757,946
Loans from financial institutions	3,360,000	3,570,000	8,557,825	9,256,964	11,917,825	12,826,964
Revenue bonds, net	-	-	127,632,882	130,744,093	127,632,882	130,744,093
Capital leases	-	-	57,333	190,680	57,333	190,680
Net OPEB liability	272,000	209,000	147,000	97,000	419,000	306,000
Compensated absences	1,525,617	1,433,079	1,092,285	1,216,194	2,617,902	2,649,273
<b>Total</b>	<b>\$ 5,157,617</b>	<b>\$ 5,212,079</b>	<b>\$ 166,685,816</b>	<b>\$ 172,262,877</b>	<b>\$ 171,843,433</b>	<b>\$ 177,474,956</b>

Additional information on the City of Palm Coast's long-term debt can be found in Note 9 beginning on pages **58-68** of this report.

### Next Year's Budget and Rates

During the current fiscal year, unassigned fund balance in the General Fund increased to \$4,485,999. The available fund balance, as a percentage of prior year expenditures and transfers out is approximately 19%.

The City Council approved a millage rate of 4.2958 mills for fiscal year 2012. Of the total millage, .0700 mills will be dedicated to the stormwater fund for capital improvements. Additional millage was dedicated to capital improvements through the streets improvement fund (.0285) and capital projects fund (.0470), leaving the balance of 4.1503 mills to the general fund. Declining market values contributed to an overall decrease in taxable property value for the fifth consecutive year. The decrease in taxable value was approximately 7%. New construction added approximately .7% to the taxable value, so the City had a net of 6.3% reduction in taxable property value for the year.

The water and sewer rates increased for the 2012-2013 budget year. Annual rate increases are tied to changes in the Consumer Price Index for All Urban Customers as of June 30 each year. The water and sewer rates were increased by 1.7% for all customers. These rate increases are necessary to cover anticipated increases in operating costs and capital replacement needs. In addition, the City commissioned a water and sewer rate study in anticipation of issuing bonds for future capital projects, including a new sewer treatment plant. Any recommended rate increases are anticipated to take effect in April 2013.

During the fiscal year 2013 budget process, the City Council adopted a policy of funding stormwater capital improvements primarily through user fees. This required a rate study to determine the sufficiency of current rates in order to fund the five year capital program. The results indicated a rate increase from \$8 per ERU billing unit to \$11.65 per ERU billing unit. The new rate will take effect in January 2013.

### **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  
160 Cypress Point Parkway, Suite B-106  
Palm Coast, FL 32164

Telephone (386) 986-4745 Fax (386) 986-2614  
E-mail [cquinn@palmcoastgov.com](mailto:cquinn@palmcoastgov.com)

## **BASIC FINANCIAL STATEMENTS**



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City of Palm Coast, Florida  
Statement of Net Assets  
September 30, 2012

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 18,466,631	\$ 6,324,454	\$ 24,791,085
Accounts receivable - net	1,599,728	8,408,880	10,008,608
Due from other governments	4,007,735	-	4,007,735
Prepaid items	253,628	92,263	345,891
Inventories	65,730	507,085	572,815
Unamortized debt issuance costs	-	573,855	573,855
Restricted assets:			
Equity in pooled cash and investments	-	20,467,134	20,467,134
Due from other governments	-	623,639	623,639
Capital assets (net of depreciation):			
Land	85,752,095	16,067,448	101,819,543
Building and improvements other than buildings	30,321,086	71,183,365	101,504,451
Infrastructure	174,347,235	130,729,830	305,077,065
Equipment	7,237,040	653,750	7,890,790
Construction in progress	8,050,559	5,429,742	13,480,301
Total assets	<u>330,101,467</u>	<u>261,061,445</u>	<u>591,162,912</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	3,851,388	2,150,184	6,001,572
Due to other governments	108,855	4,218	113,073
Internal balances	7,047,915	(7,047,915)	-
Accrued loan interest payable	-	2,681	2,681
Customer deposits	211,368	3,323,852	3,535,220
Unearned revenue	-	64,593	64,593
Payable from restricted assets:			
Accrued bond interest payable	-	3,068,249	3,068,249
Accrued loan interest payable	-	189,987	189,987
Accounts payable	-	342,099	342,099
Contracts payable	-	88,726	88,726
Noncurrent liabilities:			
Due within one year	581,968	5,392,925	5,974,893
Due in more than one year	4,575,649	161,292,891	165,868,540
Total liabilities	<u>16,377,143</u>	<u>168,872,490</u>	<u>185,249,633</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	303,986,665	68,131,604	372,118,269
Restricted for:			
Construction	469,036	-	469,036
Debt service	-	13,833,001	13,833,001
Public safety	315,744	-	315,744
Grants	55,221	-	55,221
Unrestricted	<u>8,897,658</u>	<u>10,224,350</u>	<u>19,122,008</u>
Total net assets	<u>\$ 313,724,324</u>	<u>\$ 92,188,955</u>	<u>\$ 405,913,279</u>

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

City of Palm Coast, Florida  
Statement of Activities  
For the Year Ended September 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Primary Government	Business-type Activities	
Primary Government:							
General government	\$ 5,867,359	\$ 971,403	\$ 1,175,237	\$ -	\$ (3,720,719)	\$ -	\$ (3,720,719)
Public safety	10,144,341	386,798	-	35,069	(9,722,474)	-	(9,722,474)
Transportation and physical environment	13,333,183	132,838	2,047,801	4,606,809	(6,545,735)	-	(6,545,735)
Culture and recreation	3,072,489	436,185	16,103	130,030	(2,490,171)	-	(2,490,171)
Interest on long-term debt	652,050	-	-	-	(652,050)	-	(652,050)
Total governmental activities	33,069,422	1,927,224	3,239,141	4,771,908	(23,131,149)	-	(23,131,149)
Business-Type Activities							
Utility	30,545,189	29,518,612	477,582	1,805,166	-	1,256,171	1,256,171
Solid Waste	7,533,852	7,655,877	-	-	-	122,025	122,025
Stormwater	3,904,173	5,469,298	-	307,524	-	1,872,649	1,872,649
Building Permits & Inspections	1,286,637	273,784	-	-	-	(1,012,853)	(1,012,853)
Information Technology & Communication	351,525	659,065	-	-	-	307,540	307,540
Golf Course	1,806,088	1,479,063	-	-	-	(327,025)	(327,025)
Tennis Center	267,918	157,818	-	-	-	(110,100)	(110,100)
Total Business-Type Activities	45,695,382	45,213,517	477,582	2,112,690	-	2,108,407	2,108,407
Total Primary Government	\$ 78,764,804	\$ 47,140,741	\$ 3,716,723	\$ 6,884,598	(23,131,149)	2,108,407	(21,022,742)
General revenues:							
Property taxes					14,180,455	1,686,100	15,866,555
Sales and use taxes					2,730,209	-	2,730,209
Telecommunication services tax					2,696,547	-	2,696,547
Franchise taxes					651,129	-	651,129
Other local taxes					378,989	-	378,989
Intergovernmental Revenue, non-program					3,649,676	-	3,649,676
Unrestricted investment earnings					461,968	224,542	686,510
Miscellaneous					41,832	1,641	43,473
Transfers					(7,463,594)	7,463,594	-
Total general revenues					17,327,211	9,375,877	26,703,088
Change in Net Assets					(5,803,938)	11,484,284	5,680,346
Net assets - beginning of year					319,528,262	80,704,671	400,232,933
Net assets - end of year					\$ 313,724,324	\$ 92,188,955	\$ 405,913,279

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





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City of Palm Coast, Florida  
Balance Sheet  
Governmental Funds  
September 30, 2012

	General Fund	Capital Projects Fund	Transportation Impact Fee Fund	Streets Improvement Fund	SR100 CRA Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Equity in pooled cash and investments	\$ 6,823,489	\$ 1,017,903	\$ 935	\$ 2,281,448	\$ 2,702,991	\$ 900,074	\$ 13,726,840
Accounts receivable - net	1,293,685	-	-	250,044	-	-	1,543,729
Special Assessment receivable - net	-	-	-	-	-	52,840	52,840
Prepaid items	189,715	-	-	-	-	-	189,715
Due from other governments	1,069,156	1,917,447	-	834,841	-	113,567	3,935,011
Advances to other funds	5,792,529	-	-	2,427,000	-	-	8,219,529
<b>Total assets</b>	<b>\$ 15,168,574</b>	<b>\$ 2,935,350</b>	<b>\$ 935</b>	<b>\$ 5,793,333</b>	<b>\$ 2,702,991</b>	<b>\$ 1,066,481</b>	<b>\$ 27,667,664</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 420,533	\$ 1,025,830	\$ -	\$ 1,253,201	\$ 10,278	\$ 196,872	\$ 2,906,714
Accrued liabilities	383,894	-	-	-	-	-	383,894
Due to other governments	108,855	-	-	-	-	-	108,855
Deferred revenue	1,315,343	-	-	79,602	-	-	1,394,945
Customer deposits	211,368	-	-	-	-	-	211,368
Advances from other funds	-	-	2,427,000	-	5,792,529	5,284,036	13,503,565
<b>Total liabilities</b>	<b>2,439,993</b>	<b>1,025,830</b>	<b>2,427,000</b>	<b>1,332,803</b>	<b>5,802,807</b>	<b>5,480,908</b>	<b>18,509,341</b>
Fund Balances:							
Nonspendable							
Prepaid items	189,715	-	-	-	-	-	189,715
Advances to other funds	5,792,529	-	-	-	-	-	5,792,529
Restricted for							
Public safety	-	-	-	-	-	315,744	315,744
Construction	-	-	-	-	-	469,036	469,036
Business Assistance	55,221	-	-	-	-	-	55,221
Committed for							
Disaster Reserve	2,205,117	-	-	-	-	-	2,205,117
Construction	-	1,909,520	-	4,460,530	-	-	6,370,050
Unassigned	4,485,999	-	(2,426,065)	-	(3,099,816)	(5,199,207)	(6,239,089)
<b>Total fund balances</b>	<b>12,728,581</b>	<b>1,909,520</b>	<b>(2,426,065)</b>	<b>4,460,530</b>	<b>(3,099,816)</b>	<b>(4,414,427)</b>	<b>9,158,323</b>
<b>Total liabilities and fund balances</b>	<b>\$ 15,168,574</b>	<b>\$ 2,935,350</b>	<b>\$ 935</b>	<b>\$ 5,793,333</b>	<b>\$ 2,702,991</b>	<b>\$ 1,066,481</b>	<b>\$ 27,667,664</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, 2012**

Fund balances - total governmental funds	\$	9,158,323
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		299,760,130
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenues in the funds.		1,394,945
Internal services funds are used by management to charge the costs of fleet leases and maintenance. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		8,604,311
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(5,193,385)
Net assets of governmental activities	\$	313,724,324

City of Palm Coast, Florida  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2012

	General Fund	Capital Projects Fund	Transportation Impact Fee Fund	Streets Improvement Fund	SR100 CRA Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes	\$ 17,486,375	\$ -	\$ -	\$ 4,352,576	\$ 798,707	\$ -	\$ 22,637,658
Licenses and permits	210,196	-	-	-	-	-	210,196
Intergovernmental revenue	2,219,200	3,145,396	-	2,321,095	-	1,063,331	8,749,022
Charges for services	2,740,171	-	-	-	-	-	2,740,171
Special assessments	-	-	-	-	-	129,899	129,899
Fines and forfeitures	441,728	-	-	270,537	-	27,146	739,411
Impact fees	-	-	581,068	-	-	165,099	746,167
Contributions	58,949	-	-	-	-	-	58,949
Investment earnings	346,490	13,139	-	26,130	27,067	8,285	421,111
Miscellaneous	38,946	-	-	-	-	-	38,946
<b>Total revenues</b>	<b>23,542,055</b>	<b>3,158,535</b>	<b>581,068</b>	<b>6,970,338</b>	<b>825,774</b>	<b>1,393,760</b>	<b>36,471,530</b>
<b>EXPENDITURES</b>							
Current:							
General government	6,795,179	-	-	-	-	1,376,367	8,171,546
Public safety	9,667,179	-	-	154,905	-	-	9,822,084
Transportation and physical environment	5,290,618	-	9,814	-	14,087	78	5,314,597
Culture and recreation	2,186,053	-	-	-	-	-	2,186,053
Capital outlay:							
Transportation and physical environment	36,318	3,418,536	-	2,465,409	106,470	-	6,026,733
Culture and recreation	-	795,072	-	-	-	-	795,072
Debt service:							
Principal	-	-	-	-	210,000	-	210,000
Interest and Other	-	-	-	-	440,689	211,361	652,050
<b>Total expenditures</b>	<b>23,975,347</b>	<b>4,213,608</b>	<b>9,814</b>	<b>2,620,314</b>	<b>771,246</b>	<b>1,587,806</b>	<b>33,178,135</b>
Excess (deficiency) of revenues over (under) expenditures	(433,292)	(1,055,073)	571,254	4,350,024	54,528	(194,046)	3,293,395
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	2,660,404	200,000	2,075,000	-	515,874	-	5,451,278
Transfers out	(710,874)	(9,425,998)	-	(2,578,000)	-	(200,000)	(12,914,872)
<b>Total other financing sources (uses)</b>	<b>1,949,530</b>	<b>(9,225,998)</b>	<b>2,075,000</b>	<b>(2,578,000)</b>	<b>515,874</b>	<b>(200,000)</b>	<b>(7,463,594)</b>
<b>Net change in fund balances</b>	<b>1,516,238</b>	<b>(10,281,071)</b>	<b>2,646,254</b>	<b>1,772,024</b>	<b>570,402</b>	<b>(394,046)</b>	<b>(4,170,199)</b>
Fund balances - beginning	11,212,343	12,190,591	(5,072,319)	2,688,506	(3,670,218)	(4,020,381)	13,328,522
<b>Fund balances - ending</b>	<b>\$ 12,728,581</b>	<b>\$ 1,909,520</b>	<b>\$ (2,426,065)</b>	<b>\$ 4,460,530</b>	<b>\$ (3,099,816)</b>	<b>\$ (4,414,427)</b>	<b>\$ 9,158,323</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**  
**September 30, 2012**

Net change in fund balances - total governmental funds \$ (4,170,199)

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

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

Expenditures for capital assets	6,821,805	
Less current year depreciation	<u>(9,357,944)</u>	(2,536,139)

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

Contributed capital assets	-
Change in revenue collections expected after 60 days	187,601

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

-

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

210,000

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

Compensated absences	(86,015)
Annual OPEB Cost	(62,000)
Interest payable	81,459

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service fund is reported with governmental activities.

