

CITY OF PALM COAST, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Year Ended September 30, 2005

Prepared by:

**City of Palm Coast
Financial Services Department**



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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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For The Year Ended September 30, 2005

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LETTER OF TRANSMITTAL



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January 8, 2006

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 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, 2005, 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 federal 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, mostly east of U.S. Route 1 and north of State Road 100. The community straddles Interstate Highway 95 and extends 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 the 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 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 58,216 residents and covers an area of approximately 64 square miles. For fiscal year 2006, property within the City has a taxable value of \$4,444,854,928, an increase of over 42 percent. The City's property tax rate for fiscal year 2006 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 under construction with the infrastructure necessary for the development currently being installed. Commercial development on the outlying parcels has begun with the "downtown" construction expected to begin in mid to late 2006. This development will cover approximately 1,500 acres and will include a downtown commercial area, industrial sites, and multi-family residential housing. A Development of Regional Impact for Palm Coast Park has been approved. Palm Coast Park is a 4,740 acre development located in the northwest portion of the City. This project will also provide property for commercial development along US Highway 1 and space for industrial development and single and multi-family housing. The feasibility study has been completed for water plant #3 which will be part of the Palm Coast Park development. As the City's population nears 60,000, there has been increasing interest shown by retail and restaurant operations, including inquiries about possible mall sites. On January 1, 2005, about forty-five percent (45%) of the existing commercial and industrial parcels remain undeveloped.

Palm Coast received the designation as the fastest growing small city and Flagler County the fastest growing county in the nation. The City issued 3,287 single-family residential building permits during fiscal year 2005. Fiscal year 2006 is expected to show a decline in single-family building permits to approximately 2,400 units. There are currently over 20,000 platted, undeveloped, single-family residential lots within the city. Plans for other developments have been submitted and are currently under review.

Future Programs

In fiscal year 2005, the City began expansion of the wastewater plant with completion expected in 2006. The City took over operation of the Grand Haven utility system. Previously, Grand Haven had been a wholesale customer. As mentioned earlier, water plant #3 is being planned west of US Highway 1 within the Palm Coast Park development. Other smaller projects are also underway and the utility has received several inquiries concerning the expansion of services outside the city limits.

The City and the Palm Coast Community Service Corporation (PCCSC) completed the merger of services related to architectural review and the stormwater system. The staff of the PCCSC became employees of the City so that we did not lose their knowledge and experience.

Two additional fire stations are under design and are expected to be completed in late 2006 or early 2007. This will bring the number of City fire stations to five.

Groundbreaking for Seminole Woods neighborhood park will occur in January 2006 and another neighborhood park is planned for Cypress Knoll. A citizens committee has been formed to determine the need and possible design of a second community center for the City.

The design for the four-laning of Belle Terre Parkway north of Palm Coast Parkway has begun with neighborhood meetings planned for early 2006. Construction on Belle Terre Parkway is scheduled to begin in 2007. Engineering for the six-laning of Palm Coast Parkway at I-95 continues.

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, 2004. This is the fourth 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.

The City of Palm Coast also received the GFOA Distinguished Budget Presentation Award for its Fiscal Year 2005 budget document. This is the second time that the City has received this award.

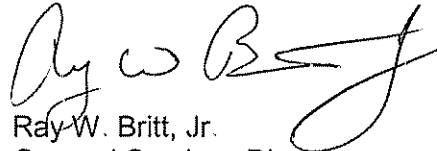
Acknowledgements

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,



Richard M. Kelton
City Manager



Ray W. Britt, Jr.
General Services 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, 2004

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.



