

INTRODUCTORY SECTION

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- . List of Principal Officials

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

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For The Year Ended September 30, 2001

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

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

The City of Palm Coast's financial statements have been audited by McDirmit, Davis, Puckett & Company, P.A., 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, 2001, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of the report.

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

Profile of the Government

Palm Coast is situated in the eastern portion of Flagler County, mostly east of U.S. Route 1 and north of State Road 100. The community straddles Interstate Highway 95 and extends almost to the Intercoastal Waterway on the eastern side of the City.

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

In 1975, the Flagler County Board of County Commissioners established Palm Coast Service District, including almost 40,000 acres. Funds for the district were derived primarily from ad valorem taxes and were utilized to provide fire services, fire hydrants, street 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 35,443 residents and covers an area of approximately 50 square miles. Property within the City has a taxable value of \$1,775,084,386. The City's property tax rate for fiscal year 2002 is \$3.50 per \$1,000 of taxable value.

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

Economic Outlook

Industrial parks within the City currently house more than 30 mid to large size businesses with the largest corporation, Palm Coast Data, employing close to 1,000 people. Flagler County has had one of the highest rates of population growth in the United States since 1990, according to the U.S. Bureau of the Census as well as one of the fastest growth rates in ad valorem taxable value using Florida Department of Revenue information. Further, the University of Florida's Bureau of Economic and Business Research predicts Flagler County will experience one of the highest job growth rates in Florida between 1995 and 2010.

Future Programs

The City of Palm Coast plans on developing a comprehensive signage and lighting program during the upcoming fiscal year. This program is intended to improve safety on city streets as well as enhance the physical appearance of the City.

A public facilities and parks plan is scheduled for the coming year. This includes implementing a design build for a new City Hall, possibly coupled with the development of a town center; developing a plan for building both a northern and southern fire station and completing a needs assessment for a cultural arts center. Additionally, the City is pursuing the purchase of the privately owned water and sewer utility currently serving its citizens.

During fiscal year 2001 the City completed a Target Market Study designed to provide recommendations concerning future economic development within the City of Palm Coast. The results of the study will be initiated in fiscal year 2002 and will be an ongoing program. As a part of this economic development effort, the Council and staff are focusing their efforts on the annexation of lands for commercial and industrial development to broaden the tax base of the City.

The City initiated a major land acquisition program in fiscal year 2001. The bulk of this program will be completed in fiscal year 2002 culminating in the purchase of environmentally sensitive lands, which will be preserved as parklands for the citizens of Palm Coast.

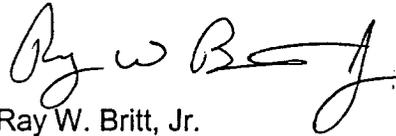
Acknowledgements

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

Respectfully submitted,



Richard M. Kelton
City Manager

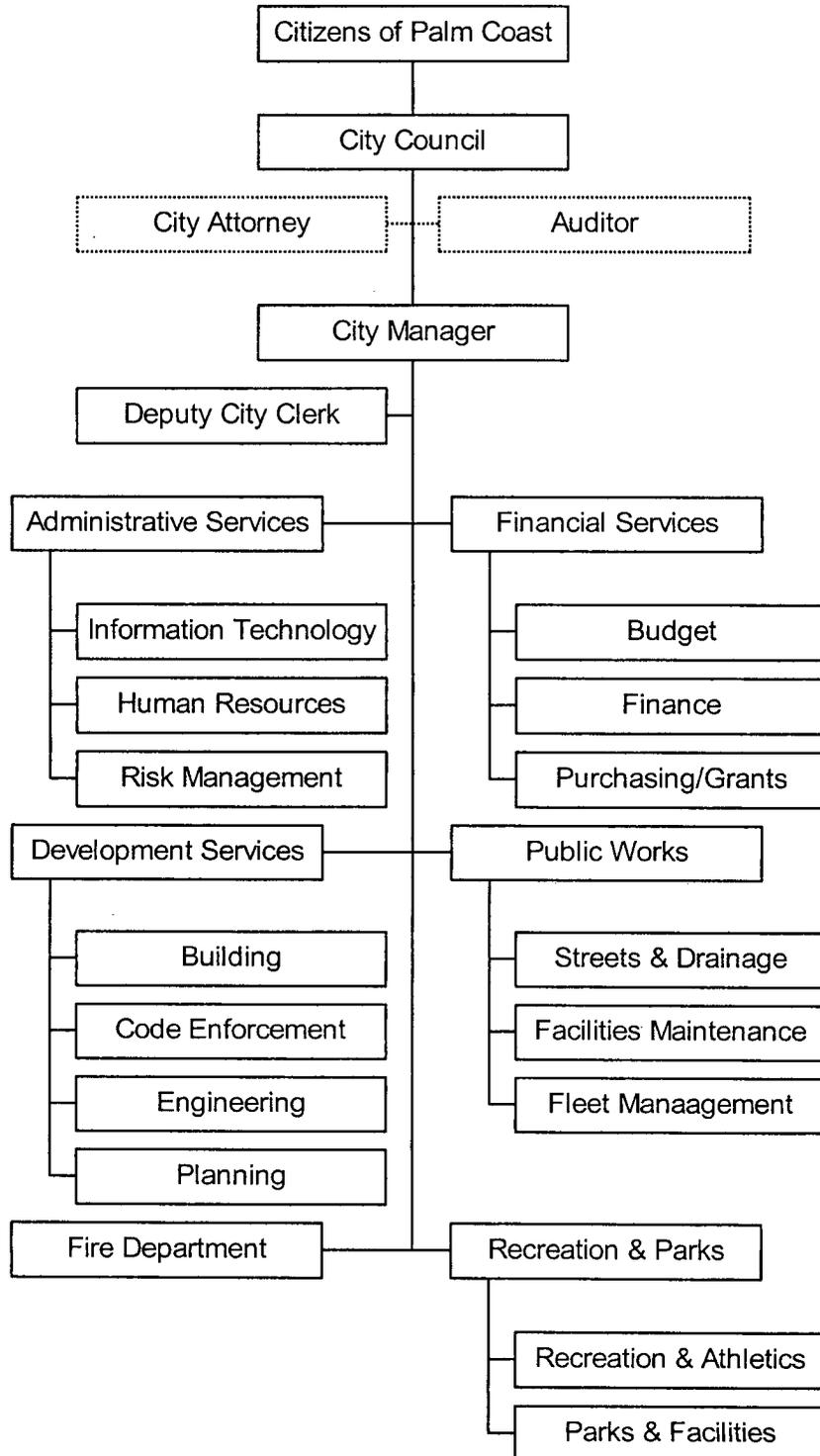


Ray W. Britt, Jr.
Finance Director

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City of Palm Coast Organizational Chart



CITY OF PALM COAST, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2001

ELECTED OFFICIALS

Mayor

Honorable Jim Canfield

City Council Members:

Bill Venne
Jerry Full
Jim Holland
Ralph Carter

CITY OFFICIALS

City Manager

Richard M. Kelton

Administrative Services Director

Oel Wingo

City Attorney

William L. Colbert

City Auditor

McDermitt Davis Puckett & Company, LLC

Finance Director

Ray W. Britt, Jr.