571,355

Change in net assets of governmental activities.

\$ (5,803,938)

City of Palm Coast, Florida  
Statement of Net Assets  
Proprietary Funds  
September 30, 2012

Business-type Activities-Enterprise Funds

	Utility Fund	Solid Waste Fund	Stormwater Fund	Nonmajor Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
<b>ASSETS</b>						
Current assets:						
Equity in pooled cash and investments	\$ 3,548,361	\$ 4,809	\$ 201,243	\$ 2,570,041	\$ 6,324,454	\$ 4,739,791
Accounts receivable - net	4,844,326	1,411,543	2,058,315	94,696	8,408,880	3,159
Inventories	476,751	-	-	30,334	507,085	65,730
Prepaid Items	44,192	-	16,944	31,127	92,263	63,913
Due from other funds	52,840	-	-	60,000	112,840	-
Restricted current assets:						
Cash with fiscal agent	6,348,249	-	-	-	6,348,249	-
Due from other governments	316,270	-	307,369	-	623,639	72,724
<b>Total current assets</b>	<b>15,630,989</b>	<b>1,416,352</b>	<b>2,583,871</b>	<b>2,786,198</b>	<b>22,417,410</b>	<b>4,945,317</b>
Noncurrent assets:						
Restricted noncurrent assets:						
Debt service	10,465,570	-	277,418	-	10,742,988	-
Bond proceeds	3,375,897	-	-	-	3,375,897	-
Advances to other funds	5,284,036	-	-	-	5,284,036	-
Loan acquisition costs	423,715	-	150,140	-	573,855	-
Capital assets:						
Land	12,927,925	-	857,042	2,282,481	16,067,448	-
Building and improvements other than buildings	94,147,290	-	-	387,554	94,534,844	1,097,144
Infrastructure	131,009,064	-	28,421,799	8,718,038	168,148,901	-
Equipment	927,838	-	717,539	865,009	2,510,386	12,652,628
Less accumulated depreciation	(54,588,871)	-	(6,025,621)	(2,012,694)	(62,627,186)	(7,801,887)
Construction in progress	5,299,945	-	129,797	-	5,429,742	-
<b>Total noncurrent assets</b>	<b>209,272,409</b>	<b>-</b>	<b>24,528,114</b>	<b>10,240,388</b>	<b>244,040,911</b>	<b>5,947,885</b>
<b>Total assets</b>	<b>\$ 224,903,398</b>	<b>\$ 1,416,352</b>	<b>\$ 27,111,985</b>	<b>\$ 13,026,586</b>	<b>\$ 266,458,321</b>	<b>\$ 10,893,202</b>

City of Palm Coast, Florida  
Statement of Net Assets (continued)  
Proprietary Funds  
September 30, 2012

Business-type Activities-Enterprise Funds

	Utility Fund	Solid Waste Fund	Stormwater Fund	Nonmajor Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 927,620	\$ 551,541	\$ 284,495	\$ 77,651	\$ 1,841,307	\$ 360,266
Claims payable	-	-	-	-	-	195,050
Due to other governments	-	-	-	4,218	4,218	-
Loans and capital leases payable	1,299,593	-	321,144	81,387	1,702,124	-
Compensated absences	290,039	-	56,901	63,861	410,801	3,564
Accrued liabilities	186,088	-	48,977	73,812	308,877	5,464
Accrued loan interest payable	-	-	-	2,681	2,681	-
Customer deposits	3,323,852	-	-	-	3,323,852	-
Deferred revenue	-	-	-	64,593	64,593	-
Current liabilities payable from rstrd assets:						
Current maturities of bonds payable	3,280,000	-	-	-	3,280,000	-
Accrued bond interest payable	3,068,249	-	-	-	3,068,249	-
Accrued loan interest payable	175,480	-	14,507	-	189,987	-
Accounts payable	342,099	-	-	-	342,099	-
Contract payable	81,245	-	7,481	-	88,726	-
Total current liabilities	12,974,265	551,541	733,505	368,203	14,627,514	564,344
Noncurrent liabilities:						
Compensated absences	475,835	-	67,887	137,762	681,484	11,508
Net OPEB obligation	101,000	-	24,000	22,000	147,000	2,000
Bonds payable	124,352,882	-	-	-	124,352,882	-
Loans and capital leases payable	21,899,999	-	14,019,756	191,770	36,111,525	-
Due to other funds	-	60,000	-	-	60,000	-
Total liabilities	159,803,981	611,541	14,845,148	719,735	175,980,405	577,852
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	47,947,208	-	10,217,165	9,967,231	68,131,604	5,947,885
Restricted for debt service	13,570,090	-	262,911	-	13,833,001	-
Unrestricted	3,582,119	804,811	1,786,761	2,339,620	8,513,311	4,367,465
Total net assets	\$ 65,099,417	\$ 804,811	\$ 12,266,837	\$ 12,306,851	90,477,916	\$ 10,315,350
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					1,711,039	
					<u>\$92,188,955</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 Net Assets  
Proprietary Funds  
For the Year Ended September 30, 2012

Business-type Activities - Enterprise Funds

	Utility Fund	Solid Waste Fund	Stormwater Fund	Nonmajor Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
<b>OPERATING REVENUES</b>						
Charges for services:						
Water sales	\$ 17,654,180	\$ -	\$ -	\$ -	\$ 17,654,180	\$ -
Sewer charges	10,750,178	-	-	-	10,750,178	-
Garbage charges	-	7,655,877	-	-	7,655,877	-
Stormwater charges	-	-	5,469,298	-	5,469,298	-
Tennis program charges	-	-	-	157,818	157,818	-
Golf Course charges	-	-	-	1,479,063	1,479,063	-
Building permit and inspection charges	-	-	-	273,784	273,784	-
IT&C charges	-	-	-	2,936,065	2,936,065	-
Miscellaneous	1,114,254	-	-	-	1,114,254	6,631,407
<b>Total operating revenues</b>	<b>29,518,612</b>	<b>7,655,877</b>	<b>5,469,298</b>	<b>4,846,730</b>	<b>47,490,517</b>	<b>6,631,407</b>
<b>OPERATING EXPENSES</b>						
Administrative	4,397,755	-	-	-	4,397,755	4,480,881
Water system	6,226,971	-	-	-	6,226,971	-
Sewer system	4,440,016	-	-	-	4,440,016	-
Solid waste system	-	7,533,636	-	-	7,533,636	-
Stormwater system	-	-	2,065,740	-	2,065,740	-
Golf Course	-	-	-	1,547,714	1,547,714	-
Tennis Center	-	-	-	263,782	263,782	-
Building permits and inspections	-	-	-	1,305,956	1,305,956	-
IT&C	-	-	-	2,249,120	2,249,120	-
Depreciation	8,996,308	-	1,573,437	671,317	11,241,062	1,153,691
<b>Total operating expenses</b>	<b>24,061,050</b>	<b>7,533,636</b>	<b>3,639,177</b>	<b>6,037,889</b>	<b>41,271,752</b>	<b>5,634,572</b>
Operating income (loss)	5,457,562	122,241	1,830,121	(1,191,159)	6,218,765	996,835
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment revenue	199,328	-	902	24,312	224,542	40,857
Interest/amortization expense	(6,779,966)	(216)	(384,449)	(5,222)	(7,169,853)	-
Property Taxes	-	-	1,686,100	-	1,686,100	-
Other	477,582	-	-	1,641	479,223	2,886
<b>Total nonoperating revenues (expenses)</b>	<b>(6,103,056)</b>	<b>(216)</b>	<b>1,302,553</b>	<b>20,731</b>	<b>(4,779,988)</b>	<b>43,743</b>
Income (loss) before capital contributions and transfers	(645,494)	122,025	3,132,674	(1,170,428)	1,438,777	1,040,578
<b>TRANSFERS AND CONTRIBUTIONS</b>						
Capital grants and contributions	1,805,166	-	307,524	-	2,112,690	-
Transfers in	-	-	885,000	7,545,998	8,430,998	-
Transfers out	(864,404)	-	(68,000)	(35,000)	(967,404)	-
<b>Total transfers and contributions</b>	<b>940,762</b>	<b>-</b>	<b>1,124,524</b>	<b>7,510,998</b>	<b>9,576,284</b>	<b>-</b>
Change in net assets	295,268	122,025	4,257,198	6,340,570	11,015,061	1,040,578
Total net assets - beginning	64,804,149	682,786	8,009,639	5,966,281		9,274,772
Total net assets - ending	\$ 65,099,417	\$ 804,811	\$ 12,266,837	\$ 12,306,851		\$ 10,315,350
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					469,223	
					\$11,484,284	

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, 2012**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Utility	Solid Waste	Storm Water	Nonmajor Enterprise	Totals	
<b>Cash flows from operating activities</b>						
Cash received from customers	\$ 29,626,682	\$ 7,760,981	\$ 5,020,575	\$ 4,811,500	\$ 47,219,738	\$ 6,620,183
Cash paid to suppliers	(9,950,220)	(7,581,010)	(2,062,252)	(3,221,781)	(22,815,263)	(4,186,073)
Cash paid to employees	(4,736,891)	-	(216,224)	(2,231,373)	(7,184,488)	(145,609)
Net cash provided by (used in) operating activities	14,939,571	179,971	2,742,099	(641,654)	17,219,987	2,288,501
<b>Cash flow from noncapital financing activities</b>						
Transfers in from other funds	-	-	885,000	7,545,998	8,430,998	-
Transfers out to other funds	(864,404)	-	(68,000)	(35,000)	(967,404)	-
Advances to other funds	-	(175,000)	(2,119,506)	(7,350,998)	(9,645,504)	-
Advances from other funds	81,463	-	-	2,294,506	2,375,969	-
Net cash provided by (used in) noncapital financing activities	(782,941)	(175,000)	(1,302,506)	2,454,506	194,059	-
<b>Cash flow from capital and related financing activities</b>						
Proceeds from issuance of long-term debt	-	-	-	-	-	-
Loan Principal Payments	(4,436,655)	-	(950,798)	(174,488)	(5,561,941)	-
Interest paid	(6,845,540)	(216)	(383,164)	(8,785)	(7,237,705)	-
Acquisition and construction of property, plant and equipment	(4,483,312)	-	(1,586,993)	(261,674)	(6,331,979)	(453,853)
Property Tax Proceeds	-	-	1,686,100	-	1,686,100	-
Impact fees and contributions	1,356,338	-	-	-	1,356,338	-
Net cash provided by (used in) capital and related financing activities	(14,409,169)	(216)	(1,234,855)	(444,947)	(16,089,187)	(453,853)
<b>Cash flow from investing activities</b>						
Interest on investments	199,328	-	902	24,312	224,542	40,857
Net cash provided by (used in) investing activities	199,328	-	902	24,312	224,542	40,857
Net increase (decrease) in cash and cash equivalents	(53,211)	4,755	205,640	1,392,217	1,549,401	1,875,505
Beginning cash and cash equivalents	23,791,288	54	273,021	1,177,824	25,242,187	2,864,286
Ending cash and cash equivalents	\$ 23,738,077	\$ 4,809	\$ 478,661	\$ 2,570,041	\$ 26,791,588	\$ 4,739,791

(continued)

**City of Palm Coast, Florida**  
**Statement of Cash Flows (continued)**  
**Proprietary Funds**  
**For the Year Ended September 30, 2012**

	Business-type Activities - Enterprise Funds				Totals	Governmental Activities - Internal Service Funds
	Utility	Solid Waste	Storm Water	Nonmajor Enterprise		
<b>Reconciliation of operating income to net cash provided by operating activities</b>						
Operating income (loss)	\$ 5,457,562	\$ 122,241	\$ 1,830,121	\$ (1,191,159)	\$ 6,218,765	\$ 996,835
Adjustment to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation and amortization	8,996,308	-	1,573,437	671,317	11,241,062	1,153,691
Change in assets and liabilities:						
Accounts receivable	28,428	105,104	(448,723)	(29,411)	(344,602)	(11,224)
Inventories	50,548	-	-	3,993	54,541	(9,052)
Prepays	(3,256)	-	(2,287)	(2,329)	(7,872)	(2,000)
Accounts payable	327,269	(47,374)	(134,470)	(69,934)	75,491	153,932
Accrued liabilities	17,256	-	6,546	(24,125)	(323)	(204)
Customer deposits	79,642	-	-	27,192	106,834	-
Compensated absences	(14,186)	-	(82,525)	(27,198)	(123,909)	6,523
Net cash provided by (used in) operating activities	\$ 14,939,571	\$ 179,971	\$ 2,742,099	\$ (641,654)	\$ 17,219,987	\$ 2,288,501
<b>Cash and cash equivalents classified as:</b>						
Equity in pooled cash and investments in current assets	\$ 3,548,361	\$ 4,809	\$ 201,243	\$ 2,570,041	\$ 6,324,454	\$ 4,739,791
Restricted equity in pooled cash and investments						
Cash with fiscal agent	6,348,249	-	-	-	6,348,249	-
Debt service	10,465,570	-	277,418	-	10,742,988	-
Bond proceeds	3,375,897	-	-	-	3,375,897	-
Total restricted equity in pooled cash and investments	20,189,716	-	277,418	-	20,467,134	-
Total cash and cash equivalents	\$ 23,738,077	\$ 4,809	\$ 478,661	\$ 2,570,041	\$ 26,791,588	\$ 4,739,791
<b>Noncash capital and related financing activities:</b>						
Developer contributions of capital assets	132,558	-	-	-	132,558	-

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  
September 30, 2012

	Volunteer Firefighter Pension Fund	Coquina Coast Agency Fund
<b>ASSETS</b>		
Cash	\$ 418	\$ 723,923
Pension Investments		
External investment pools	2,773,027	-
Total assets	2,773,445	723,923
 <b>LIABILITIES</b>		
Accounts payable	3,589	723,923
Total liabilities	3,589	\$ 723,923
 <b>NET ASSETS</b>		
Held in Trust for Pension Benefits and Other Purposes	\$ 2,769,856	

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 fiscal year ended September 30, 2012

		Volunteer Firefighter Pension Fund
<b>ADDITIONS</b>		
Contributions:		
State contributions	\$	377,962
Total contributions		377,962
Investment earnings:		
Interest		360,929
Total investment earnings		360,929
Total additions		738,891
<b>DEDUCTIONS</b>		
Administrative expenses		21,301
Benefit distributions		73,719
Total deductions		95,020
Net Increase (Decrease)		643,871
Net assets - beginning		2,125,985
Net assets - ending	\$	2,769,856

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



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**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2012**

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The pension trust fund and agency fund are reported as a separate financial statement, and are not included in the government-wide financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.



