INTRODUCTORY SECTION

This section contains the following subsections:

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

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

For The Year Ended September 30, 2002

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LETTER OF TRANSMITTAL

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December 27, 2002

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, LLC, 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, 2002, 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.

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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 38,348 residents and covers an area of approximately 50 square miles. For fiscal year 2003, property within the City has a taxable value of $1,983,740,628, an increase of almost 12 percent. The City's property tax rate for fiscal year 2003 is $3.40 per $1,000 of taxable value.

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

Economic Outlook

The City is pursuing commercial and industrial development within its corporate limits. The "Town Center" development is waiting for approval at this time. This development will cover approximately 1,500 acres and will include a downtown commercial area, industrial sites, and multi-family residential housing. An area of approximately 4,000 acres west of the city limits is proposed for annexation. This annexation would provide property for commercial development along US Highway 1 and would also provide space for industrial development and single and multi-family housing. The European Village is a smaller development that will also combine commercial and residential development. On January 1, 2002 only about half of the available commercial and industrial parcels within the city had been developed.

Palm Coast and Flagler County continues to be one of the fastest growing areas in the country. The City issued an average of 160 single-family residential building permits during fiscal year 2002. During the first two months of fiscal year 2003 that number has been over 250 per month. There are currently over 30,000 platted, undeveloped, single-family residential lots within the city.

Future Programs

The City of Palm Coast is currently in the process of developing its Comprehensive Plan. Completion of the plan is expected in the next few months. The Comprehensive Plan will provide a guide for the future development of the city and assist the administration and elected officials in determining areas of need.

Some needs are already being addressed. A third fire station will be under construction soon and should be completed about mid-summer. Plans are also underway to relocate the main fire station further south in order to provide better service to the southern portion of the city. A conceptual city hall plan has been completed and possible city hall sites are now being evaluated.

Phase one of a stormwater facilities plan has been completed and funding options are under consideration. Fiscal year 2002 saw several major pipe failures in the system and more are anticipated in 2003. Phase one of the plan is designed to address the immediate needs in the system.

Design work is in progress for North Belle Terre Park. This park is expected to eventually include several competition soccer fields and a baseball/softball complex. Construction would be done in two phases with phase one starting late this year or early next year. Other possible future park sites are being evaluated for acquisition. The City has completed the acquisition of environmentally sensitive land within the Palm Coast Parkway corridor. This land will be preserved and developed only for passive uses such as a nature trail.

The citizens of Palm Coast and Flagler County approved a half-cent Local Government Infrastructure Surtax in September 2002. This money can only be used for capital expenditures. The City of Palm Coast has committed to use this money to resurface at least fifty (50) miles of streets each year. This would complete all of the streets in Palm Coast within the next ten (10) years.

Finally, the City is continuing to pursue the purchase of the water and sewer utility system from Florida Water Services, Inc. Florida Water has signed a contract with another entity to sell the utility system. Palm Coast, as well as other affected governments, has taken legal action to stop this sale. Regardless of the outcome the City may have to consider various options for acquisition of the utility system.

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, 2001. This was the first year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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 Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the mayor and the city council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Palm Coast's finances.

Respectfully submitted,

Richard M. Kelton
City Manager

Ray W. Britt, Jr.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palm Coast, Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2001

