

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, 2008

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LETTER OF TRANSMITTAL



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February 5, 2009

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, 2008, 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 federally 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. The City was developed in 1969 on 68,000 acres owned by the ITT Corporation. The original ITT development plan encompassed 48,000 home sites on approximately 42,000 acres (65.62 square miles). Paved streets 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, consisting 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 74,590 residents and covers an area of approximately 81 square miles. For fiscal year 2009, property within the City has a taxable value of \$6,131,965,169. This was a decrease of over 12 percent from 2008. The decrease was a combination of declining property values and an increase in the homestead exemption approved by voters as part of Amendment 1. The City's property tax rate for fiscal year 2009 remained at \$2.9623 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 not been immune to the economic problems being felt throughout the world. Flagler County, of which the City is 75% of the population, has one of the highest unemployment rates in Florida. Single-family building permits have fallen by more than 95% from four years ago. Property values have dropped and foreclosures have increased.

However, we remain optimistic about the local economy. Flagler County remains one of the fastest growing counties in the nation. The City, with assistance from Flagler County and the State of Florida, was successful in keeping the largest private employer from moving their operations out of Palm Coast. The City's efforts resulted in an agreement that will consolidate their operations from two other locations, to Palm Coast, which will bring about 700 new jobs over the next few years. Commercial construction continues to occur. Several national retailers opened in the "Town Center" development in mid 2008. A hotel has just opened in that same area, along with an office building. Another office building is under construction in the core area of Town Center. Another major department store is scheduled to open in two or three months in the original commercial area of Palm Coast. Several new restaurants have also opened in various locations. When one grocery chain was going to close its Palm Coast store, another grocery chain snapped up the location, remodeled, and was open within just a few months.

The City itself has been able to start and continue projects using money that it had accumulated during the housing boom. This has allowed the City to help stimulate the local economy by providing work for area contractors and residents.

Water plant #3 has been completed in the northwest area of the City. It will provide service to Palm Coast Park, a Development of Regional Impact and help to provide improved water service to the western and northern portions of the City. 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. While the slowing economy has affected the pace of development for Palm Coast Park, there has been some preliminary activity in the area and it is expected that development would move forward as the economy picks up.

Even though the commercial development continues to occur, the City is still pursuing available economic development opportunities. Several annexations have occurred or will occur in the near future, that will provide areas for commercial and industrial development along with residential development.

Future Programs

Because of the economic downturn, the City pared back its capital improvement program somewhat for future years. It is anticipated that the capital program will be ramped back up as the economy turns around.

A “green team” made up of city employees was formed in 2008 to look for and help implement environmentally friendly policies and processes that could also help reduce costs for the City. Recycling and the reduction of paper and electricity usage are just a few of the programs that the “green team” has helped introduce. The overall goal, throughout the City, is to continue to provide the same levels of service without a significant increase in cost.

A new main fire station has opened within the last week and a fifth City fire station will open within the next couple of months. The relocation and replacement of station #22 is being studied at this time. Should the decision be made to relocate the station, construction would occur in 2010.

The four-laning of North Belle Terre Parkway is underway with completion expected in 2010. Phase I of South Old Kings Road should be under construction within the next month or two and will take about one year to complete. Phase II will begin as soon as possible after the completion of Phase I. This road is also being four-laned to make way for commercial development and some residential development. Most of the cost for Old Kings Road will be paid for by the property owners that will benefit from the improvements. The extension of Royal Palm Parkway is also under construction and will be completed by the spring of 2009.

Ralph Carter Neighborhood Park, which is located next to Rymfire Elementary School, is nearing completion. This will be a shared facility with the school. The Palm Harbor Golf Course renovations are underway with the opening planned for early September 2009. The City is currently interviewing management companies to manage the course preparations and then operate the course. Waterfront Park and the Graham Swamp Trail are two major projects that are expected to begin in early 2009.

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, 2007. This is the seventh 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 2008 budget document. This is the fifth time that the City has received this award.

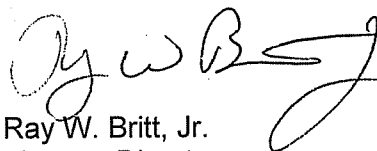
Acknowledgements

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,



Jim Landon
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, 2007

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.