**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

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

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

When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The government reports the following major governmental funds:

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

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

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

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

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

The government reports the following major proprietary funds:

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

The stormwater management fund accounts for revenues and expenses related to the maintenance and capital improvements of the stormwater system.

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**SEPTEMBER 30, 2012**

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

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

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

Additionally, the government reports the following fund types:

The internal service funds account for a self-insured employee medical insurance program and 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.

The Coquina Coast Cooperative agency fund accounts for the collection and disbursement of funds related to a regional desalinization water plant project.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing activities. The principal operating revenues of the City's enterprise funds and the internal service fund are charges to customers for sales and services. Operating expenses for the enterprise funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

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

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

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. When committed, assigned, and/or unassigned unrestricted amounts are available, committed amounts are utilized first, followed by assigned, then unassigned.

***Deposits and Investments***

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

***Receivables and payables***

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

Receivables consist primarily of amounts due from other governments, as well as utility, solid waste, stormwater, and fiber optic system usage billings. All General Fund receivables are deemed collectible, and an allowance for doubtful accounts has been set up in the utility, solid waste, and stormwater funds for 18%, 14% and 30%, respectively, of the outstanding receivable amounts. Under Florida law, the assessment and collection of all county, municipal, and school district property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate up to 10 mills.

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

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

***Receivables and payables (Continued)***

The property tax calendar is as follows:

Valuation Date January 1, 2011

Property Appraiser prepares the assessment roll with values as of January 1, 2011, submits this preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. July 1, 2011

City Council holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. September 2011

Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy Date). November 1, 2011

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November 2011 through March 2012, with the following applicable discounts:

<u>Month Paid</u>	<u>Discount (%)</u>	
November	4	
December	3	November 1, 2011
January	2	through
February	1	March 31, 2012
March	0	

All unpaid taxes on real and tangible personal property become delinquent. April 1, 2012

A list of unpaid tangible personal property taxes and a list of unpaid real property taxes are advertised. April and May 2012

Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien Date). June 1, 2012

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, 2012

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2012**

**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. Prepaid items in governmental funds are recognized using the consumption method.

***Restricted Assets***

Certain proceeds of the utility enterprise fund revenue bonds are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Other enterprise fund restricted assets include accumulated impact fees, intergovernmental receivables and debt service requirements; their use is limited by state statute and various regulatory authorities.

***Capital Assets***

Capital assets are defined by the City as property and equipment with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

	<u>Years</u>
Buildings	20 - 40
Improvements other than buildings	7 - 30
Infrastructure	15 - 100
Equipment	5 - 20

***Interfund Transactions***

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

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2012**

**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. General 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 (448 hours each for fire department personnel), 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 and proprietary fund types in the fund financial statements, long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond and loan issuance costs are reported as deferred charges and amortized over the term of the related debt.

***Fund Equity***

Beginning with fiscal year 2010, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are not in spendable form (such as prepaid expenses and advances due from other funds) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or as delegated to the City Manager.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is established by the City Council through adoption or amendment of the budget and through delegation to the City Manager. When committed, assigned, and/or unassigned unrestricted amounts are available, committed amounts are utilized first, followed by assigned, then unassigned.

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2012**

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

***Recently Issued and Adopted Accounting Pronouncements***

In November 2010, the GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. GASBS No. 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement is effective for periods beginning after December 15, 2011. The City does not have any SCAs and therefore the adoption of GASBS No. 60 does not have any impact on the District’s financial statements.

In November 2010, the GASB issued Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34. GASBS No. 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for periods beginning after June 15, 2012. The City does not have any component units not included in the financial statements and therefore the adoption of GASBS No. 61 does not have any impact on the City’s financial statements.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASBS No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Although this Statement is effective for periods beginning after December 15, 2011, the City elected to early implement it in fiscal year 2012. The adoption of GASBS No. 62 does not have any impact on the City’s financial statements.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011, and the City has elected to implement it beginning in October 2012.

In June 2011, the GASB issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions -- an amendment of GASB Statement No. 53. GASBS No. 64 provides clarification on whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The City implemented GASB Statement No. 64 in fiscal year 2012. The adoption of GASBS No. 64 does not have any impact on the City’s current financial statements.

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2012**

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

***Recently Issued and Adopted Accounting Pronouncements (Continued)***

In March 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, Elements of Financial Statements, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, GASB 65 recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The requirements of GASB 65 are effective for fiscal year 2014. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2012, the Government Accounting Standards Board (GASB) issued GASB 67, which replaces the requirements of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and GASB Statement No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules. The provisions in GASB 67 are effective for financial statements for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2012, the Government Accounting Standards Board (GASB) issued GASB 68, which replaces the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, and GASB 50, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.



**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**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 not reported in the funds.” The details of this \$299,760,130 difference are as follows:

Capital assets	\$ 343,795,286
Less: Accumulated Depreciation	(52,085,715)
Construction in progress	8,050,559
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$299,760,130

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 \$5,193,385 difference are as follows:

Loans payable	\$ 3,360,000
Net OPEB liability	270,000
Interest Payable OKR Special Assessment Interfund Loan	52,840
Compensated absences	1,510,545
Net adjustment to decrease <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$5,193,385

***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 \$210,000 difference are as follows:

Principal payments:	
SR100 CRA Revenue Note	\$ 210,000
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>	\$ 210,000

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**SEPTEMBER 30, 2012**

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

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

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

***Deficit Fund Balance***

The SR100 Community Redevelopment Area Fund had a deficit fund balance of \$3,099,816 as of September 30, 2012. This fund incurred redevelopment expenditures in advance of future anticipated property tax revenues. The Transportation Impact Fee and OKR Special Assessment special revenue funds had deficit fund balances of \$2,426,065 and \$5,199,207, respectively. These funds incurred construction expenses in excess of current revenues and transfers.

***Excess of Expenditures over Appropriations***

For the year ended September 30, 2012, 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  
SEPTEMBER 30, 2012**

**Note 4 – Deposits and Investments**

***Deposits***

At year-end, the carrying amount of the City's deposits was \$6,486,162 and the bank balance was \$6,423,741. 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 \$10,100 in petty cash. In addition, the City has a money market cash balance of \$2,973,473 in its investment account.

***Investments***

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

- The Local Government Surplus Funds Trust Fund
- SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency
- Interest bearing time deposits or savings accounts in qualified public depositories
- Direct obligations of the U.S. Treasury
- Federal Agencies and instrumentalities
- Commercial paper
- Corporate bonds

As of September 30, 2012, the City has the following investments:

Investment Type	Fair Value	Percentage of Total	Average Maturities
Florida Prime LGIP	\$ 4,100,135	13.92	39 Days
Florida SBA LGIP Fund B	936,853	3.18	4.08 Years
U.S. Government Agencies	15,201,661	51.62	1-4 Years
U.S. Treasuries	5,079,010	17.25	1-3 Years
Corporate Notes	1,529,706	5.19	1-3 Years
Commercial Paper	1,894,642	6.43	90 Days
Municipal Bonds	708,328	2.41	1-3 Years
	<u>\$ 29,450,335</u>		

The City's investments in the Florida Local Government Surplus Funds Trust Fund Investment Pool (LGIP), a Securities and Exchange Commission rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Local Government Surplus Funds Trust Fund Investment Pool is administered by the State Board of Administration (SBA) pursuant to section 218.405 of the Florida Statutes. On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**Note 4 – Deposits and Investments (Continued)**

the Pool due to an unprecedented amount of withdrawals from the Pool coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007 the State Board of Administration restructured the Pool into two separate funds. Fund A consisted of all money market appropriate assets, which was approximately 86% of Pool assets. Fund B consisted of assets that defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately 14% of Pool assets. At the time of the restructuring, all current Pool participants had their existing balances proportionately allocated into Fund A and Fund B.

Fund A, currently known as the Local Government Surplus Funds Trust Fund (Florida PRIME), is a Securities and Exchange Commission rule 2a7-like external investment pool. The pool invests in short-term, high-quality fixed income securities. To be considered high-quality, the security must be rated highest in the short-term rating category by one or more nationally recognized statistical ratings organizations, or deemed to be of comparable quality by the investment manager. The account balance of this fund is considered to be the fair value of this investment. As of September 30, 2012, Standard and Poor's Ratings Services assigned its "AAAm" principal stability fund rating to Florida PRIME.

Currently, Fund B participants are prohibited from withdrawing any amount from the Fund. Fund B is accounted for as a fluctuating NAV pool. The fair value factor of Fund B as of September 30, 2012 was .94896811. Fund B is not rated by any nationally recognized statistical rating agency.

Separate financial statements for the pool are available by contacting the Florida State Board of Administration.

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

*Credit Risk.* The City's investment policy allows investment in high grade corporate notes and government sponsored agencies with a minimum A rating by Standard and Poor's. Commercial paper is required to have a rating of A-1 by Standard and Poor's. As of September 30, 2012, the City's investments in U.S. Government Agencies were rated AA+, commercial paper rated A-1+, and corporate and municipal bonds rated AA+ by Standard & Poor's.

*Concentrations of Credit Risk.* The City's investment policy allows a maximum of seventy-five (75) percent of available funds to be invested in U.S. Government Agencies. As of September 30, 2012, the City's largest agency investment is in Fannie Mae (FNMA) and Freddie Mac (FHLMC). These securities represent 20 and 29 percent, respectively, of the City's total investments.

Cash with fiscal agent as of September 30, 2012 totaled \$6,348,249. This amount represents the semi-annual utility bond principal and interest payments on deposit with the distributing agent.

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**Note 5 – Receivables**

Receivables consist of the following at September 30, 2012:

	Accounts Receivable	Special Assessments Receivable	Allowance for Doubtful Accounts	Totals
General Fund	\$ 1,293,685	\$ -	\$ -	\$1,293,685
Streets Improvement Fund	250,044	-	-	250,044
Nonmajor Governmental Funds	-	52,840	-	52,840
Utility Fund	5,818,288	-	(973,962)	4,844,326
Solid Waste Fund	1,646,828	-	(235,285)	1,411,543
Stormwater Fund	2,926,230	-	(867,915)	2,058,315
Nonmajor Enterprise Funds	94,696	-	-	94,696
Fleet Management Fund	3,159	-	-	3,159
Totals	\$ 12,032,930	\$ 52,840	\$ (2,077,162)	\$10,008,608

The special assessments receivable is the amount due from property owners within the Old Kings Road Special Assessment District. The amount due as of September 30, 2012 represents the interest on an interfund loan (see Note 7) used for the financing of the expansion and realignment of Old Kings Road.

**Deferred/Unearned Revenue:**

Deferred revenues are recorded on the governmental funds balance sheet in the amount of \$1,394,945. The entire amount is deferred solely because it was not yet considered to be available. Therefore, no amount is shown as unearned revenue on the government-wide Statement of Net Assets.

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**SEPTEMBER 30, 2012**

**Note 6 – Capital Assets**

Capital asset activity for the year ended September 30, 2012 was as follows:

	Balance 9/30/2011	Increases	Decreases	Balance 9/30/2012
<b>A. Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 85,722,690	\$ 29,405	\$ -	\$ 85,752,095
Construction in progress	5,360,809	6,756,081	(4,066,331)	8,050,559
Total capital assets, not being depreciated	91,083,499	6,785,486	(4,066,331)	93,802,654
Capital assets, being depreciated:				
Buildings and improvements other than buildings	33,865,648	2,740,854	-	36,606,502
Infrastructure	214,290,961	1,034,280	-	215,325,241
Equipment	19,076,964	784,253	-	19,861,217
Total capital assets, being depreciated	267,233,573	4,559,387	-	271,792,960
Less accumulated depreciation for:				
Buildings and improvements other than buildings	(5,036,174)	(1,249,242)	-	(6,285,416)
Infrastructure	(33,203,508)	(7,774,498)	-	(40,978,006)
Equipment	(11,136,279)	(1,487,898)	-	(12,624,177)
Total accumulated depreciation	(49,375,961)	(10,511,638)	-	(59,887,599)
Total capital assets, being depreciated, net	217,857,612	(5,952,251)	-	211,905,361
Governmental activities capital assets, net	<u>\$ 308,941,111</u>	<u>\$ 833,235</u>	<u>\$ (4,066,331)</u>	<u>\$ 305,708,015</u>
	Balance 9/30/2011	Increases	Decreases	Balance 9/30/2012
<b>B. Business-type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 16,051,194	\$ 16,254	\$ -	\$ 16,067,448
Construction in progress	4,155,831	6,549,749	(5,275,838)	5,429,742
Total capital assets, not being depreciated	20,207,025	6,566,003	(5,275,838)	21,497,190
Capital assets, being depreciated:				
Buildings and improvements other than buildings	92,914,407	1,620,438	-	94,534,845
Infrastructure	163,991,497	3,964,732	-	167,956,229
Equipment	2,414,169	96,217	-	2,510,386
Total capital assets, being depreciated	259,320,073	5,681,387	-	265,001,460
Less accumulated depreciation for:				
Buildings and improvements other than buildings	(19,495,035)	(3,856,445)	-	(23,351,480)
Infrastructure	(30,203,964)	(7,022,435)	-	(37,226,399)
Equipment	(1,494,454)	(362,182)	-	(1,856,636)
Total accumulated depreciation	(51,193,453)	(11,241,062)	-	(62,434,515)
Total capital assets, being depreciated, net	208,126,620	(5,559,675)	-	202,566,945
Business-type activities capital assets, net	<u>\$ 228,333,645</u>	<u>\$ 1,006,328</u>	<u>\$ (5,275,838)</u>	<u>\$ 224,064,135</u>

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
SEPTEMBER 30, 2012**

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

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

Governmental activities:		
General government		\$ 135,005
Public safety		282,925
Transportation and physical environment		8,065,028
Culture and recreation		874,989
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		1,153,691
Total depreciation expense - governmental activities		\$ 10,511,638
Business activities:		
Utility		\$ 8,996,308
Stormwater		1,573,437
Information Technology and Communication (IT&C)		395,568
Golf Course		271,691
Tennis Center		4,058
Total depreciation expense - business activities		\$ 11,241,062

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

The composition of interfund balances as of September 30, 2012, is as follows:

Due from/to other funds:			
Receivable Fund	Payable Fund	Purpose	Amount
Utility Fund	Governmental Activities	Interfund loan interest payable	\$ 52,840
Nonmajor Proprietary Fund	Solid Waste Fund	Supplement operating cash flow	60,000
		Total	\$ 112,840

The outstanding balance between the Nonmajor Proprietary Fund and the Solid Waste Fund is a working capital loan from the Building Permits and Inspections Fund. The amount payable to the Utility Fund is interest due on the interfund loan to the OKR Special Assessment Fund. The interest payable is recorded as part of the adjustments reconciling the governmental funds to the government-wide Statement of Net Assets (see Note 2). These balances are expected to be collected in the subsequent year.

