

INTRODUCTORY SECTION

This section contains the following subsections:

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



This page intentionally left blank

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY OF PALM COAST, FLORIDA
For The Year Ended September 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Table of Contents	iii
Letter of Transmittal	vii
Certificate of Achievement for Excellence in Financial Reporting	xi
Organizational Chart	xiii
FINANCIAL SECTION	
Independent Auditors' Report	5
Management's Discussion and Analysis	9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	22
Statement of Activities	23
Fund Financial Statements:	
Governmental Fund Financial Statements -	
Balance Sheet	24
Reconciliation of the Balance Sheet to the Statement of Net Assets	25
Statement of Revenues, Expenditures, and Changes in Fund Balances	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Proprietary Fund Financial Statements -	
Statement of Net Position	28
Statement of Revenues, Expenses and Changes in Fund Net Position	31
Statement of Cash Flows	32
Fiduciary Fund Financial Statements -	
Statement of Net Position	34
Statement of Changes in Net Position	35
Notes to Financial Statements	37
Required Supplementary Information:	
Volunteer Firefighter's Pension Plan	82
Post Employment Benefits Other Than Pension (OPEB)	86
Schedule of Revenues, Expenditures and Changes in Fund Balance -	
Budget and Actual - General Fund	87
Budget and Actual - Transportation Impact Fee Special Revenue Fund	88
Budget and Actual - Streets Improvement Special Revenue Fund	89
Budget and Actual - SR100 CRA Special Revenue Fund	90
Notes to Required Supplementary Information	91
Combining and Other Individual Fund Statements and Schedules:	
Budget and Actual - Capital Projects Fund	97
Non-Major Governmental Funds	
Combining Balance Sheet	98
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	99
Individual Non-Major Governmental Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - Police Education Special Revenue Fund	100
Schedule of Revenues, Expenditures and Changes in Fund Balance	
Budget and Actual - Police Automation Special Revenue Fund	101
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - Park Impact Fee Special Revenue Fund	102
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - Fire Impact Fee Special Revenue Fund	103
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - Neighborhood Stabilization Special Revenue Fund	104
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - OKR Special Assessment Special Revenue Fund	105

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - CDBG Special Revenue Fund	106
Non-Major Enterprise Funds	
Combining Statement of Net Position	110
Combining Statement of Revenues, Expenditures and Changes in Net Position	111
Combining Statement of Cash Flows	112
Internal Service Funds	
Combining Statement of Net Position	118
Combining Statement of Revenues, Expenditures and Changes in Net Position	119
Combining Statement of Cash Flows	120
STATISTICAL SECTION	
Schedule 1 Net Position by Component	125
Schedule 2 Changes in Net Position	126
Schedule 3 Fund Balances - Governmental Funds	128
Schedule 4 Changes in Fund Balances - Governmental Funds	129
Schedule 5 Assessed and Actual Value of Taxable Property	130
Schedule 6 Direct and Overlapping Property Tax Rates	131
Schedule 7 Principal Property Tax Payers	132
Schedule 8 Property Tax Levies and Collections	133
Schedule 9 Ratios of Outstanding Debt by Type	134
Schedule 10 Ratios of General Bonded Debt Outstanding	135
Schedule 11 Direct and Overlapping Governmental Activities Debt	136
Schedule 12 Legal Debt Margin	137
Schedule 13 Pledged-Revenue Coverage	138
Schedule 14 Demographic and Economic Statistics	139
Schedule 15 Principal Employers	140
Schedule 16 Full-time Equivalent Employees by Function/Program	141
Schedule 17 Operating Indicators by Function/Program	142
Schedule 18 Capital Asset Statistics by Function/Program	143
OTHER REPORTS	
Reports on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	147
Schedule of Expenditures of Federal Awards	149
Notes to Schedule of Expenditures of Federal Awards	150
Schedule of Findings and Questioned Costs	151
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	152
Management Letter of Independent Auditors Required by Chapter 10.550 Rules of the Auditor General	154
Independent Accountants' Examination Report	157
Response to Management Comments	158
Affidavit of Impact Fee Compliance	159

LETTER OF TRANSMITTAL



This page intentionally left blank



CITY MANAGER'S OFFICE

January 30, 2015

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

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

The City of Palm Coast's financial statements have been audited by James Moore & Co., P.L., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Palm Coast for the fiscal year ended September 30, 2014, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of the report.

The independent audit of the financial statements of the City was part of a broader federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are in the compliance section of this report.

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

Profile of the Government

Palm Coast is situated in the eastern portion of Flagler County. The City was developed in 1969 on 68,000 acres formerly owned by the ITT Corporation. The original ITT development plan encompassed 48,000 home sites on approximately 42,000 acres (65.62 square miles). Paved streets and central water and sewer serve all lots developed within the City. An extensive water management system was designed to replenish the area's water table, which includes 26 miles of freshwater canals and 23 miles of saltwater canals.

