

INTRODUCTORY SECTION

This section contains the following subsections:

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- . 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, 2006

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LETTER OF TRANSMITTAL



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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 67,832 residents and covers an area of approximately 65 square miles. For fiscal year 2007, property within the City has a taxable value of \$6,239,994,489, an increase of over 40 percent from 2006. The City's property tax rate for fiscal year 2007 is \$3.25 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 has seen an increase in the amount of commercial construction activity within the past few months and expects this trend to continue. The first retail stores have recently opened on some of the outlying parcels in the "Town Center" development and additional large retail stores are currently in the approval process. When completed this development will cover approximately 1,500 acres and will include a downtown commercial area, industrial sites, and multi-family residential housing. Additional projects in this development are expected to be underway soon. Construction on the internal parcels is expected to begin in 2007.

The Cobblestone Village is a large scale retail project that will be anchored by a home improvement center and several large retail stores. Site work has begun with construction to begin in 2007. The project is located close to I-95 and Palm Coast Parkway and will bring much needed and desired shopping opportunities for Palm Coast residents and visitors to our City.

Ground was broken on December 19, 2006 for water plant #3, which is expected to provide service to Palm Coast Park, a Development of Regional Impact. Palm Coast Park is a 4,740 acre development located in the northwest portion of the City. This project will provide property for commercial development along US Highway 1 and space for industrial development and single and multi-family housing. The water plant will also help to provide improved water service to the western and northern portions of the City. Several single and multi-family projects have been submitted for approval and should begin construction in 2007.

Several smaller projects are in various stages of the planning and approval process throughout the City. These projects include office, retail, industrial, restaurant, and medical facilities. The original Palm Coast Resort is being replaced by a larger more modern facility that will have condominiums, a hotel, and a conference center.

Like most areas, Palm Coast has experienced a significant decline in single-family home starts over the past year. In fiscal year 2006, the City issued 1,692 single-family building permits compared to 3,287 during fiscal year 2005. It is expected that a more sustainable 400 to 500 single-family building permits will be issued in 2007 and the foreseeable future. There are currently over 20,000 platted, undeveloped, single-family residential lots within the city.

Future Programs

As mentioned earlier, construction has begun on water plant #3. The project will include the development of a new well field and the installation of transmission lines along US Highway 1. In 2008, construction is scheduled to begin on wastewater treatment plant #2, which will be located on the same site as water plant #3. This will allow for the sharing of an administrative facility which will help reduce costs.

A neighborhood park is under design for Rymfire Drive, adjacent to a new elementary school. This will be a shared facility with the school. The City is trying to locate sites for a second community park and for a municipal golf course. A study is underway to determine the need for another community center.

Two additional fire stations are anticipated for construction in 2007 and 2008. This will bring the number of City fire stations to five.

Two major road projects will be underway during the next two to three years. Design work for the four-laning of Belle Terre Parkway north of Palm Coast Parkway is nearing completion and right-of-way acquisition is being done at this time. Construction on Belle Terre Parkway is scheduled to begin in 2007. The four-laning of Old Kings Road south of Palm Coast Parkway is in the engineering and design phase. This project is associated with the development of Town Center and other development along Old Kings Road and should be under construction in late 2007.

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, 2005. This is the fifth 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 2006 budget document. This is the third time that the City has received this award.

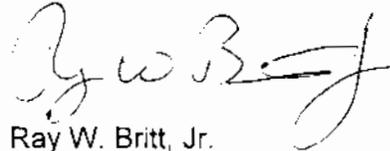
Acknowledgements

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, 2005

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.



