

## **OTHER REPORTS**



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

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

We have audited, 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, the 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 as of and for the year ended September 30, 2016, and related notes to the financial statements, which collectively comprise the City of Palm Coast, Florida's basic financial statements and have issued our report thereon dated March 7, 2017.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City of Palm Coast, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Palm Coast, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Palm Coast, Florida's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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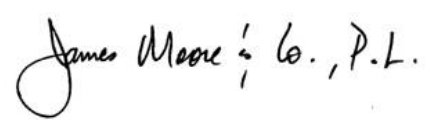
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### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Palm Coast, Florida's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Daytona Beach, Florida  
March 7, 2017

**CITY OF PALM COAST, FLORIDA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| <u>Federal Agency, Pass-Through Entity</u>                         | <u>CFDA<br/>Number</u> | <u>Contract / Grant Number</u> | <u>Program<br/>Award<br/>Amount</u> | <u>Program<br/>Expenditures</u> |
|--|------------------------|--------------------------------|-------------------------------------|---------------------------------|
| <b>FEDERAL AWARDS</b>  |                        |                                |                                     |                                 |
| <b>U.S. Department of Housing and Urban Development</b>            |                        |                                |                                     |                                 |
| Direct:  |                        |                                |                                     |                                 |
| Community Development Block Grants                                 | 14.218                 | B-12-MC-12-0060                | 331,338                             | <u>\$ 134,946</u>               |
| <b>U.S. Department of Environmental Protection</b>                 |                        |                                |                                     |                                 |
| Passed Through Florida Department of Environmental Protection:     |                        |                                |                                     |                                 |
| Capitalization Grants for Clean Water State Revolving Funds - Loan | 66.458                 | CS12000116-0 / WW180420        | 30,100,000                          | <u>5,637,100</u>                |
| <b>U.S. Department of Transportation</b>                           |                        |                                |                                     |                                 |
| Passed Through Florida Department of Transportation:               |                        |                                |                                     |                                 |
| Highway Planning and Construction                                  | 20.205                 | G0064                          | 1,190,000                           | 61,500                          |
| Highway Planning and Construction                                  | 20.205                 | G0744                          | 535,428                             | 162,913                         |
| Total Department of Transportation                                 |                        |                                |                                     | <u>224,413</u>                  |
| <b>Total Expenditures of Federal Awards</b>                        |                        |                                |                                     | <u><u>\$ 5,996,459</u></u>      |

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

(1) **Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards includes federal awards activity of the City of Palm Coast, Florida. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

(2) **Summary of Significant Accounting Policies:**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

No amounts were passed through to subrecipients during the fiscal year ended September 30, 2016.

(3) **De Minimis Indirect Cost Rate Election:**

City of Palm Coast, Florida did not elect to use the 10% de minimis indirect cost rate as covered in §200.414, *Indirect (F&A) costs*, of the Uniform Guidance.

(4) **Federal Loan Programs:**

The federal loan programs listed subsequently are passed through Florida Department of Environmental Protection, and balances and transactions relating to these programs are included in City of Palm Coast, Florida's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at September 30, 2016, consists of:

| <b>CFDA<br/>Number</b> | <b>Program Name</b>   | <b>Outstanding Balance at<br/>September 30, 2016</b> |
|------------------------|---|--|
| 66.458                 | Capitalization Grants for Clean Water State Revolving Funds | \$5,637,100  |

**CITY OF PALM COAST, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARD PROGRAMS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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

***Financial Statements:***

Type of audit report issued on the financial statements: *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes      X   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

***Federal Awards:***

Internal control over major Federal programs:

Material weakness(es) identified? \_\_\_\_\_ yes      X   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported

Type of auditor's report issued on compliance for major Federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes      X   no

Identification of major Federal programs:

| <u>CFDA Number</u>  | <u>Program Name</u>   |
|---|---|
| 66.458  | Capitalization Grants for Clean Water State Revolving Funds |
| Dollar threshold used to distinguish between type A and type B Federal programs: <u>\$750,000</u> |   |
| Auditee qualified as low-risk auditee? <u>  X  </u> yes    _____ no                               |   |

**II. Financial Statement Findings:**

No financial statement findings were noted.

**III. Federal Programs Findings and Questioned Costs:**

None.

**IV. Prior Audit Findings:**

None.

**V. Corrective Action Plan:**

No corrective action plan as there were no findings for the year ended September 30, 2016.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Palm Coast, Florida's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City of Palm Coast, Florida's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Palm Coast, Florida's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Palm Coast, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Palm Coast, Florida's compliance.

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### ***Opinion on Each Major Federal Program***

In our opinion, the City of Palm Coast, Florida complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

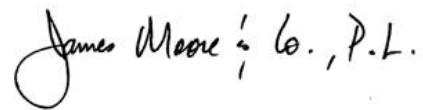
### **Report on Internal Control over Compliance**

Management of the City of Palm Coast, Florida is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Palm Coast, Florida's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Palm Coast, Florida's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Daytona Beach, Florida  
March 7, 2017

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

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

**Report on the Financial Statements**

We have audited the basic financial statements of the City of Palm Coast, Florida, as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated March 7, 2017.

**Auditors' Responsibility**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Auditor General.

**Other Reports and Schedule**

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance for each Major Federal Program and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated March 7, 2017, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address all findings and recommendations made in the preceding annual financial audit report.

**Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Palm Coast, Florida was incorporated on December 31, 1999 under Chapter 99-448, Laws of the State of Florida. There are no component units related to the City as of September 30, 2016.

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## **Financial Condition**

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not City of Palm Coast, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Palm Coast, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Palm Coast, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

## **Annual Financial Report**

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City of Palm Coast, Florida for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

## **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

## **Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, City Council, others within the City, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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

Daytona Beach, Florida  
March 7, 2017

## INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

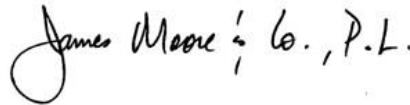
To the Honorable Mayor, City Council, and City Manager,  
City of Palm Coast, Florida:

We have examined City of Palm Coast, Florida's (the City) compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2016. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

Daytona Beach, Florida  
March 7, 2017



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city of  
**PALM COAST**

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### AFFIDAVIT OF IMPACT FEE COMPLIANCE

The City of Palm Coast, Florida has complied with Section 163.31801, Florida Statutes, regarding accounting and reporting of impact fee collections and expenditures.

Jim Landon, City Manager

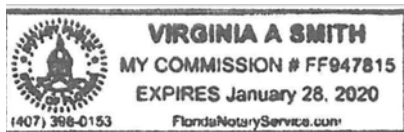
Christopher Quinn, Finance Director

STATE OF FLORIDA  
COUNTY OF FLAGLER

I HEREBY CERTIFY, that on this day, before me, an officer duly authorized in the State and County aforesaid to take acknowledgements, personally appeared Jim Landon, City Manager and Christopher Quinn, Finance Director, whom I personally know and whom executed the foregoing instrument and acknowledged before me, that he executed the same.

WITNESS, my hand and official seal in the County and State last aforesaid this 8<sup>th</sup> day of March 2017.

Virginia A. Smith  
Notary Public - State of Florida





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