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

In September 1999, the citizenry of Palm Coast voted overwhelmingly by a margin of two to one to incorporate as a council/manager form of government. On December 31, 1999, the City of Palm Coast was officially incorporated. On October 1, 2000, all services were officially transferred from the former Service District to the City of Palm Coast. The five-member City Council is elected at large and serves staggered four-year terms. One member is elected as Mayor. The promulgation and adoption of policy are the responsibility of the Council and the execution of such policy is the responsibility of the Council appointed city manager. The City hired its first city manager on April 17, 2000.

The City of Palm Coast currently has a population of 78,046 residents and covers an area of approximately 81 square miles. For fiscal year 2015, property within the City has a taxable value of \$3,892,358,641. This was an increase of approximately five percent from 2014. The City's property tax rate for fiscal year 2014 is set at \$4.2450 per \$1,000 of taxable value. Approximately two percent of the property taxes levied have been committed to capital projects for fiscal year 2015.

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

Economic Outlook

The City's economy is recovering from the collapse of the housing market and the national recession that occurred in 2008. All economic indicators are pointing in a positive direction. Real estate values continued to rise in 2014 and are expected to appreciate in 2015. Single-family permits are at the highest level since 2007, with 339 permits issued in 2014. Population projections are positioning Palm Coast to be the second fastest growing area over the next five years and the labor market continues to recover as well. Even with this improvement and the creation of approximately 5,200 jobs in the local economy since the recession, the unemployment rate as of September 30, 2014 was still 8.4%.

A particular bright spot has been taxable sales within the City. We have seen over a 35% increase in taxable sales since 2007. This is mainly due to the addition of several shopping centers since 2007 and increases in tourists and related spending. Previously vacant commercial plazas, such as City Marketplace and European Village, have seen renewed activity with many new businesses opening.

Long-term Financial Planning

The City Council continues to focus on carrying out its Strategic Action Plan and the related goals, projects, and programs. Economic development is guided by the City's Prosperity 2021 plan, which is integrated within the Strategic Action Plan. This plan takes an inside out approach, by strengthening our existing neighborhoods and commercial areas. This past fiscal year, the City's taxable value appreciated 5%. As all major economic indicators are now trending in a positive direction, we expect the local economy to continue to improve and have a positive impact on City revenue sources.

This past fiscal year, City Council evaluated the City's Recreation Impact Fee, making changes to the methodology, and ultimately lowering the fee after reducing future capital needs in the Park Master Plan. The City's Recreation Impact Fee will ensure that new development contributes to future capital needs to develop parks and provide recreational opportunities to the citizens.

The City continued water and sewer rate increases that were enacted due to the recent rate study, which will provide funding for infrastructure expansion and replacements. With the increase in building permits and associated growth, City staff is evaluating the timing of the next Wastewater Treatment Plant. The Wastewater Treatment Plant represents a major capital funding need in the future as the City continues to grow.

Future Projects and Programs

The need for infrastructure projects continues to grow as existing infrastructure ages, new development occurs, and the population continues to increase. During the upcoming year, the City will invest in infrastructure improvements necessary to support both the existing and future population. In 2015, the City will undertake the following major projects: City Hall & Central Park Wing, Seminole Woods Path, Holland Park Renovation, Street Resurfacing, Palm Coast Parkway Six-Lane, Palm Harbor Parkway Extension, Old Kings Road North Extension, Royal Palms Parkway Improvements, WTP 2 – Wellfield Expansion, Old Kings Road Master Pump Station and Force Main, Reclaimed Water Mains, Swale Rehab & Pipe Replacement, Modeling Improvements, Major Crossing Rehabilitation, and Weir Replacement.

The Palm Coast Business Assistance Center, or BAC, was established in May 2011 to help our existing business grow through a unique partnership with the Small Business Development Center at the University of Central Florida (SBDC at UCF). Since its inception, the BAC has helped businesses maintain or create 174 jobs and invest approximately \$22.5 million in our local economy through capital investment, increased sales, and salaries. In the upcoming year, the BAC will continue to expand its services to serve local businesses and grow the economy “one job at a time.”

The City in partnership with our local sports clubs and the Flagler County Tourist Development Council continues to attract sports tournaments and the associated visitor spending (13% increase in bed tax collections over last year) to our local economy. This past year, through a TDC grant and partnership with the Flagler County School District, the City was able to add two additional fields at Indian Trails Sports Complex, which will assist in attracting bigger and better tournaments.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Palm Coast for its comprehensive annual financial report for the fiscal year ended September 30, 2013. This is the thirteenth year that Palm Coast has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The City of Palm Coast also received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for its Fiscal Year 2013 Popular Annual Financial Report. This is the first year that Palm Coast has received this award.

The City of Palm Coast also received the GFOA Distinguished Budget Presentation Award for its Fiscal Year 2014 budget document. This is the eleventh consecutive year that Palm Coast has received this award.