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

President

Executive Director

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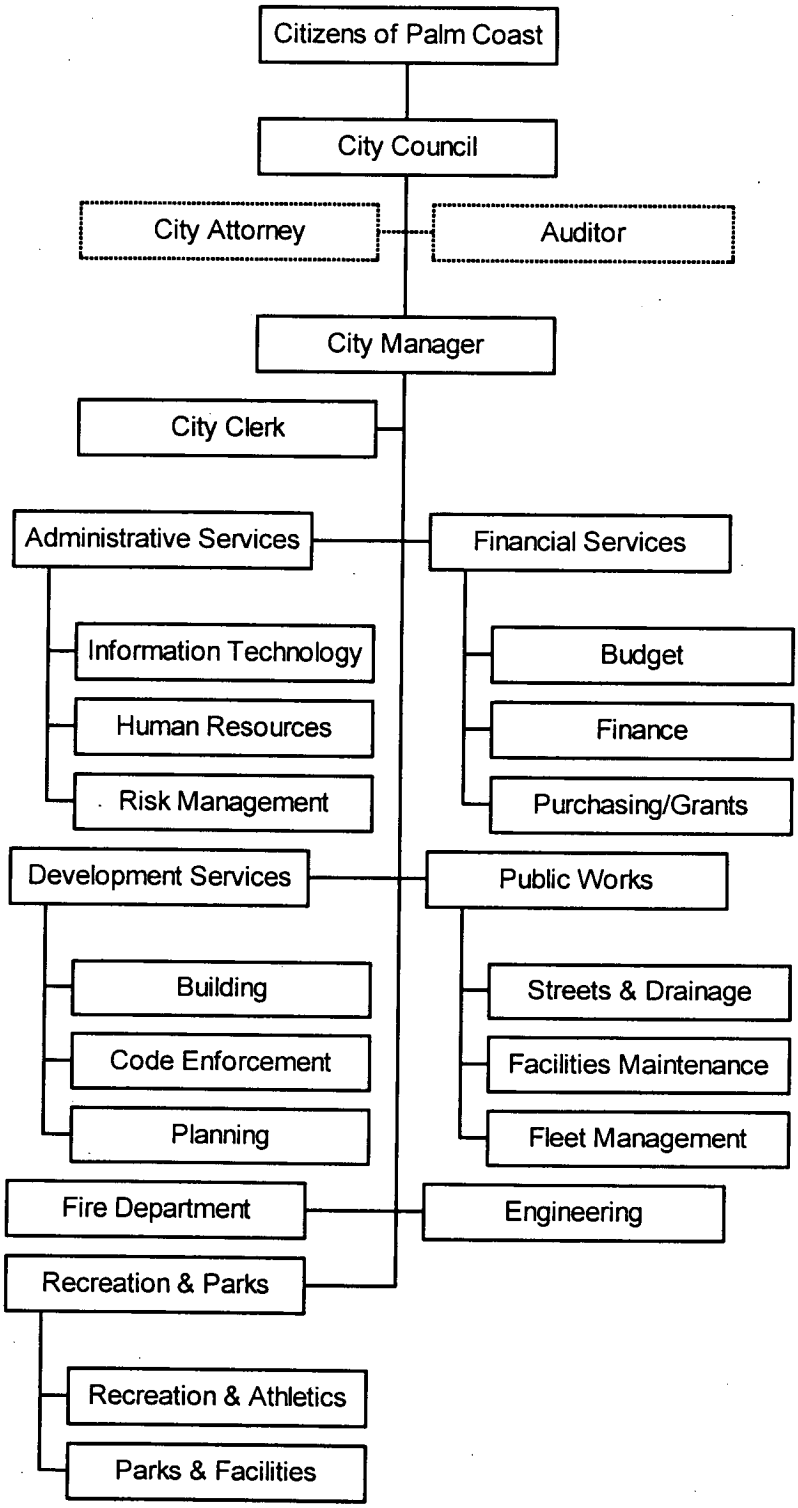
CITY OF PALM COAST, FLORIDA
ORGANIZATIONAL CHART



CITY OF PALM COAST, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2002

ELECTED OFFICIALS

Mayor	Honorable Jim Canfield
City Council Members:	Bill Venne Jon Netts Tom Lawrence Ralph Carter

CITY OFFICIALS

City Manager	Richard M. Kelton
City Attorney	William L. Colbert
City Auditor	McDirmit Davis Puckett & Company, LLC
Finance Director	Ray W. Britt, Jr.