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**SEPTEMBER 30, 2012**

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

Advances from/to other funds:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	SR100 CRA Fund	Purchase and redevelopment of land	\$ 5,792,529
Streets Improvement Fund	Transportation Impact Fee Fund	Expansion and realignment of road	2,427,000
Utility Fund	OKR Special Assessment Fund	Expansion and realignment of road	5,284,036
			<u>\$ 13,503,565</u>

The advances from the General Fund relate to working capital loans made to the SR100 CRA Fund upon its creation. The Streets improvement Fund loan is to fund a major road expansion. The Utility Fund loan is a working capital loan made to the OKR Special Assessment Fund upon its creation. Certain members of the district have agreed to pay interest at a rate of 5% on this loan in the form of a special assessment. Principal payments on this loan are expected to begin in fiscal year 2014. None of these balances are scheduled to be collected in the subsequent year.

Interfund transfers:

Transfer out:	Transfer In:						Total
	General Fund	Transportation Impact Fund	Capital Projects Fund	SR 100 CRA Fund	Stormwater Fund	Nonmajor Proprietary	
General Fund	\$ -	\$ -	\$ -	\$ 515,874	\$ -	\$ 195,000	\$ 710,874
Utility Fund	864,404	-	-	-	-	-	864,404
Capital Projects Fund	-	2,075,000	-	-	-	7,350,998	9,425,998
Streets Improvement Fund	1,693,000	-	-	-	885,000	-	2,578,000
Stormwater Fund	68,000	-	-	-	-	-	68,000
Nonmajor Governmental	-	-	200,000	-	-	-	200,000
Nonmajor Proprietary	35,000	-	-	-	-	-	35,000
<b>Total transfers out</b>	<b>\$ 2,660,404</b>	<b>\$ 2,075,000</b>	<b>\$ 200,000</b>	<b>\$ 515,874</b>	<b>\$ 885,000</b>	<b>\$ 7,545,998</b>	<b>\$ 13,882,276</b>

Transfers from the General Fund are generally made to establish reserves for future capital expenditures, possible emergency related expenditures, and to move unrestricted general fund revenues to finance various programs that are accounted for in other funds in accordance with budgetary authorizations. The transfer from the Capital Project Fund to the Transportation Impact Fee Fund is to offset capital expenditures in advance of related revenues. The transfer from the Capital Project Fund to the Nonmajor Proprietary Funds was due to the reclassification of interfund loans to transfers for capital investment. Transfers to the CRA Fund represent base property tax collections within the redevelopment area. Transfers from the Utility Fund, Stormwater Fund, and Nonmajor Proprietary Funds are in lieu of tax transfers, maintenance transfers, and to establish reserves for future capital expenditures. The transfer to the Stormwater Fund was to offset prior year capital investment in advance of related revenues.



**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**SEPTEMBER 30, 2012**

**Note 8 – Leases and Agreements**

Interlocal Agreements:

The City maintains an interlocal agreement with the Flagler County Sheriff for law enforcement services. The agreement provides for additional services above the base level of service provided by the Sheriff on a County-wide basis. For 2012, the total cost was \$2,599,691 and provided 27 additional personnel.

Lease of City Owned Facilities:

The City leases various facilities to telecommunications companies, who provide wireless phone and Internet access to the public. The leases are for a five year period, with renewal options for an additional five years. Annual lease payments increase by the U.S. Consumer Price Index or 3 to 4%, whichever is greater. For fiscal year 2012, the total amount of lease payments received was \$256,198.

Operating Leases:

Golf Carts

In October 2009, the City entered into a noncancelable operating lease agreement for golf carts for the Palm Harbor Golf Club. The lease calls for monthly payments of \$5,449 for a term of 48 months with a fair market value buy out. The future minimum lease payments are as follows:

Year Ending <u>September 30,</u>	<u>Amount</u>
2013	\$ 65,388
	<hr/>
	<u>\$ 65,388</u>

City Administrative Offices

The City executed a noncancelable operating lease for new administrative office space on November 1, 2011 for a three year term. The monthly lease amount was \$17,000 to October 31, 2012, then \$19,000 monthly until October 31, 2013, with the final year at \$20,000 per month. The total cost for year ended September 30, 2012 was \$207,000. The future minimum lease payments are as follows:

Year Ending <u>September 30,</u>	<u>Amount</u>
2013	\$ 226,000
2014	239,000
	<hr/>
	<u>\$ 465,000</u>

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
SEPTEMBER 30, 2012**

**Note 9 – Long-Term Debt**

**A. Governmental Activities**

***SR100 CRA Redevelopment Revenue Note, Series 2009***

During year ended September 30, 2010, the City executed an agreement with BB&T Bank for the purpose of purchasing properties within the redevelopment area. The loan principal of \$4,000,000 is payable annually in accordance with the schedule below at an interest rate 4.34% through October 1, 2024.

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

Year Ending September 30,	Principal	Interest
2013	\$ -	\$ 145,824
2014	220,000	136,276
2015	230,000	126,294
2016	240,000	115,878
2017	250,000	105,028
2018-2022	1,415,000	345,898
2023-2027	1,005,000	44,919
	\$ 3,360,000	\$ 1,020,117

The 2013 principal payment was made during the year ended September 30, 2012, leaving a principal balance of \$3,360,000 payable at the end of the fiscal year.

**B. Business Activities**

**Utility System Long-term Debt**

***Utility System Revenue Bonds, Series 2003***

On October 30, 2003, the City issued debt and closed on the purchase of the water and wastewater utility that serves the City of Palm Coast and some surrounding areas. The purchase price was \$82,774,934. Another \$10,690,000 was borrowed to complete some capital projects that were in process or needed in the near future and to fund a renewal and replacement reserve. Acquisition and closing costs included in the bond issue brought the total debt issued to \$96,650,000. The interest rate on these bonds ranges from 2.0 - 5.25%. This debt will be paid over 30 years from water and wastewater revenues.

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

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

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
SEPTEMBER 30, 2012**

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

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

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

During the fiscal year ended September 30, 2010, MBIA Insurance Corporation (MBIA), the City's bond insurer, was downgraded by the three major credit rating agencies. Municipal bond insurance 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 in the event of default. Due to the downgrade of MBIA, the bond covenants required the City to establish a debt service reserve fund. However, this has not had a financial impact on any of the City's outstanding obligations. During the fiscal year ended September 30, 2012, Moody's has provided a rating of A1 and Fitch A+ on this bond issue.

Deposits are made into a utility capital projects account for renewal, replacement and improvement, in an amount at least equal to one-twelfth of 5% of gross revenues received during the immediately preceding Fiscal Year.

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

**Early Redemption**

**A. Optional Redemption**

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

**Debt Service**

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

Year Ending September 30,	Principal	Interest
2013	\$ 2,190,000	\$ 4,018,403
2014	2,270,000	3,934,413
2015	2,355,000	3,816,663
2016	2,470,000	3,693,163
2017	2,595,000	3,563,413
2018-2022	15,120,000	15,516,513
2023-2027	19,440,000	11,026,313
2028-2032	24,745,000	5,477,263
2033-2037	11,690,000	299,496
	\$ 82,875,000	\$ 51,345,640

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**SEPTEMBER 30, 2012**

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

***Utility System Revenue Bonds, Series 2007***

On January 25, 2007, the City issued debt to finance the construction of a water treatment plant and associated infrastructure. Construction proceeds, capitalized interest, and issuance costs were included in the bond issue and brought the total debt issued to \$49,840,000. The interest rate on these bonds ranges from 3.625 - 5.0%. This debt will be paid over 30 years from water and wastewater revenues.

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

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

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

During the fiscal year ended September 30, 2010, MBIA Insurance Corporation (MBIA), the City's bond insurer, was downgraded by the three major credit rating agencies. Municipal bond insurance 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 in the event of default. Due to the downgrade of MBIA, the bond covenants required the City to establish a debt service reserve fund. However, this has not had a financial impact on any of the City's outstanding obligations. During the fiscal year ended September 30, 2012, Moody's has provided a rating of A1 and Fitch A+ on this bond issue.

Deposits are made into a utility capital projects account for renewal, replacement and improvement, in an amount at least equal to one-twelfth of 5% of gross revenues received during the immediately preceding Fiscal Year.

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

**Early Redemption**

***A. Optional Redemption***

The series 2007 bonds maturing on or after October 1, 2017 are redeemable prior to their stated dates of maturity, at the option of the City, in whole or in part on any date on or after April 1, 2017, at the redemption prices equal to the principal amount of the Series 2007 Bonds to be redeemed plus interest accrued to the date of redemption.

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**SEPTEMBER 30, 2012**

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

***Debt Service***

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

Year Ending September 30,	Principal	Interest
2013	\$ 1,090,000	\$ 2,001,106
2014	1,130,000	1,955,906
2015	1,175,000	1,908,906
2016	1,220,000	1,864,681
2017	1,265,000	1,814,081
2018-2022	7,180,000	8,166,856
2023-2027	8,910,000	6,317,081
2028-2032	11,075,000	4,078,381
2033-2037	13,770,000	1,260,015
	\$ 46,815,000	\$ 29,367,013
	\$ 46,815,000	\$ 29,367,013

***State Revolving Fund Loans***

During year ended September 30, 2005, the City executed an agreement with the Florida Department of Environmental Protection to borrow through the State Revolving Fund loan program, for the purpose of lift station and force main improvements (WW90302S). The loan principal of \$2,734,789 is payable semi-annually in the amount of \$88,586 at an interest rate 2.71% through December 15, 2025.

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

Year Ending September 30,	Principal	Interest
2013	\$ 124,025	\$ 53,148
2014	127,409	49,764
2015	130,885	46,288
2016	134,456	42,716
2017	138,124	39,048
2018-2022	749,248	136,613
2023-2027	587,813	32,288
	\$ 1,991,960	\$ 399,865
	\$ 1,991,960	\$ 399,865

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**SEPTEMBER 30, 2012**

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

During year ended September 30, 2005, the City executed an agreement with the Florida Department of Environmental Protection to borrow through the State Revolving Fund loan program, for the purpose of wastewater treatment facilities improvements (WW90303S). The loan principal of \$13,281,775 is payable semi-annually in the amount of \$424,354 at an interest rate 2.60% through June 15, 2026.

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

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 594,987	\$ 253,721
2014	610,558	238,151
2015	626,535	222,173
2016	642,931	205,777
2017	659,756	188,952
2018-2022	3,566,973	676,569
2023-2027	3,204,544	190,290
	<u>\$ 9,906,284</u>	<u>\$ 1,975,633</u>

During the year ended September 30, 2007, the City executed an agreement with the Florida Department of Environmental Protection to borrow up to \$14,607,514 through the State Revolving Fund loan program, for the purpose of biosolids, reclaimed water and aerobic digestion improvements (WW903050). On January 30, 2008, the loan principal was amended to \$7,668,560. The loan principal is payable semi-annually in the amount of \$245,558 at an interest rate 2.54% through June 15, 2028.

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

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 330,025	\$ 161,091
2014	338,461	152,655
2015	347,113	144,003
2016	355,985	135,131
2017	365,085	126,031
2018-2022	1,970,268	485,313
2023-2027	2,235,287	220,293
2028-2032	481,917	9,200
	<u>\$ 6,424,141</u>	<u>\$ 1,433,717</u>

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
SEPTEMBER 30, 2012**

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

During the year ended September 30, 2008, the City executed an agreement with the Florida Department of Environmental Protection to borrow up to \$6,965,490 at an interest rate of 2.54% through the State Revolving Fund loan program, for the purpose of construction of water reuse facilities (WW903080). On June 23, 2010 the loan principal was amended to \$5,999,136. The loan principal is payable semi-annually in the amount of \$186,428 at an interest rate 2.54% through June 15, 2028.

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

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 250,555	\$ 122,300
2014	256,960	115,896
2015	263,528	109,327
2016	270,264	102,591
2017	277,172	95,683
2018-2022	1,495,827	368,449
2023-2027	1,697,030	167,246
2028-2032	365,871	6,985
	<u>\$ 4,877,207</u>	<u>\$ 1,088,477</u>

**Stormwater System Long-Term Debt**

***State Revolving Fund Loans***

During the year ended September 30, 2006, the City executed an agreement with the Florida Department of Environmental Protection to borrow up to \$4,285,694 at an interest rate of 2.55% through the State Revolving Fund loan program, for the purpose of stormwater drainage improvements and swale rehabilitation (SW903040). On August 10, 2007, the loan amount was amended to \$4,847,060 with the additional principal bearing an interest rate of 2.43%. On June 7, 2010 the loan principal was amended a second time to \$4,822,150. The loan principal is payable semi-annually in the amount of \$151,585 at an interest rate 2.5282% through August 15, 2026.

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

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

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

Year Ending September 30,	Principal	Interest
2013	\$ 214,439	\$ 88,730
2014	219,908	83,262
2015	225,517	77,653
2016	231,268	71,902
2017	237,166	66,004
2018-2022	1,279,707	236,142
2023-2027	1,146,350	66,330
	<u>\$ 3,554,355</u>	<u>\$ 690,023</u>

During the year ended September 30, 2009, the City executed an agreement with the Florida Department of Environmental Protection to borrow up to \$3,798,642 at an interest rate of 3.14% through the State Revolving Fund loan program, for the purpose of stormwater drainage improvements and swale rehabilitation (SW903070). In January 2012, the total amount of the loan was modified to \$2,875,904, payable in semi-annual installments of \$91,316, at an interest rate of 3.14%, maturing in March 2030.

