

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, 2009

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LETTER OF TRANSMITTAL



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CITY MANAGER'S OFFICE

February 25, 2010

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, 2009, 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 of 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 73,910 residents and covers an area of approximately 81 square miles. For fiscal year 2010, property within the City has a taxable value of \$5,248,182,001. This was a decrease of over 14 percent from 2009. The City's property tax rate for fiscal year 2010 increased to \$3.5000 per \$1,000 of taxable value to offset the revenue lost because of the falling property values.

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 and Flagler County, of which the City is 75% of the population, continues to suffer through the economic downturn along with the rest of the country. Unemployment in Flagler County has been around 17% for the past few months. Construction was a major industry during the high growth period of 2003 through 2006. Single family residential construction has virtually come to a halt, but commercial and multi-family residential construction has continued, although at a slower pace.

We do however remain optimistic about the local economy. Several local businesses have plans to expand and add jobs over the next several years. These jobs are expected to pay wages at or above the local average wage. Other construction currently underway that will not provide high paying jobs but will provide jobs include a hotel and a movie theatre. The movie theatre is located in the Town Center development and is expected to help generate activity in Town Center that will help to spur more interest and additional development. The four-laning of South Old Kings Road should also help to attract development in the area of Town Center. Phase I of the Old Kings Road construction is expected to be completed in July 2010. The City itself has other projects (see Future Programs below) underway 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. While the rest of Florida and the country expect unemployment to decline slowly, given Flagler County's relatively small workforce compared to its population, it could see its unemployment rate fall faster than others as jobs begin to open up again.

Even though the commercial development continues to occur, the City is still pursuing available economic development opportunities. A couple of large annexations have occurred and additional annexations are expected over the next couple of years. These annexations will provide areas for commercial and industrial development along with residential development. One developer has already begun the Development of Regional Impact (DRI) process and although the DRI process will take several years to complete, the activity shows that there is still significant interest in Palm Coast.

Future Programs

The economic downturn has caused the City to pare back its capital improvement program somewhat for future years. Projects that were already underway are being continued, other critical projects have been left in the program, and projects for which grant money could be attained have been put into the program.

One very long-term project, the Coquina Coast Desalination project, is in its initial phase. This project will result in the construction of a desalination plant that is intended to serve the region around Palm Coast. The project involves several jurisdictions and the plant would not begin production for several years. When it is completed and in operation, it will supply the water needs for any new development in the region for years to come. This plant will be important as the DRIs begin construction.

The City is completing the installation of fiber optic cable that will serve as the backbone to provide service to the commercial areas of the city. Talks are underway with service providers that will provide retail services to customers by leasing space on the City's fiber system. This is expected to help improve opportunities for economic development in the future.

In the SR100 Community Redevelopment Area (CRA) the design of Bulldog Drive, one of the main entrances into Town Center will be under design while the City attempts to acquire the remaining property needed for right-of-way. Enhancements are also planned for Central Park in Town Center.

The four-laning of North Belle Terre Parkway continues with completion expected in late summer of 2010. Phase I of South Old Kings Road is also under construction with completion expected in July 2010. 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 City had planned several sidewalk and trail projects and one bridge was to be rehabilitated this year. However, the City has been successful in obtaining grant money and these programs are expected to be expanded. Graham Swamp Trail and Waterfront Park are under construction. These two projects will help tie the city-wide trail system together.

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, 2008. This is the eighth 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.

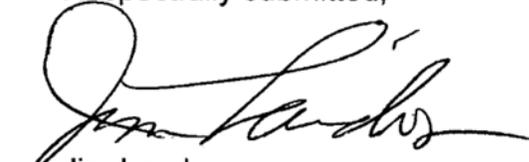
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Palm Coast also received the GFOA Distinguished Budget Presentation Award for its Fiscal Year 2009 budget document. This is the sixth time that the City has received this award.

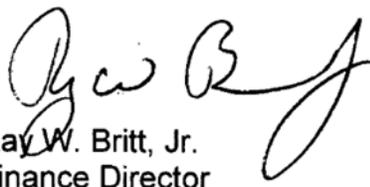
Acknowledgements

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, 2008

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.



A stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

President

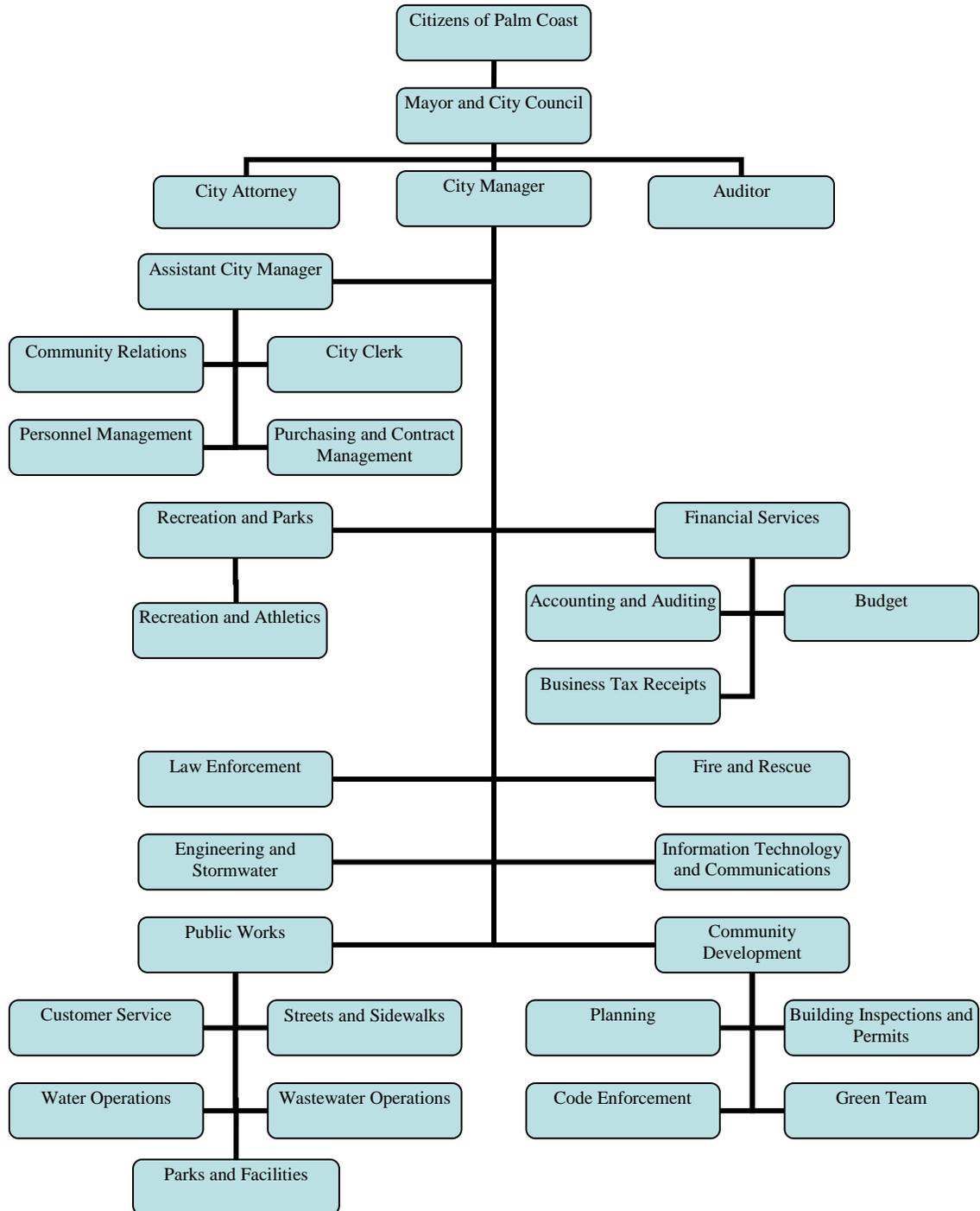
A handwritten signature in black ink that reads "Jeffrey R. Emen" in a cursive style.

Executive Director



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City of Palm Coast, Florida Organizational Chart



LIST OF PRINCIPAL OFFICIALS

September 30, 2009

ELECTED OFFICIALS

Mayor

Honorable Jon Netts

City Council Members:

Holsey Moorman

Frank Meeker

Mary DiStefano

William Lewis

CITY OFFICIALS

City Manager

James S. Landon

City Attorney

William Reischmann

City Auditor

James Moore & Co., P.L.

Finance Director

Ray W. Britt, Jr.