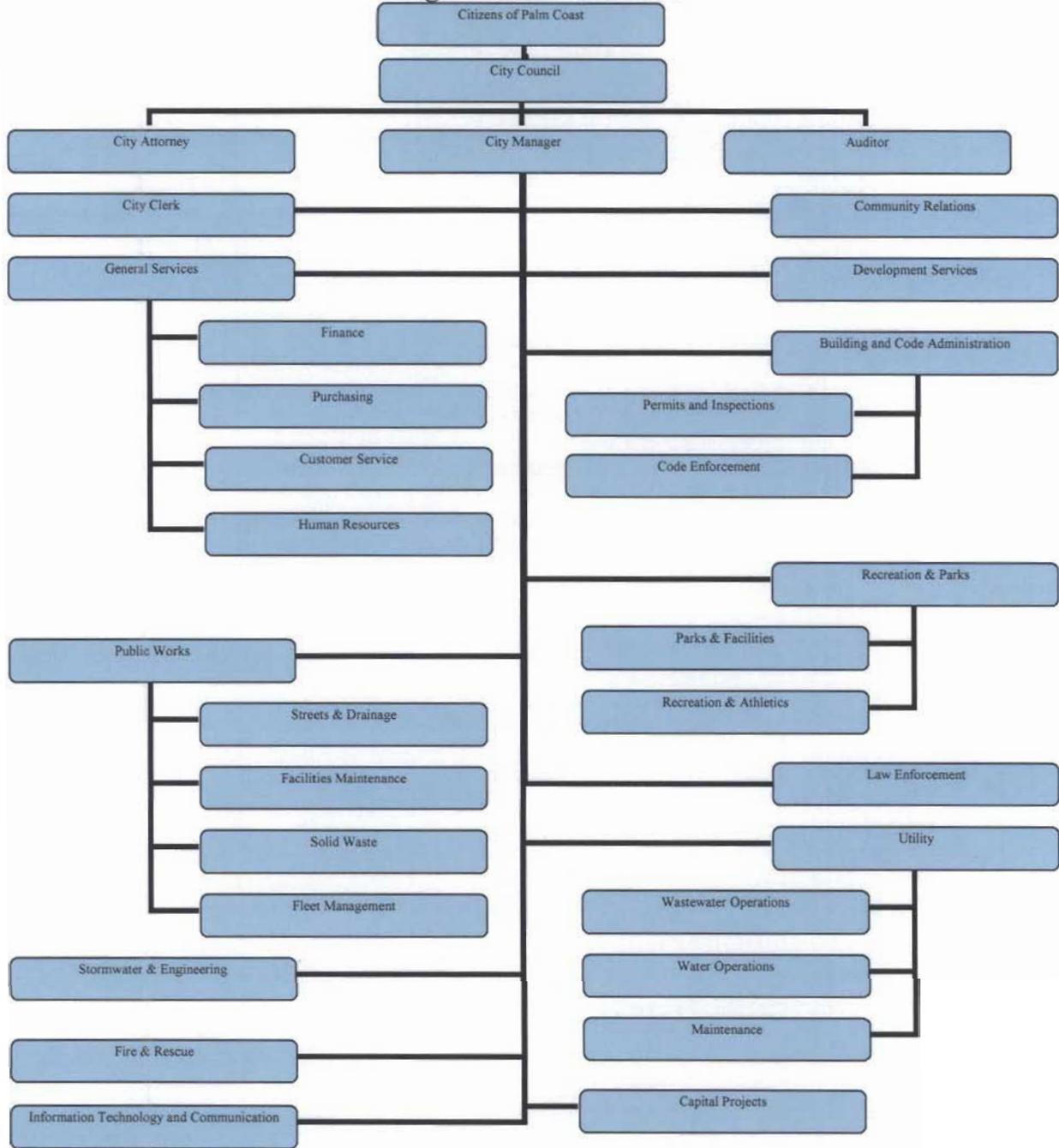
President

Executive Director



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City of Palm Coast, Florida Organizational Chart



LIST OF PRINCIPAL OFFICIALS

September 30, 2006

ELECTED OFFICIALS

Mayor

Honorable Jim Canfield

City Council Members:

Bill Venne
Jon Netts
Mary DiStefano
Alan Peterson

CITY OFFICIALS

City Manager

Richard M. Kelton

City Attorney

William L. Colbert

City Auditor

James Moore & Co., P.L.

General Services Director

Ray W. Britt, Jr.