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

Year Ending September 30,	Principal	Interest
2013	\$ 106,704	\$ 75,928
2014	110,081	72,551
2015	113,565	69,067
2016	117,159	65,473
2017	120,866	61,766
2018-2022	664,185	248,974
2023-2027	776,147	137,012
2028-2032	435,838	20,740
	<u>\$ 2,444,545</u>	<u>\$ 751,511</u>



**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2011**

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

***Bank Loan***

During the year ended September 30, 2009, the City executed an agreement with the RBC Bank to borrow up to \$9,000,000 at a variable interest rate for the purpose of stormwater drainage improvements and swale rehabilitation. The variable rate during the draw period, not to exceed three years, is equal to 70% of the One-Month LIBOR rate plus 212 basis points. In January 2012, the loan was modified to a fixed rate of 2.35%, payable annually, starting in October 2012 and maturing in October 2023. Interest will be paid semi-annually.

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

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	\$ 196,037
2014	673,000	180,222
2015	689,000	164,030
2016	706,000	147,439
2017	722,000	130,472
2018-2022	3,872,000	383,614
2023-2027	1,680,000	19,975
	<hr/> <u>\$ 8,342,000</u>	<hr/> <u>\$ 1,221,789</u>

The 2013 principal payment was made during the year ended September 30, 2012, leaving a principal balance of \$8,342,000 payable at the end of the fiscal year.

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**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

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

**Information Technology and Communications (IT&C) Long-Term Debt**

***Capital Leases***

During year ended September 30, 2010, the City executed an agreement with Dell Financial Services to lease computer equipment for use on the city-wide network. The non-cancelable capital lease principal of \$85,120 is payable annually in the amount of \$21,986 at an interest rate of 2.20% through October 1, 2012.

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

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 21,485	\$ 473
	<u>\$ 21,485</u>	<u>\$ 473</u>

During year ended September 30, 2011, the City executed an agreement with Dell Financial Services to lease computer equipment for use on the city-wide network. The non-cancelable capital lease principal of \$71,822 is payable annually in the amount of \$19,596 at an interest rate of 6.16% through July 1, 2014.

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

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 17,388	\$ 2,208
2014	18,459	1,137
	<u>\$ 35,847</u>	<u>\$ 3,345</u>

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

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

***Loan***

During the year ended September 30, 2009, the City executed an agreement with MetroPCS Florida, LLC to purchase a wireless communications tower built on City land. MetroPCS Florida, LLC would construct the tower and lease space on the tower for its operations (see Note 8). The City agreed to apply fifty percent of the tower lease payments towards repayment of the cost of the tower in the amount of \$164,773 with principal only payable annually according to the schedule below.

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

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 14,506	\$ -
2014	15,087	-
2015	15,690	-
2016	16,318	-
2017	16,970	-
2018-2022	33,546	-
	<u>\$ 112,117</u>	<u>\$ -</u>

During the year ended September 30, 2011, the City executed an agreement with Verizon Wireless to purchase a wireless communications tower built at the City Tennis Center. Verizon Wireless would construct the tower and lease space on the tower for its operations (see Note 8). The City agreed to apply the tower lease payments towards repayment of the cost of the tower in the amount of \$157,300 with principal only payable annually according to the schedule below.

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

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 28,008	\$ -
2014	28,848	-
2015	29,713	-
2016	17,139	-
	<u>\$ 103,708</u>	<u>\$ -</u>

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

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

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

During the year ended September 30, 2012, the following changes in long-term debt occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
SR100 CRA Loan	\$ 3,570,000	\$ -	\$ (210,000)	\$ 3,360,000	\$ -
Net OPEB Liability	209,000	63,000	-	272,000	-
Compensated Absences	1,433,079	808,072	(715,534)	1,525,617	581,968
Long-term debt	<u>\$ 5,212,079</u>	<u>\$ 871,072</u>	<u>\$ (925,534)</u>	<u>\$ 5,157,617</u>	<u>\$ 581,968</u>
Business Type Activities:					
Utility Revenue Bonds	\$ 132,860,000	\$ -	\$ (3,170,000)	\$ 129,690,000	\$ 3,280,000
Deferred Amounts:					
Plus: issuance premiums	1,251,094	-	(89,781)	1,161,313	-
Less: issuance costs	(3,367,001)	-	148,570	(3,218,431)	-
Total Revenue Bonds	130,744,093	-	(3,111,211)	127,632,882	3,280,000
State Revolving Fund Loans	30,757,945	-	(1,559,453)	29,198,492	1,620,737
Bank and Other Loans	9,256,965	-	(699,140)	8,557,825	42,514
Net OPEB Liability	97,000	50,000	-	147,000	-
Capital Leases	190,679	-	(133,347)	57,332	38,873
Compensated Absences	1,216,197	658,907	(782,819)	1,092,285	410,801
Long-term debt	<u>\$ 172,262,879</u>	<u>\$ 708,907</u>	<u>\$ (6,285,970)</u>	<u>\$ 166,685,816</u>	<u>\$ 5,392,925</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, \$15,072 of internal service fund compensated absences and \$2,000 of net OPEB liability are included in the above amounts. For governmental activities, compensated absences and net postemployment benefit obligations (OPEB) are generally liquidated by the general fund.

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2012**

**Note 10 – Retirement Plans**

***Defined Contribution Plan***

The City maintains a single employer defined contribution plan. All full-time employees are eligible to participate. The name of the plan is the City of Palm Coast 401(a) Pension Plan. The plan is administered by a third party administrator, Great West Retirement Services. The authority to establish and amend benefits rests with the City Council. Under this plan, the City contributes a certain percentage of employees' eligible wages based upon their job classification as determined by City Council. For the fiscal year ended September 30, 2012, general employees received a 10% contribution, with department directors receiving 13% and special risk employees receiving 17.5%. Employees do not participate in the plan funding. Pension contributions are subject to a five year (5) vesting schedule. Withdrawals from the plan may be made due to retirement, attainment of age 59 ½, separation from service, disability, or death. For the period ended September 30, 2012, contributions to this plan totaled \$1,638,377.

***Florida Retirement System***

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

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

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

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
SEPTEMBER 30, 2012**

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

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

Effective July 1, 2011, FRS plan participants were required to contribute three percent of earnings due to a change in State law. No employee contributions were required in previous years.

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

	10/1/2011 -09/30/2012
Regular employees – members not qualifying for other classes	5.18%
Special Risk Employees – members employed as law enforcement officers and firefighters	14.90%
Health Insurance Subsidy included in the above rates	1.11%

Employer contributions required and made to the System were as follows:

<u>Fiscal Year Ending</u>	<u>Required Contribution</u>	<u>% Contributed</u>
9/30/2010	\$ 317,139	100%
9/30/2011	271,702	100%
9/30/2012	161,402	100%

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

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

***Volunteer Firefighters’ Pension Plan***

***Plan Description and Summary of Benefits***

On July 2, 2002, the City of Palm Coast established a volunteer firefighters’ pension plan pursuant to Florida Statute, Chapter 175. The volunteer positions are unpaid and therefore there is no benefit provided under Chapter 175. On February 15, 2005, the City adopted a “local law” plan that will provide benefits based on years of service. The plan is a single-employer defined benefit pension plan.

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
SEPTEMBER 30, 2012**

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

***Volunteer Firefighters' Pension Plan (Continued)***

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

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

Contributions from the state to the plan are reported as revenues and expenditures in the general fund before being reported in the pension fund. The amount recorded for the period ended September 30, 2012 was \$377,962. Administrative costs are paid from plan assets. A separate, audited GAAP-basis pension plan report is not available for the plan. Currently, 14 members are receiving retirement benefits. There are 40 active participants, with one being eligible for normal retirement.

An actuarial valuation, utilizing the entry age normal method, has been completed as of October 1, 2011. Plan assets are reported at fair value. The actuarial assumption included an 8.0 percent investment rate of return, and 3.0 percent inflation rate. The amortization method is level dollar and the period is 30 years and is closed.

***Basis of Accounting***

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

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
SEPTEMBER 30, 2012**

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

***Volunteer Firefighters’ Pension Plan (Continued)***

***Cash and Investments***

Cash required for current operating needs is invested in a money market account. The remaining plan assets are invested in the Florida Local Government Surplus Funds Trust Fund Investment Pool administered by the Florida State Board of Administration (SBA) and the Florida Municipal Pension Trust Fund administered by the Florida League of Cities. Both of these funds are external investment pools and are reported at fair value.

The total invested with the SBA in the Local Government Surplus Funds Trust Fund (Florida PRIME) and Fund B as of September 30, 2012 was \$3,299 and \$9,743 respectively. See Note 4 for a further disclosures relating to the SBA.

The total invested with the Florida Municipal Pension Trust Fund (FMPTF) administered by the Florida League of Cities as of September 30, 2012 was \$2,759,985. The City’s investments in the Florida Municipal Pension Trust Fund, a Securities and Exchange Commission rule 2a7-like external investment pool, are beneficial interests in shares of portfolios, not the individual securities held within each portfolio.

*Interest Rate Risk.* The FMPTF includes the following fixed income fund.

<u>Fixed Income Fund</u>	<u>Effective Duration</u> <u>(Years)</u>	<u>Weighted Average Maturity</u> <u>(Years)</u>
FMIvT Broad Market High Quality Bond	4.66	5.42

*Credit Risk.* The fixed income fund in the chart above is rated AA/V4 by Fitch. There are also a number of equity portfolios within the investment pool which are not rated.

***Funding Policy***

The authority to establish and amend benefits rests with the City Council. City contribution requirements to the plan are adopted as part of the City’s annual budget. The current retirement benefit is based on \$65 per month for each year of credited service. This was an increase from the previous minimum benefit accrual rate of \$50 per month. The change was adopted by ordinance during the fiscal year ended September 30, 2012. Volunteers do not contribute to the plan.



**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
SEPTEMBER 30, 2012**

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

***Volunteer Firefighters' Pension Plan (Continued)***

Three Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2011	\$ 89,877	100%	\$0
9/30/2010	0	100%	0
9/30/2009	0	100%	0

***Funded Status and Funding Progress***

As of October 1, 2011, the most recent actuarial valuation update, the plan was 119 percent funded. The actuarial accrued liability for benefits was \$1,841,699 and the actuarial value of assets was \$2,196,474 resulting in an unfunded actuarial accrued liability (UAAL) of (\$354,775).

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2012**

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

***Deferred Compensation Program***

The City offers its employees a voluntary deferred compensation program created in accordance with Internal Revenue Code (IRC) section 457 and Chapter 112.215 Florida Statutes. During the year ended September 30, 2012, the City complied with the requirements of IRC Section 457 and all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. No amounts from this plan are included in the financial statements.

**Note 11 – Other Post Employment Benefits (OPEB)**

***Plan Description and Summary of Benefits***

The City provides retirees with the option to purchase health insurance from the City's single employer, experience rated health insurance plan (Plan) that provides medical benefits to active and eligible retirees at the City's group rate as mandated by Florida Statute 112.0801. This requirement creates an implicit rate subsidy benefit for the retirees' participation. Retirees are required to pay the full amount of the health insurance premium during their eligibility period. As of the valuation dated March 1, 2012, the Plan had approximately 335 active participants and 4 retiree receiving benefits. The plan does not issue a separate publicly available financial report.

***Transition Year***

GASB Statement No. 45 was implemented prospectively resulting in a zero net OPEB obligation at transition. There was neither an OPEB asset nor liability at transition.

***Funding Policy***

The City has followed the pay-as-you-go funding policy, contributing only those amounts necessary to provide for its portion of current year benefit costs and expenses plus any addition to the reserve for accrued costs incurred but not yet reported, as determined as part of the insurance contract. The contribution requirements of Plan members are established annually by the City. The City pays any remaining required amounts after contributions of plan members are taken into account. Currently, retired members pay the full premium associated with the coverage elected; no direct City subsidy is applicable; however there is an implicit cost outlined below. Spouses and other dependents are also eligible for coverage, and the member is responsible for payment of the applicable premiums.

State of Florida law prohibits the City from separately rating retirees and active employees. The City therefore assigns both groups equal, blended-rate premiums. Although both groups are assigned the same blended rate premiums, GAAP requires actuarial liabilities to be calculated using age-adjusted premiums approximating claim costs for retirees separate from active members. The use of age-adjusted premiums results in the full expected retiree obligation recognized in this disclosure.

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**Note 11 – Other Post Employment Benefits (OPEB)(Continued)**

***Annual OPEB Cost and Net OPEB Obligation***

The City's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the Entry Age Normal actuarial cost method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability (or funding excess) over a period of 30 years using the level dollar method. Amortizations are open ended in that they begin a new amortization base at each valuation date. Annual requirements include a 4% discount rate, compounded annually, and based on assumptions that the plan will be unfunded. The annual health care cost trend rate was assumed to decline gradually over the next several years from 6% at March 1, 2011 to an ultimate rate of 5% on and after 2012. The economic rates are based on an assumed inflation rate of 4% per annum.

The actuarial accrued liability (AAL) was determined as of September 30, 2012, based on the above assumptions and cost method, and applied to member data current at March 1, 2011. Liabilities were developed based on age adjusted costs for retirees currently receiving plan benefits as of March 1, 2011, with an AAL calculated to be \$724,000, which is unfunded (or 0% funded). The annual covered payroll is \$14.792 million, resulting in an unfunded AAL of 4.9%. The actuarial calculations reflect a long-term perspective using methods and assumptions that are designed to reduce short-term volatility in AAL and actuarial value of assets. The Plan provisions affecting the valuation were those in effect on March 1, 2011.

OPEB GASB No. 45 results are not based on the assumption that all members terminate services as of the valuation date, but rather on assumptions of future mortality, retirement, and termination. The calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of the sharing of costs between the City and plan members to that point. Actuarial valuations for the plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Plan Obligation:	
Annual Required Contribution (ARC)	\$ 145,000
Interest on Plan Obligation	12,000
Adjustment to ARC	<u>(13,000)</u>
Annual Plan OPEB Cost	144,000
Contributions Made	<u>(31,000)</u>
Change in OPEB Obligation	113,000
Net OPEB Obligation Beginning of year	<u>306,000</u>
Net OPEB Obligation End of year	<u><u>\$ 419,000</u></u>

As of September 30, 2012, the City accrued \$419,000 in the Government-Wide Statement of Net Assets, with \$149,000 in the Proprietary Funds Statement of Net Assets.

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**Note 11 – Other Post Employment Benefits (OPEB)(Continued)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years were as follows:

Fiscal Year ended September 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net ending OPEB Obligation (Asset)
2012	\$ 144,000	\$ 31,000	21.40%	\$ 419,000
2011	137,000	25,000	18.20%	306,000
2010	105,000	9,000	8.60%	194,000

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Note 12 – Prepaid Water and Sewer Impact Fees**

The original developers of the City of Palm Coast collected impact fees to establish utility infrastructure. These amounts are considered a prepayment of current impact fees and are subtracted from the total impact fees due when a building lot is developed. As of September 30, 2012, the amount of prepaid impact fees is estimated to be \$21,332,984.