The City of Palm Coast also received the ICMA Certificate of Distinction for its Fiscal Year 2014 performance measurement document. This is the first year that Palm Coast has received this award.

The City of Palm Coast also received the Association of Public Treasurers of the United States & Canada's Debt Policy Certificate of Excellence Award. This is the first time that Palm Coast has received this award.

Acknowledgements

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

Respectfully submitted,



Jim Landon
City Manager



Christopher M. Quinn
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Palm Coast
Florida**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

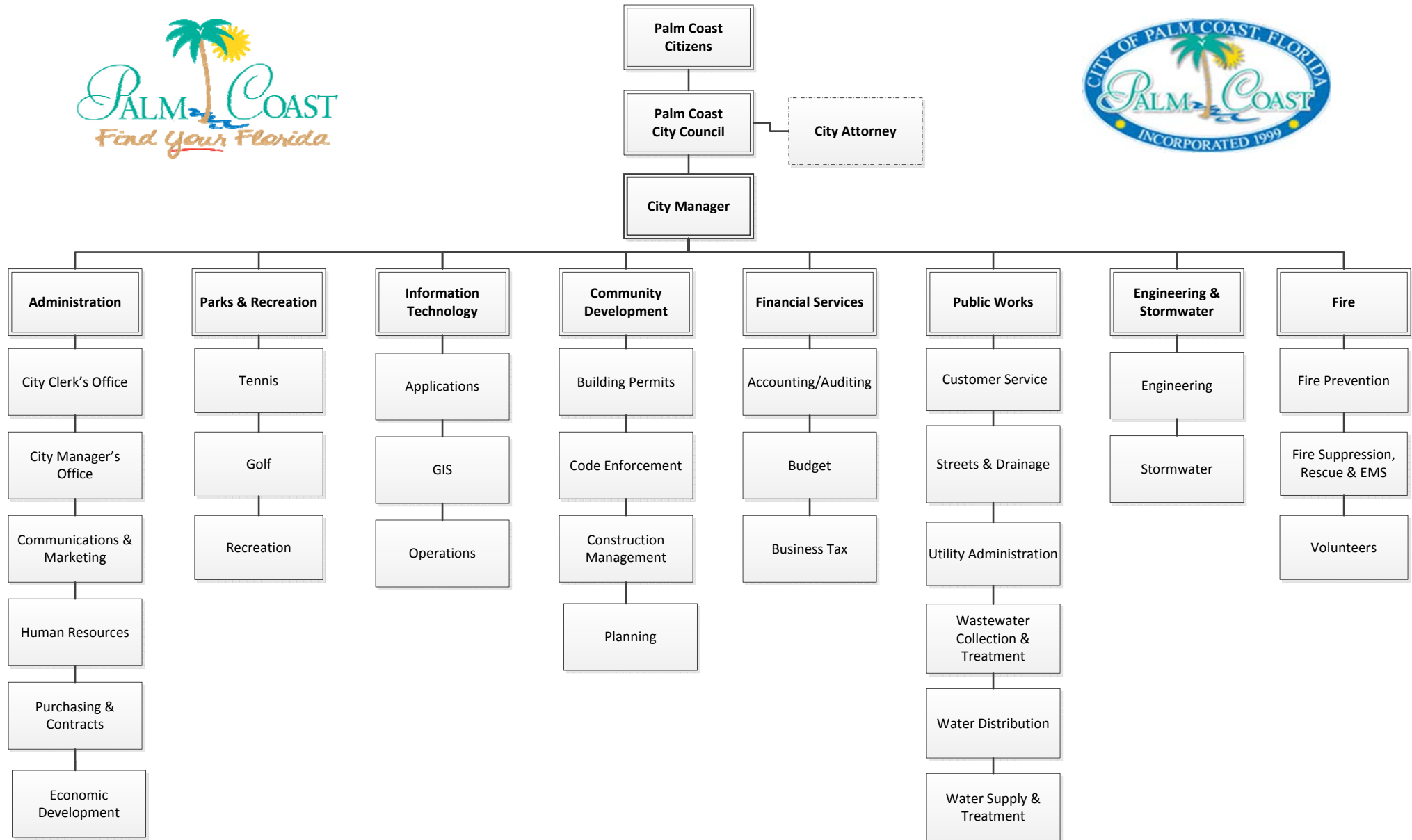
September 30, 2013

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive, flowing style.

Executive Director/CEO



This page intentionally left blank



LIST OF PRINCIPAL OFFICIALS

September 30, 2014

ELECTED OFFICIALS

Mayor

Honorable Jon Netts

City Council Members:

Jason Delorenzo
Bill McGuire
Dave Ferguson
William Lewis

CITY OFFICIALS

City Manager

James S. Landon

City Attorney

William Reischmann

City Auditor

James Moore & Co., P.L.

Finance Director

Christopher M. Quinn