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MCDIRMIT DAVIS PUCKETT

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

The Honorable Mayor and
City Commissioners
City of Palm Coast, Florida

We have audited the basic financial statements of the *City of Palm Coast, Florida*, as of and for the year ended September 30, 2003, and have issued our report thereon dated November 5, 2003. 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.

Compliance - As part of obtaining reasonable assurance about whether the *City of Palm Coast, Florida*'s basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the *City of Palm Coast, Florida*'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

MCDIRMIT DAVIS PUCKETT & COMPANY, LLC
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MEMBERS: PRIVATE COMPANIES PRACTICE SECTION • AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

This report is intended solely for the information and use of management, the City Commission and the Auditor General of the State of Florida, and is not intended to be, and should not be used by anyone other than these specified parties.

McDirmit Davis Puckett & Company, LLC

McDIRMIT DAVIS PUCKETT & COMPANY, LLC

November 5, 2003

MCDIRMIT DAVIS PUCKETT

MANAGEMENT COMMENTS

Honorable Mayor and City Council Members
City of Palm Coast, Florida

In connection with our audit of the financial statements of the City of Palm Coast, Florida, for the year ended September 30, 2003, we are submitting for your consideration the accompanying recommendations designed to help you improve the internal control over financial reporting and achieve operational efficiencies. Our comments deal exclusively with weaknesses noted in operational, accounting, and recordkeeping systems and procedures, and should not be regarded as reflecting on the integrity or capabilities of anyone in your organization. Our comments reflect our desire to be of continuing assistance to management.

Since the comments and observations contained in this letter are a by-product of the audit of financial statements, the cost justification and other aspects of our suggestions have not been fully evaluated; these evaluations should be made by management. Therefore, we recognize that, after consideration, certain suggestions and recommendations may not be practical to implement.

We have also provided comments as required by the Rules of the Auditor General of the State of Florida.

We appreciate the cooperation we have received from the City's personnel in connection with developing these recommendations. We appreciate the opportunity to have been of service to you. Should you have any questions about our recommendations, this letter, or other matters, please contact us at your convenience.

McDirmit Davis Puckett & Company, LLC

November 5, 2003

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A. Status of Prior Year Comments

There were no prior year comments.

B. Current Year Comments

There are no current year comments.

Comments Required by the Rules of the Auditor General

1. The financial report filed with the Department of Banking and Finance pursuant to Section 218.32(1)(b), Florida Statutes, is in agreement in all material respects with the annual financial audit report for the same period.

2. The City is not, or during the fiscal year was not, in a state of financial emergency as a consequence of conditions described in Section 218.503(1) Florida Statutes.

3. The City of Palm Coast, Florida was created under State of Florida law in 1999. There were no component units identified by the City.

4. The City of Palm Coast, Florida, has complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

5. As required by the Rules of the Auditor General, Section 10.554 (g)(6)c and 10.556(8), we applied financial condition assessment procedures.