**Note 13 – 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.

The City is also a defendant in several lawsuits arising in the normal course of business. In the aggregate, these claims seek monetary damages in significant amounts. To the extent the outcome of such litigation has been determined to result in probable loss to the City, such loss has been accrued in the accompanying financial statements. No such losses have been accrued for as of September 30, 2012. No litigation where loss to the City is reasonably possible and estimable exists as of September 30, 2012. However, the remote possibility exists of losses as it relates to a class action lawsuit related to the legality of red light cameras fines charged prior to July 1, 2010, and a lawsuit by a property owner relating to business damages in anticipation of condemnation actions. The outcome of these and remaining claims cannot be determined at this time.

**Self Insurance Program**

The City is also exposed to risks for losses related to health and other medical benefits it provides to its employees. A self insurance program was created July 1, 2010 to handle these risks. The Self Insured Health Fund (internal service fund) was established to account for medical insurance claims of City employees and their covered dependents. Under this program, the fund provides the employee with a lifetime maximum benefit of \$2,000,000. Retention limits of \$125,000 for specific

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**Note 13 – Risk Management**

claims have been set. Commercial insurance for specific loss claims in excess of the coverage provided by the fund is supplied by Blue Cross Blue Shield of Florida Insurance at a monthly rate of \$51 per participating employee. The City has contracted with various agencies to perform certain administrative functions, such as monitoring, reviewing, and paying claims. Settled claims have not exceeded the excess insurance limits.

All funds of the City that carry employees participate in the program and make payments to the Self Insured Health Fund based on actuarial estimates of the amounts needed to pay prior and current year claims, claims reserves, and administrative costs.

A liability for claims is reported if it is probable that a liability has occurred and the amount is estimable. As a result, a liability of \$195,050 is reported in the fund at September 30, 2012.

Changes in the fund's claims liability amount for fiscal years 2011 and 2012 were:

<u>Changes in Claims Liability</u>	<u>2011</u>	<u>2012</u>
Beginning fiscal year liability	\$ 349,314	\$ 268,780
Current year claims and changes in estimates	2,315,546	1,758,474
Claim payments	<u>(2,396,080)</u>	<u>(1,832,204)</u>
Balance at fiscal year end	<u>\$ 268,780</u>	<u>\$ 195,050</u>

**Note 14 – Community Redevelopment Area**

The City has established the SR100 Community Redevelopment special revenue fund to account for revenues and expenditures related to the SR100 community redevelopment area. For the fiscal year ended September 30, 2012, the fund received \$798,707 in property tax revenue, a \$515,874 transfer from the general fund, and \$27,067 in investment earnings. Expenditures for the fiscal year were \$120,557 in redevelopment costs and \$650,689 for debt service.

**Note 15 – Fund Balance Policy**

During the fiscal year ended September 30, 2009, the City enacted a policy establishing minimum levels of unassigned fund balance and unrestricted net assets. The details of this policy are outlined below.

***General Fund***

Adjusted unassigned fund balance (includes nonspendable advances to other funds less next fiscal year appropriations, if any), at year end, will be between ten percent and twenty percent of the following year's budgeted expenditures. Adjusted unassigned fund balance over twenty percent may be transferred to the Disaster Reserve to meet funding goals, or to the Capital Projects Fund, if necessary. If the adjusted unassigned fund balance is below ten percent at year end, a plan must be developed using increased revenues or reduction in expenditures to return the adjusted unassigned

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2012**

**Note 15 – Fund Balance Policy (Continued)**

fund balance to ten percent or greater within three years. If economic conditions cause a temporary loss of revenue, the adjusted unassigned fund balance may be used to help alleviate the effects of the loss of revenue. If the adjusted unassigned fund balance exceeds ten percent of the following year's budgeted General Fund expenditures, up to fifty percent of the amount over the ten percent minimum may be used to offset the shortfall. At no time should the adjusted unassigned fund balance be used to offset a structural deficit since these types of deficiencies are considered to be permanent.

***Utility Fund***

Unrestricted net assets, at year end, will be between ten percent and twenty percent of the following year's budgeted expenses. Unrestricted net assets over twenty percent may be assigned to a rate stabilization fund or transferred to the Utility Capital Projects Fund for utility system renewal and replacement. If the unrestricted net assets is below ten percent at year end, a plan must be developed using increased revenues or a reduction in expenses to return the unrestricted net assets to ten percent or greater within three years.

***Stormwater Management Fund***

Unrestricted net assets, at year end, will be between ten percent and twenty percent of the following year's budgeted expenses excluding capital expenditures. Unrestricted net assets over twenty percent may be assigned for future system capital projects. If the unrestricted net assets balance is below ten percent at year end, a plan must be developed using increased revenues or a reduction in expenses to return the unrestricted net assets to ten percent or greater within three years.

***Solid Waste Fund***

Unrestricted net assets, at year end, will be between five percent and ten percent of the following year's budgeted operating expenses. Unrestricted net assets over ten percent may be assigned to a rate stabilization fund. If the unrestricted net assets is below five percent at year end, a plan must be developed using increased revenues or a reduction in expenses to return the unrestricted net assets to five percent or greater within three years.

***Tennis Center Fund and Golf Course Fund***

Unrestricted net assets, at year end, will be between five percent and ten percent of the following year's budgeted operating expenses. Unrestricted net assets over ten percent may be assigned for future capital projects including renewal and replacements. If the unrestricted net assets is below five percent at year end, a plan must be developed using increased revenues or a reduction in expenses to return the unrestricted net assets to five percent or greater within three years.

***Disaster Reserve***

The Disaster Reserve is committed fund balance within the General Fund. This balance at year end will be at least two one hundredths percent (0.02%) of the just value of all property in the City on July 1 of that year. If this balance is below the minimum amount at year end, an additional amount should be committed from the General Fund unassigned fund balance in an amount sufficient to increase the Disaster Reserve above the minimum amount, within two years. The Disaster Reserve can be used to address unanticipated expenditures arising out of a hurricane, tornado, other major weather related events, and/or other massive infrastructure failures or other disasters, whether man-made or caused by nature, using emergency procedures as provided for in the City's Purchasing Policy.

**CITY OF PALM COAST, FLORIDA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**Note 15 – Fund Balance Policy (Continued)**

***Other Funds***

All other funds, including Special Revenue Funds, Capital Project Funds, certain Nonmajor Enterprise Funds and Internal Service Funds do not have a fund balance requirement. Fund balances in these funds are dictated by revenue sources and a schedule of capital projects.

**Note 16 – Deficit Fund Balance**

The OKR Special Assessment Fund has deficit fund balance of \$5,199,207 as of the end of the fiscal year. This is due to project costs in advance of special assessment revenues.

**Note 17 – Subsequent Events**

***SR100 CRA Redevelopment Improvement and Refunding Revenue Note, Series 2012***

In December 2012, the City executed an agreement with BB&T Bank to refinance an existing loan, and increase the loan amount by approximately \$2 million for a redevelopment project. The principal amount of the loan is \$5,448,000, refinancing and replacing the existing SR100 CRA Redevelopment Revenue Note, Series 2009. The interest rate is fixed at 2.29%, with loan principal payable annually starting at \$393,000 on October 1, 2013 and ending at \$513,000 on October 1, 2024. Interest will be paid semi-annually.

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

Year Ending September 30,	Principal	Interest
2013	\$ 393,000	\$ 97,381
2014	411,000	115,760
2015	420,000	106,348
2016	429,000	96,730
2017	438,000	86,906
2018-2022	2,342,000	279,426
2023-2027	1,015,000	34,990
	\$ 5,448,000	\$ 817,541
	\$ 5,448,000	\$ 817,541



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## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PALM COAST, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
VOLUNTEER FIREFIGHTERS PENSION PLAN  
SEPTEMBER 30, 2012**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2011	\$ 2,196,474	\$ 1,841,699	\$ (354,775)	119.26%	\$ -	N/A
10/1/2010	1,859,732	1,665,793	(193,939)	111.64%	-	N/A
10/1/2009	1,503,874	1,352,993	(150,882)	111.15%	-	N/A
10/1/2008	968,776	848,589	(120,187)	114.16%	-	N/A
10/1/2007	558,348	530,700	(27,648)	105.21%	-	N/A
10/1/2006	305,039	440,413	135,374	69.26%	-	N/A

**Schedule of Employer and Other Contributing Entities**

Year Ended September 30,	Annual Required Contributions	City Contribution	State Contribution	Percentage Contributed
2011	\$ 89,877	\$ -	\$ 144,308	161
2010	98,481	-	144,308	147
2009	108,698	-	144,308	133
2008	82,833	-	112,408	136
2007	85,357	-	112,408	132
2006	-	-	112,408	100

\* The 2006-2010 State contribution is "frozen" pursuant to Chapter 175, Florida Statutes, as amended. Prior to the adoption of Ordinance 2005-08, which was adopted February 15, 2005, the Plan was considered a "Chapter" plan, and therefore the City was able to use all State contributions to offset their costs. Beginning with the fiscal year ended September 30, 2006, excess State contributions over the initial "frozen" amount must be used for additional benefits. The "frozen" amount represents the annual cost of the initial benefit improvement when changing to a "local law" plan. As of September 30, 2011 \$814,159 of accumulated state contributions were reserved for future benefit improvements.

**CITY OF PALM COAST, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
POST EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)  
SEPTEMBER 30, 2012**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
3/1/2011	\$ -	\$ 724,000	\$ 724,000	0%	\$ 14,792,000	4.90%
3/1/2008	-	319,000	319,000	0%	14,671,000	2.20%

The actuarial valuation dated March 2008 was the first OPEB valuation completed. The next valuation will be dated March 2013.

**Schedule of Employer Contributions**

Year Ended September 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed	Contribution as a Percentage of Payroll
2012	\$ 145,000	31,000	21.38	0.1%
2011	137,000	25,000	18.25	0.1%
2010	105,000	9,000	8.57	0.1%
2009	98,000	-	-	0.0%

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, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 17,590,300	\$ 17,458,524	\$ 17,486,375	\$ 27,851
Licenses and permits	175,300	75,000	210,196	135,196
Intergovernmental revenue	2,023,300	2,229,200	2,219,200	(10,000)
Charges for services	2,740,096	2,749,496	2,740,171	(9,325)
Fines and forfeitures	516,000	488,914	441,728	(47,186)
Contributions	-	55,225	58,949	3,724
Investment earnings	366,800	303,200	346,490	43,290
Miscellaneous	21,000	38,125	38,946	821
Total revenues	<u>23,432,796</u>	<u>23,397,684</u>	<u>23,542,055</u>	<u>144,371</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Culture and recreation	2,543,620	2,603,139	2,186,053	417,086
Major and Council	95,502	95,479	90,860	4,619
City Administration	2,320,279	2,274,392	2,096,422	177,970
City Attorney	383,248	383,301	377,897	5,404
Financial Services	759,914	759,914	675,224	84,690
Community Development	3,597,634	3,657,102	3,476,732	180,370
Nondepartmental	161,388	133,000	128,577	4,423
Total general government	<u>9,861,585</u>	<u>9,906,327</u>	<u>9,031,765</u>	<u>874,562</u>
Public safety:				
Fire	7,340,560	7,283,387	7,016,955	266,432
Law Enforcement	2,599,863	2,599,863	2,599,691	172
Total public safety	<u>9,940,423</u>	<u>9,883,250</u>	<u>9,616,646</u>	<u>266,604</u>
Transportation & physical environment:				
Streets and Drainage	7,380,213	7,236,420	4,863,829	2,372,591
Total transportation & physical environment	<u>7,380,213</u>	<u>7,236,420</u>	<u>4,863,829</u>	<u>2,372,591</u>
Engineering	506,505	505,201	463,107	42,094
Total expenditures	<u>27,688,726</u>	<u>27,531,198</u>	<u>23,975,347</u>	<u>3,555,851</u>
Excess (deficiency) of revenues over (under) expenditures	(4,255,930)	(4,133,514)	(433,292)	3,700,222
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,660,404	2,660,404	2,660,404	-
Transfers out	(614,974)	(710,874)	(710,874)	-
Total other financing sources (uses)	<u>2,045,430</u>	<u>1,949,530</u>	<u>1,949,530</u>	<u>-</u>
Net change in fund balance	(2,210,500)	(2,183,984)	1,516,238	3,700,222
Fund balance - beginning	11,212,343	11,212,343	11,212,343	-
Fund balance - ending	<u>\$ 9,001,843</u>	<u>\$ 9,028,359</u>	<u>\$ 12,728,581</u>	<u>\$ 3,700,222</u>

City of Palm Coast, Florida  
 Required Supplementary Information  
 Transportation Impact Fee Fund  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Impact fees	\$ 962,800	\$ 552,000	\$ 581,068	\$ 29,068
Investment earnings	16,300	7,000	-	(7,000)
Total revenues	<u>979,100</u>	<u>559,000</u>	<u>581,068</u>	<u>22,068</u>
<b>EXPENDITURES</b>				
Capital Outlay:				
Streets and Drainage	2,510,800	4,191,736	-	4,191,736
Debt Service:				
Interest and Other	-	-	9,814	(9,814)
Total expenditures	<u>2,510,800</u>	<u>4,191,736</u>	<u>9,814</u>	<u>4,181,922</u>
Excess (deficiency) of revenues over (under) expenditures	(1,531,700)	(3,632,736)	571,254	4,203,990
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	2,075,000	2,075,000	-
Total other financing sources (uses)	<u>-</u>	<u>2,075,000</u>	<u>2,075,000</u>	<u>-</u>
Net change in fund balance	(1,531,700)	(1,557,736)	2,646,254	4,203,990
Fund balance - beginning	<u>(5,072,319)</u>	<u>(5,072,319)</u>	<u>(5,072,319)</u>	<u>-</u>
Fund balance - ending	<u>\$ (6,604,019)</u>	<u>\$ (6,630,055)</u>	<u>\$ (2,426,065)</u>	<u>\$ 4,203,990</u>