Carol E. Perry

President

Jeffrey R. Enen

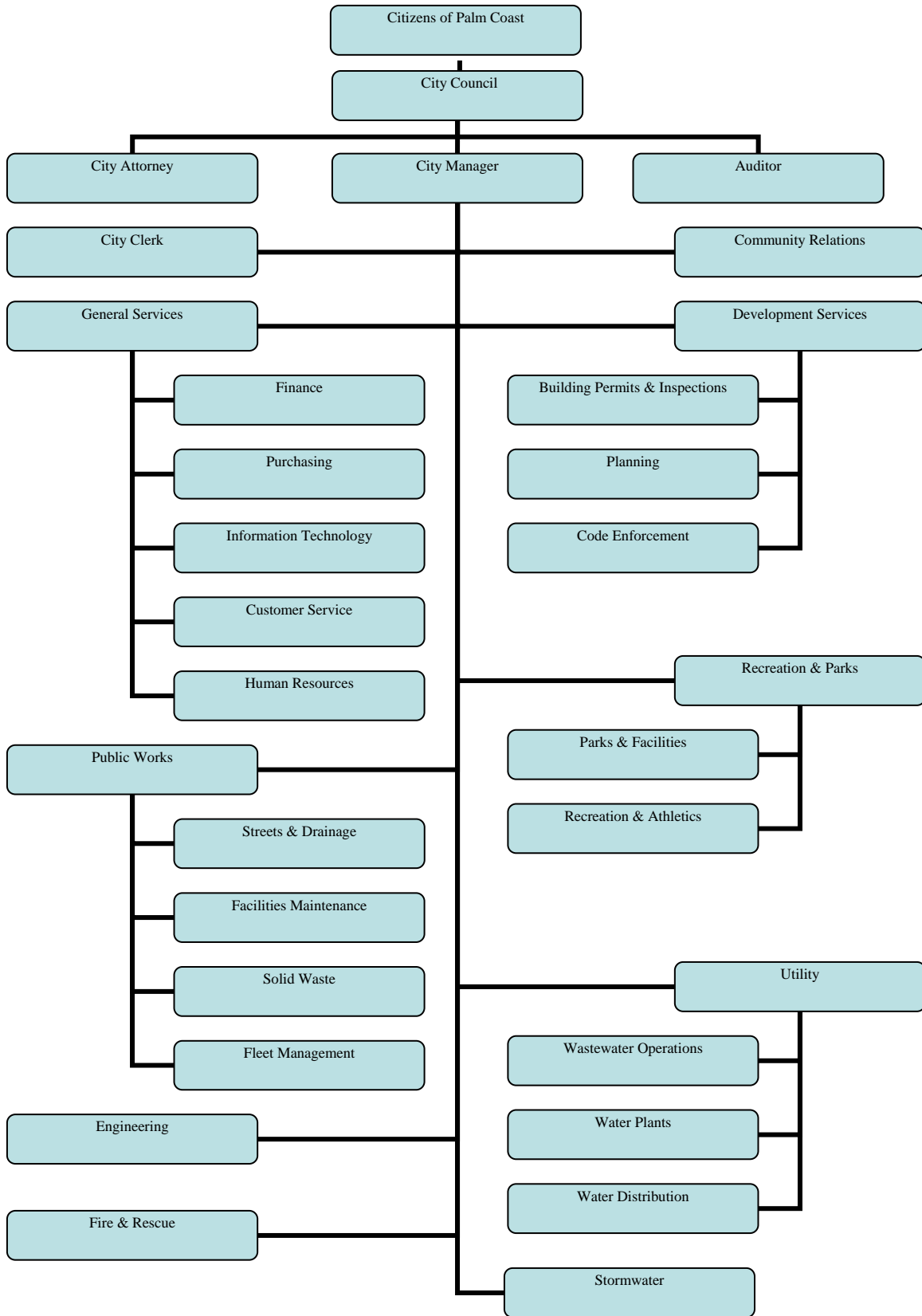
Executive Director



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City of Palm Coast, Florida

Organizational Chart



CITY OF PALM COAST, FLORIDA

LIST OF PRINCIPAL OFFICIALS

September 30, 2005

ELECTED OFFICIALS

Mayor

Honorable Jim Canfield

City Council Members:

Bill Venne
Jon Netts
Mary DiStefano

CITY OFFICIALS

City Manager

Richard M. Kelton

City Attorney

William L. Colbert

City Auditor

James Moore & Co., P.L.

Finance Director

Ray W. Britt, Jr.



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