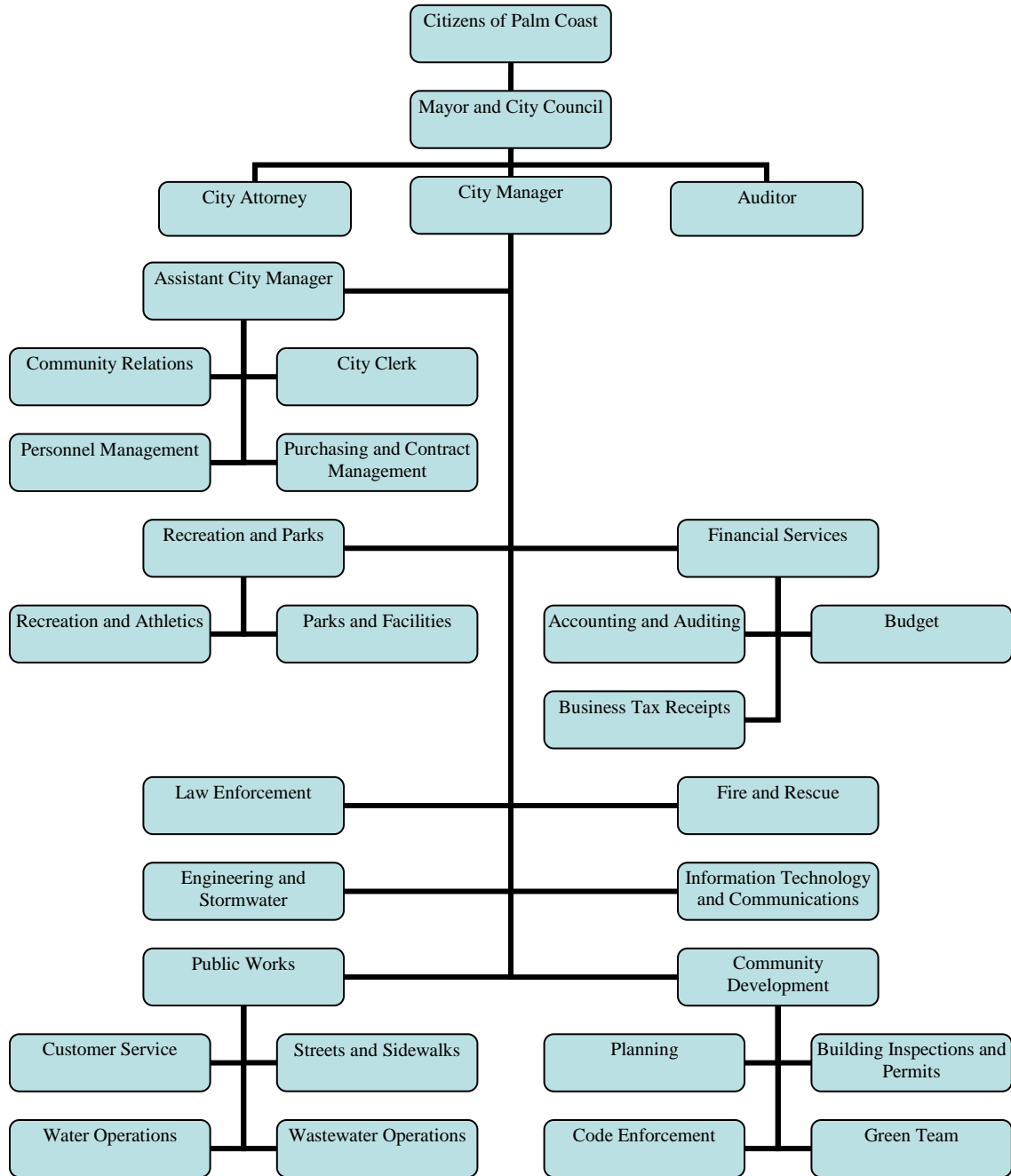
President

Executive Director



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City of Palm Coast, Florida Organizational Chart



LIST OF PRINCIPAL OFFICIALS

September 30, 2008

ELECTED OFFICIALS

Mayor

Honorable Jon Netts

City Council Members:

Holsey Morman
Frank Meeker
Mary DiStefano
Alan Peterson

CITY OFFICIALS

City Manager

James S. Landon

City Attorney

William Reischmann

City Auditor

James Moore & Co., P.L.

Finance Director

Ray W. Britt, Jr.