City of Palm Coast, Florida  
Required Supplementary Information  
Streets Improvement Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 4,033,500	\$ 4,001,000	\$ 4,352,576	\$ 351,576
Intergovernmental revenue	5,978,900	2,387,492	2,321,095	(66,397)
Fines and forfeitures	384,800	384,800	270,537	(114,263)
Investment earnings	22,500	5,000	26,130	21,130
Total revenues	<u>10,419,700</u>	<u>6,778,292</u>	<u>6,970,338</u>	<u>192,046</u>
<b>EXPENDITURES</b>				
Current:				
Transportation and physical environment	382,200	382,200	154,905	227,295
Capital Outlay:				
Transportation and physical environment	<u>9,501,400</u>	<u>6,506,598</u>	<u>2,465,409</u>	<u>4,041,189</u>
Total expenditures	<u>9,883,600</u>	<u>6,888,798</u>	<u>2,620,314</u>	<u>4,268,484</u>
Excess (deficiency) of revenues over (under) expenditures	536,100	(110,506)	4,350,024	4,460,530
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(2,578,000)</u>	<u>(2,578,000)</u>	<u>(2,578,000)</u>	-
Total other financing sources (uses)	<u>(2,578,000)</u>	<u>(2,578,000)</u>	<u>(2,578,000)</u>	-
Net change in fund balance	(2,041,900)	(2,688,506)	1,772,024	4,460,530
Fund balance - beginning	<u>2,688,506</u>	<u>2,688,506</u>	<u>2,688,506</u>	-
Fund balance - ending	<u>\$ 646,606</u>	<u>\$ -</u>	<u>\$ 4,460,530</u>	<u>\$ 4,460,530</u>

City of Palm Coast, Florida  
 Required Supplementary Information  
 SR100 CRA Fund  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 722,800	\$ 798,707	\$ 798,707	\$ -
Investment earnings	34,400	12,000	27,067	15,067
Total revenues	<u>757,200</u>	<u>810,707</u>	<u>825,774</u>	<u>15,067</u>
<b>EXPENDITURES</b>				
Current:				
Debt Service:				
Transportation and physical environment	133,385	83,385	14,087	69,298
Capital Outlay:				
Transportation and physical environment	2,250,000	2,714,818	106,470	2,608,348
Principal	200,000	210,000	210,000	-
Interest and Other	440,689	440,689	440,689	-
Total expenditures	<u>3,024,074</u>	<u>3,448,892</u>	<u>771,246</u>	<u>2,677,646</u>
Excess (deficiency) of revenues over (under) expenditures	(2,266,874)	(2,638,185)	54,528	2,692,713
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	515,874	515,874	515,874	-
Total other financing sources (uses)	<u>515,874</u>	<u>515,874</u>	<u>515,874</u>	<u>-</u>
Net change in fund balance	(1,751,000)	(2,122,311)	570,402	2,692,713
Fund balance - beginning	<u>(3,670,218)</u>	<u>(3,670,218)</u>	<u>(3,670,218)</u>	<u>-</u>
Fund balance - ending	<u>\$ (5,421,218)</u>	<u>\$ (5,792,529)</u>	<u>\$ (3,099,816)</u>	<u>\$ 2,692,713</u>

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

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, SR100 CRA special revenue fund, streets improvement special revenue fund and the transportation impact fee special revenue fund. Encumbrance accounting is employed. Unexpended and unencumbered appropriations lapse at the end of the fiscal year and may be reappropriated in the ensuing year.



**COMBINING NONMAJOR GOVERNMENTAL AND  
OTHER INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**



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## CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

**Capital Projects Fund** – This fund accounts for a portion of property taxes and grant revenues for the construction of public safety, recreational, and transportation related public projects.

## 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 accounts for the costs of educational expenses for police officers. Revenues come from fines and forfeitures.

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

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

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

**Neighborhood Stabilization Fund** -This fund accounts for the acquisition and rehabilitation of homes for sale and lease to individuals and families as part of the grant under the Neighborhood Stabilization Program.

**Old Kings Road Special Assessment Fund** -This fund accounts for the collection and disbursement of special assessments for the widening and realignment of Old Kings Road.



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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, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Intergovernmental revenue	\$ 4,302,500	\$ 3,541,429	\$ 3,145,396	\$ (396,033)
Contributions	60,000	60,000	-	(60,000)
Investment earnings	59,100	9,000	13,139	4,139
Total revenues	4,421,600	3,610,429	3,158,535	(451,894)
<b>EXPENDITURES</b>				
Capital Outlay:				
Transportation and physical environment	5,748,700	3,858,022	3,418,536	439,486
Culture and recreation	950,000	917,000	795,072	121,928
Total expenditures	6,698,700	4,775,022	4,213,608	561,414
Excess (deficiency) of revenues over (under) expenditures	(2,277,100)	(1,164,593)	(1,055,073)	109,520
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	200,000	200,000	-
Transfers out	-	(9,425,998)	(9,425,998)	-
Total other financing sources (uses)	-	(9,225,998)	(9,225,998)	-
Net change in fund balance	(2,277,100)	(10,390,591)	(10,281,071)	109,520
Fund balance - beginning	12,190,591	12,190,591	12,190,591	-
Fund balance - ending	\$ 9,913,491	\$ 1,800,000	\$ 1,909,520	\$ 109,520

City of Palm Coast, Florida  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2012

Special Revenue Funds

	Police Education Fund	Police Automation Fund	Park Impact Fee Fund	Fire Impact Fee Fund	Neighborhood Stabilization Fund	OKR Special Assessment Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>							
Equity in pooled cash and investments	\$ 24,918	\$ 290,826	\$ 358,692	\$ 110,344	\$ 80,551	\$ 34,743	\$ 900,074
Special Assessment receivable - net	-	-	-	-	-	52,840	52,840
Due from other governments	-	-	-	-	113,567	-	113,567
<b>Total assets</b>	<b>\$ 24,918</b>	<b>\$ 290,826</b>	<b>\$ 358,692</b>	<b>\$ 110,344</b>	<b>\$ 194,118</b>	<b>\$ 87,583</b>	<b>\$ 1,066,481</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 194,118	\$ 2,754	\$ 196,872
Advances from other funds	-	-	-	-	-	5,284,036	5,284,036
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>194,118</b>	<b>5,286,790</b>	<b>5,480,908</b>
Fund Balances:							
Restricted for							
Public safety	24,918	290,826	-	-	-	-	315,744
Construction	-	-	358,692	110,344	-	-	469,036
Unassigned	-	-	-	-	-	(5,199,207)	(5,199,207)
<b>Total fund balances</b>	<b>24,918</b>	<b>290,826</b>	<b>358,692</b>	<b>110,344</b>	<b>-</b>	<b>(5,199,207)</b>	<b>(4,414,427)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 24,918</b>	<b>\$ 290,826</b>	<b>\$ 358,692</b>	<b>\$ 110,344</b>	<b>\$ 194,118</b>	<b>\$ 87,583</b>	<b>\$ 1,066,481</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, 2012

Special Revenue Funds

	Police Education Fund	Police Automation Fund	Park Impact Fee Fund	Fire Impact Fee Fund	Neighborhood Stabilization Fund	OKR Special Assessment Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ 1,063,331	\$ -	\$ 1,063,331
Special assessments	-	-	-	-	-	129,899	129,899
Fines and forfeitures	7,096	20,050	-	-	-	-	27,146
Impact fees	-	-	130,030	35,069	-	-	165,099
Investment earnings	228	2,866	3,819	1,006	-	366	8,285
Total revenues	7,324	22,916	133,849	36,075	1,063,331	130,265	1,393,760
<b>EXPENDITURES</b>							
Current:							
General government	-	-	-	-	1,376,367	-	1,376,367
Transportation and physical environment	-	-	-	-	-	78	78
Interest and Other	-	-	-	-	-	211,361	211,361
Total expenditures	-	-	-	-	1,376,367	211,439	1,587,806
Excess (deficiency) of revenues over (under) expenditures	7,324	22,916	133,849	36,075	(313,036)	(81,174)	(194,046)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers out	-	-	(200,000)	-	-	-	(200,000)
Total other financing sources (uses)	-	-	(200,000)	-	-	-	(200,000)
Net change in fund balances	7,324	22,916	(66,151)	36,075	(313,036)	(81,174)	(394,046)
Fund balances - beginning	17,594	267,910	424,843	74,269	313,036	(5,118,033)	(4,020,381)
Fund balances - ending	\$ 24,918	\$ 290,826	\$ 358,692	\$ 110,344	\$ -	\$(5,199,207)	\$(4,414,427)

City of Palm Coast, Florida  
 Police Education  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Fines and forfeitures	\$ 5,000	\$ 6,900	\$ 7,096	\$ 196
Investment earnings	300	60	228	168
Total revenues	<u>5,300</u>	<u>6,960</u>	<u>7,324</u>	<u>364</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	<u>22,800</u>	<u>24,554</u>	-	<u>24,554</u>
Total expenditures	<u>22,800</u>	<u>24,554</u>	-	<u>24,554</u>
Net change in fund balance	(17,500)	(17,594)	7,324	24,918
Fund balance - beginning	<u>17,594</u>	<u>17,594</u>	<u>17,594</u>	-
Fund balance - ending	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ 24,918</u>	<u>\$ 24,918</u>



City of Palm Coast, Florida  
 Police Automation  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Fines and forfeitures	\$ 19,500	\$ 21,000	\$ 20,050	\$ (950)
Investment earnings	2,600	850	2,866	2,016
Total revenues	<u>22,100</u>	<u>21,850</u>	<u>22,916</u>	<u>1,066</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	294,500	289,760	-	289,760
Total expenditures	<u>294,500</u>	<u>289,760</u>	<u>-</u>	<u>289,760</u>
Net change in fund balance	(272,400)	(267,910)	22,916	290,826
Fund balance - beginning	267,910	267,910	267,910	-
Fund balance - ending	<u>\$ (4,490)</u>	<u>\$ -</u>	<u>\$ 290,826</u>	<u>\$ 290,826</u>

City of Palm Coast, Florida  
 Park Impact Fee  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Impact fees	\$ 321,100	\$ 112,800	\$ 130,030	\$ 17,230
Investment earnings	-	-	3,819	3,819
Total revenues	321,100	112,800	133,849	21,049
<b>EXPENDITURES</b>				
Capital Outlay:				
Culture and recreation	793,100	337,643	-	337,643
Total expenditures	793,100	337,643	-	337,643
Excess (deficiency) of revenues over (under) expenditures	(472,000)	(224,843)	133,849	358,692
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	(200,000)	(200,000)	-
Total other financing sources (uses)	-	(200,000)	(200,000)	-
Net change in fund balance	(472,000)	(424,843)	(66,151)	358,692
Fund balance - beginning	424,843	424,843	424,843	-
Fund balance - ending	\$ (47,157)	\$ -	\$ 358,692	\$ 358,692

City of Palm Coast, Florida  
 Fire Impact Fee  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Impact fees	\$ 65,900	\$ 33,300	\$ 35,069	\$ 1,769
Investment earnings	-	-	1,006	1,006
Total revenues	65,900	33,300	36,075	2,775
<b>EXPENDITURES</b>				
Capital Outlay:				
Public safety	189,600	107,569	-	107,569
Total expenditures	189,600	107,569	-	107,569
Net change in fund balance	(123,700)	(74,269)	36,075	110,344
Fund balance - beginning	74,269	74,269	74,269	-
Fund balance - ending	\$ (49,431)	\$ -	\$ 110,344	\$ 110,344

City of Palm Coast, Florida  
Neighborhood Stabilization  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Intergovernmental revenue	\$ 900,000	\$ 1,435,000	\$ 1,063,331	\$ (371,669)
Miscellaneous	100,000	-	-	-
Total revenues	1,000,000	1,435,000	1,063,331	(371,669)
<b>EXPENDITURES</b>				
Current:				
General government	1,583,700	1,435,000	1,376,367	58,633
Total expenditures	1,583,700	1,435,000	1,376,367	58,633
Net change in fund balance	(583,700)	-	(313,036)	(313,036)
Fund balance - beginning	313,036	313,036	313,036	-
Fund balance - ending	\$ (270,664)	\$ 313,036	\$ -	\$ (313,036)

City of Palm Coast, Florida  
 OKR Special Assessment Fund  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended September 30, 2012

	Original Budgeted Amount	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Special assessments	\$ 261,308	\$ 264,200	\$ 129,899	\$ (134,301)
Investment earnings	-	-	366	366
Total revenues	<u>261,308</u>	<u>264,200</u>	<u>130,265</u>	<u>(133,935)</u>
<b>EXPENDITURES</b>				
Current:				
Transportation and physical environment	-	100	78	22
Debt Service:				
Interest and Other	261,308	264,100	211,361	52,739
Total expenditures	<u>261,308</u>	<u>264,200</u>	<u>211,439</u>	<u>52,761</u>
Net change in fund balance	-	-	(81,174)	(81,174)
Fund balance - beginning	<u>(5,118,033)</u>	<u>(5,118,033)</u>	<u>(5,118,033)</u>	-
Fund balance - ending	<u>\$ (5,118,033)</u>	<u>\$ (5,118,033)</u>	<u>\$ (5,199,207)</u>	<u>\$ (81,174)</u>



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**COMBINING NONMAJOR ENTERPRISE  
FUND STATEMENTS**



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## NONMAJOR ENTERPRISE FUNDS

Enterprise Funds account for the functions that are financed and operated in a manner similar to private business enterprises and where the costs of providing goods or services to the general public are recovered primarily through user charges, or where the City has decided that determination of net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

***Golf Course Fund*** -This fund accounts for the operations of the Palm Harbor Golf Course financed primarily by user fees.

***Tennis Center Fund*** -This fund accounts for the operations of a tennis center financed primarily by user fees.

***Building Permits & Inspections Fund*** -This fund accounts for the operations and enforcement of State and local building regulations financed primarily by user fees.

***Information Technology & Communications (IT&C)*** -This fund accounts for the fiber optic network and wireless communications provided to external users, and technology support and implementation for internal users. This is financed through a combination of user fees and internal charges.

City of Palm Coast, Florida  
Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
September 30, 2012

Business-type Activities-Enterprise Funds

	Golf Course Fund	Tennis Center Fund	Building Permits & Inspections Fund	IT&C Fund	Total Nonmajor Enterprise Funds
<b>Assets:</b>					
Current assets:					
Equity in pooled cash and investments	\$ 3,851	\$ 13,859	\$ 2,342,633	\$ 209,698	\$ 2,570,041
Accounts receivable - net	1,400	-	2,742	90,554	94,696
Inventories	26,450	3,884	-	-	30,334
Prepaid Items	16,780	2,185	4,726	7,436	31,127
Due from other funds	-	-	60,000	-	60,000
Total current assets	48,481	19,928	2,410,101	307,688	2,786,198
Noncurrent assets:					
Capital assets:					
Land	2,282,481	-	-	-	2,282,481
Building and improvements other than buildings	387,554	-	-	-	387,554
Infrastructure	4,275,491	-	-	4,442,547	8,718,038
Equipment	191,188	33,421	-	640,400	865,009
Less accumulated depreciation	(793,702)	(18,778)	-	(1,200,214)	(2,012,694)
Total noncurrent assets	6,343,012	14,643	-	3,882,733	10,240,388
Total assets	\$ 6,391,493	\$ 34,571	\$ 2,410,101	\$ 4,190,421	\$ 13,026,586
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	\$ 11,865	\$ 2,996	\$ 1,090	\$ 61,700	\$ 77,651
Due to other governments	-	-	4,218	-	4,218
Loans payable	-	-	-	81,387	81,387
Compensated absences	-	-	38,611	25,250	63,861
Accrued liabilities	19,778	2,032	29,168	22,834	73,812
Accrued loan interest payable	-	-	-	2,681	2,681
Deferred revenue	16,874	20,527	-	27,192	64,593
Total current liabilities	48,517	25,555	73,087	221,044	368,203
Noncurrent liabilities:					
Compensated absences	-	-	69,406	68,356	137,762
Net OPEB obligation	-	-	14,000	8,000	22,000
Loans payable	-	-	-	191,770	191,770
Total liabilities	48,517	25,555	156,493	489,170	719,735
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	6,343,012	14,643	-	3,609,576	9,967,231
Unrestricted	(36)	(5,627)	2,253,608	91,675	2,339,620
Total net assets	\$ 6,342,976	\$ 9,016	\$ 2,253,608	\$ 3,701,251	\$ 12,306,851

City of Palm Coast, Florida  
Combining Statement of Revenues, Expenses, and Changes in Net Assets  
Nonmajor Enterprise Funds  
For the Year Ended September 30, 2012

Business-type Activities - Enterprise Funds

	Golf Course Fund	Tennis Center Fund	Building Permits & Inspections Fund	IT&C Fund	Total Nonmajor Enterprise Funds
<b>Operating Revenues:</b>					
Charges for services:					
Tennis program charges	\$ -	\$ 157,818	\$ -	\$ -	\$ 157,818
Golf Course charges	1,479,063	-	-	-	1,479,063
Building permit and inspection charges	-	-	273,784	-	273,784
IT&C charges	-	-	-	2,936,065	2,936,065
Total operating revenues	1,479,063	157,818	273,784	2,936,065	4,846,730
<b>Operating Expenses:</b>					
Golf Course	1,547,714	-	-	-	1,547,714
Tennis Center	-	263,782	-	-	263,782
Building permits and inspections	-	-	1,305,956	-	1,305,956
IT&C	-	-	-	2,249,120	2,249,120
Depreciation	271,691	4,058	-	395,568	671,317
Total operating expenses	1,819,405	267,840	1,305,956	2,644,688	6,037,889
Operating income (loss)	(340,342)	(110,022)	(1,032,172)	291,377	(1,191,159)
<b>Nonoperating Revenues (Expenses):</b>					
Investment revenue	-	-	23,004	1,308	24,312
Interest/amortization expense	(971)	(78)	-	(4,173)	(5,222)
Other	-	-	-	1,641	1,641
Total nonoperating revenues (expenses)	(971)	(78)	23,004	(1,224)	20,731
Income (loss) before capital contributions and transfers	(341,313)	(110,100)	(1,009,168)	290,153	(1,170,428)
<b>TRANSFERS AND CONTRIBUTIONS</b>					
Transfers in	5,626,500	125,000	-	1,794,498	7,545,998
Transfers out	(22,000)	(1,000)	-	(12,000)	(35,000)
Total transfers and contributions	5,604,500	124,000	-	1,782,498	7,510,998
Change in net assets	5,263,187	13,900	(1,009,168)	2,072,651	6,340,570
<b>NET ASSETS</b>					
Total net assets - beginning	1,079,789	(4,884)	3,262,776	1,628,600	5,966,281
Total net assets - ending	\$ 6,342,976	\$ 9,016	\$ 2,253,608	\$ 3,701,251	\$ 12,306,851

**Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended September 30, 2012**

<b>Cash flows from operating activities</b>	<b>Golf Course</b>	<b>Tennis Center</b>	<b>Building Permits &amp; Inspections</b>	<b>IT&amp;C</b>	<b>Totals</b>
Cash received from customers	\$ 1,487,473	\$ 148,208	\$ 272,034	\$ 2,903,785	\$ 4,811,500
Cash paid to suppliers	(765,914)	(128,348)	(584,084)	(1,743,435)	(3,221,781)
Cash paid to employees	(803,415)	(135,477)	(739,316)	(553,165)	(2,231,373)
Net cash provided by (used in) operating activities	(81,856)	(115,617)	(1,051,366)	607,185	(641,654)
<b>Cash flow from noncapital financing activities</b>					
Transfers in from other funds	5,626,500	125,000	-	1,794,498	7,545,998
Transfers out to other funds	(22,000)	(1,000)	-	(12,000)	(35,000)
Advances to other funds	(5,556,500)	-	-	(1,794,498)	(7,350,998)
Advances from other funds	-	-	2,294,506	-	2,294,506
Net cash provided by (used in) noncapital financing activities	48,000	124,000	2,294,506	(12,000)	2,454,506
<b>Cash flow from capital and related financing activities</b>					
Proceeds from issuance of long-term debt	-	-	-	-	-
Loan principal payments	-	-	-	(174,488)	(174,488)
Interest paid	(971)	(78)	-	(7,736)	(8,785)
Acquisition and construction of property, plant and equipment	-	-	-	(261,674)	(261,674)
Net cash provided by (used in) capital and related financing activities	(971)	(78)	-	(443,898)	(444,947)
<b>Cash flow from investing activities</b>					
Interest on investments	-	-	23,004	1,308	24,312
Net cash provided by (used in) investing activities	-	-	23,004	1,308	24,312
Net increase (decrease) in cash and cash equivalents	(34,827)	8,305	1,266,144	152,595	1,392,217
Beginning cash and cash equivalents	38,678	5,554	1,076,489	57,103	1,177,824
Ending cash and cash equivalents	\$ 3,851	\$ 13,859	\$ 2,342,633	\$ 209,698	\$ 2,570,041

(continued)

**City of Palm Coast, Florida**  
**Combining Statement of Cash Flows (continued)**  
**Nonmajor Enterprise Funds**  
**For the Year Ended September 30, 2012**

	<b>Golf Course</b>	<b>Tennis Center</b>	<b>Building Permits &amp; Inspections</b>	<b>IT&amp;C</b>	<b>Totals</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>					
Operating income (loss)	\$ (340,342)	\$ (110,022)	\$ (1,032,172)	\$ 291,377	\$ (1,191,159)
Adjustment to reconcile operating income to net cash provided by operating activities					
Depreciation and amortization	271,691	4,058	-	395,568	671,317
Change in assets and liabilities:					
Accounts receivable	31,811	-	(1,750)	(59,472)	(29,411)
Inventories	5,582	(1,589)	-	-	3,993
Prepays	(3,191)	2,426	(235)	(1,329)	(2,329)
Accounts payable	(28,162)	(1,061)	(1,065)	(39,646)	(69,934)
Accrued liabilities	(19,245)	(9,429)	1,889	2,660	(24,125)
Customer Deposits	-	-	-	27,192	27,192
Compensated absences	-	-	(18,033)	(9,165)	(27,198)
Net cash provided by (used in) operating activities	\$ (81,856)	\$ (115,617)	\$ (1,051,366)	\$ 607,185	\$ (641,654)
<b>Cash and cash equivalents classified as:</b>					
Equity in pooled cash and investments in current assets	\$ 3,851	\$ 13,859	\$ 2,342,633	\$ 209,698	\$ 2,570,041
Total cash and cash equivalents	\$ 3,851	\$ 13,859	\$ 2,342,633	\$ 209,698	\$ 2,570,041



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## **INTERNAL SERVICE FUNDS**



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## INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

***Fleet Management Fund*** -This fund is used to account for the leasing of motor vehicles and heavy equipment to other departments as well as related maintenance and replacement costs.

***Self Insured Health Fund*** -This fund accounts for the management and allocation of costs associated with the self insured health benefits program for eligible employees and their dependents

City of Palm Coast, Florida  
Combining Statement of Net Assets  
Internal Service Funds  
September 30, 2012

	Internal Service Funds		
	Self Insured Health Fund	Fleet Fund	Total Internal Service Funds
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and investments	\$ 771,804	\$ 3,967,987	\$ 4,739,791
Accounts receivable - net	456	2,703	3,159
Inventories	-	65,730	65,730
Prepaid Items	49,316	14,597	63,913
Due from other governments	-	72,724	72,724
Total current assets	821,576	4,123,741	4,945,317
Noncurrent assets:			
Capital assets:			
Building and improvements other than buildings	-	1,097,144	1,097,144
Equipment	-	12,652,628	12,652,628
Less accumulated depreciation	-	(7,801,887)	(7,801,887)
Total noncurrent assets	-	5,947,885	5,947,885
Total assets	\$ 821,576	\$ 10,071,626	\$ 10,893,202
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	\$ 27,754	\$ 332,512	\$ 360,266
Claims payable	195,050	-	195,050
Compensated absences	-	3,564	3,564
Accrued liabilities	-	5,464	5,464
Total current liabilities	222,804	341,540	564,344
Noncurrent liabilities:			
Compensated absences	-	11,508	11,508
Net OPEB obligation	-	2,000	2,000
Total noncurrent liabilities	-	13,508	13,508
Total liabilities	222,804	355,048	577,852
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	-	5,947,885	5,947,885
Unrestricted	598,772	3,768,693	4,367,465
Total net assets	\$ 598,772	\$ 9,716,578	\$ 10,315,350

City of Palm Coast, Florida  
Combining Statement of Revenues, Expenses, and Changes in Net Assets  
Internal Service Funds  
For the Year Ended September 30, 2012

	Internal Service Funds		
	Self Insured Health Fund	Fleet Fund	Total Internal Service Funds
<b>Operating Revenues:</b>			
Charges for services:			
Miscellaneous	\$ 2,799,733	\$ 3,831,674	\$ 6,631,407
Total operating revenues	2,799,733	3,831,674	6,631,407
<b>Operating Expenses:</b>			
Administrative	2,352,885	2,127,996	4,480,881
Depreciation	-	1,153,691	1,153,691
Total operating expenses	2,352,885	3,281,687	5,634,572
Operating income (loss)	446,848	549,987	996,835
<b>Nonoperating Revenues (Expenses):</b>			
Investment revenue	5,810	35,047	40,857
Other	-	2,886	2,886
Total nonoperating revenues (expenses)	5,810	37,933	43,743
Change in net assets	452,658	587,920	1,040,578
<b>NET ASSETS</b>			
Total net assets - beginning	146,114	9,128,658	9,274,772
Total net assets - ending	\$ 598,772	\$ 9,716,578	\$ 10,315,350

**Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended September 30, 2012**

	Self Insured		Totals
	Health	Fleet	
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 2,799,277	\$ 3,820,906	\$ 6,620,183
Cash paid to suppliers	(2,406,561)	(1,779,512)	(4,186,073)
Cash paid to employees	-	(145,609)	(145,609)
Net cash provided by (used in) operating activities	392,716	1,895,785	2,288,501
<b>Cash flow from noncapital financing activities</b>			
Transfer in from other funds	-	-	-
Net cash provided by (used in) noncapital financing activities	-	-	-
<b>Cash flow from capital and related financing activities</b>			
Acquisition and construction of property, plant and equipment	-	(453,853)	(453,853)
Proceeds from the sale of capital assets	-	-	-
Net cash provided by (used in) capital and related financing activities	-	(453,853)	(453,853)
<b>Cash flow from investing activities</b>			
Interest on investments	5,810	35,047	40,857
Net cash provided by (used in) investing activities	5,810	35,047	40,857
Net increase (decrease) in cash and cash equivalents	398,526	1,476,979	1,875,505
Beginning cash and cash equivalents	373,278	2,491,008	2,864,286
Ending cash and cash equivalents	\$ 771,804	\$ 3,967,987	\$ 4,739,791

(continued)

**City of Palm Coast, Florida**  
**Combining Statement of Cash Flows (continued)**  
**Internal Service Funds**  
**For the Year Ended September 30, 2012**

	<b>Self Insured Health</b>	<b>Fleet</b>	<b>Totals</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income (loss)	\$ 446,848	\$ 549,987	\$ 996,835
Adjustment to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	-	1,153,691	1,153,691
Change in assets and liabilities:			
Accounts receivable	(456)	(10,768)	(11,224)
Inventories	-	(9,052)	(9,052)
Prepays	-	(2,000)	(2,000)
Accounts payable	(53,676)	207,608	153,932
Accrued liabilities	-	(204)	(204)
Compensated absences	-	6,523	6,523
Net cash provided by (used in) operating activities	\$ 392,716	\$ 1,895,785	\$ 2,288,501
<b>Cash and cash equivalents classified as:</b>			
Equity in pooled cash and investments in current assets	\$ 771,804	\$ 3,967,987	\$ 4,739,791
Total cash and cash equivalents	\$ 771,804	\$ 3,967,987	\$ 4,739,791



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## **FIDUCIARY FUND SCHEDULES**

## FIDUCIARY FUNDS

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

Agency funds are fiduciary funds that hold monies in an agency capacity for various governmental units, individuals or funds.

***Coquina Coast Cooperative Agency Fund*** -This fund accounts for all cash contributed and disbursed on behalf of the Coquina Coast Cooperative desalinization project. This is a cooperative effort between regional governmental entities investigating the potential for a desalinization water plant.



**City of Palm Coast, Florida**  
**Schedule of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the year ended September 30, 2012**

	<b>Balance October 1, 2011</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2012</b>
<b>Coquina Coast Cooperative</b>				
Cash and investments	\$ 753,644	\$ 150,276	\$ 179,997	\$ 723,923
Due from other governments	142,893	-	142,893	-
<b>Total assets</b>	<b>\$ 896,537</b>	<b>\$ 150,276</b>	<b>\$ 322,890</b>	<b>\$ 723,923</b>
Accounts payable	\$ 172,078	\$ 723,923	\$ 172,078	\$ 723,923
Deposits held in escrow	724,459	-	724,459	-
<b>Total liabilities</b>	<b>\$ 896,537</b>	<b>\$ 723,923</b>	<b>\$ 896,537</b>	<b>\$ 723,923</b>



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