

INTRODUCTORY SECTION

This section contains the following subsections:

- Table of Contents
- Letter of Transmittal
- Certificate of Achievement for Excellence in Financial Reporting
- Organizational Chart
- List of Principal Officials



This page intentionally left blank

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF PALM COAST, FLORIDA

For The Year Ended September 30, 2010

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Table of Contents	iii
Letter of Transmittal	vii
Certificate of Achievement for Excellence in Financial Reporting	xi
Organization Chart	xiii
FINANCIAL SECTION	
Independent Auditor's Report	5
Management's Discussion and Analysis	9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	23
Statement of Activities	24
Fund Financial Statements:	
Governmental Fund Financial Statements -	
Balance Sheet	26
Reconciliation of the Balance Sheet to the Statement of Net Assets	27
Statement of Revenues, Expenditures, and Changes in Fund Balances	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29
Proprietary Fund Financial Statements -	
Statement of Net Assets	30
Statement of Revenues, Expenses and Changes in Fund Net Assets	33
Statement of Cash Flows	34
Fiduciary Fund Financial Statements -	
Statement of Net Assets	36
Statement of Changes in Net Assets	37
Notes to Financial Statements	40
Required Supplementary Information:	
Volunteer Firefighter's Pension Plan	78
Post Employment Benefits Other Than Pension (OPEB)	79
Schedule of Revenues, Expenditures and Changes in Fund Balance -	
Budget and Actual - General Fund	80
Budget and Actual - Transportation Impact Fee Special Revenue Fund	81
Budget and Actual - Streets Improvement Special Revenue Fund	82
Budget and Actual - SR100 CRA Special Revenue Fund	83
Notes to Required Supplementary Information	84
Combining and Other Individual Fund Statements and Schedules:	
Budget and Actual - Capital Projects Fund	89
Non-Major Governmental Funds	
Combining Balance Sheet	90
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	91
Individual Non-Major Governmental Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - Police Education Special Revenue Fund	92
Schedule of Revenues, Expenditures and Changes in Fund Balance	
Budget and Actual - Police Automation Special Revenue Fund	93
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - Park Impact Fee Special Revenue Fund	94
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - Fire Impact Fee Special Revenue Fund	95
Schedule of Revenues, Expenditures and Changes in Fund Balances -	
Budget and Actual - Neighborhood Stabilization Special Revenue Fund	96

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - OKR Special Assessment Special Revenue Fund	97
Non-Major Enterprise Funds	
Combining Statement of Net Assets	102
Combining Statement of Revenues, Expenditures and Changes in Net Assets	103
Combining Statement of Cash Flows	104
Internal Service Funds	
Combining Statement of Net Assets	109
Combining Statement of Revenues, Expenditures and Changes in Net Assets	110
Combining Statement of Cash Flows	111
Fiduciary Fund Schedules	
Statement of Changes in Assets and Liabilities - Agency Funds	115

STATISTICAL SECTION

Schedule 1 Net Assets by Component	119
Schedule 2 Changes in Net Assets	120
Schedule 3 Fund Balances - Governmental Funds	122
Schedule 4 Changes in Fund Balances - Governmental Funds	123
Schedule 5 Assessed and Actual Value of Taxable Property	124
Schedule 6 Direct and Overlapping Property Tax Rates	125
Schedule 7 Principal Property Tax Payers	126
Schedule 8 Property Tax Levies and Collections	127
Schedule 9 Ratios of Outstanding Debt by Type	128
Schedule 10 Ratios of General Bonded Debt Outstanding	129
Schedule 11 Direct and Overlapping Governmental Activities Debt	130
Schedule 12 Legal Debt Margin	131
Schedule 13 Pledged-Revenue Coverage	132
Schedule 14 Demographic and Economic Statistics	133
Schedule 15 Principal Employers	134
Schedule 16 Full-time Equivalent Employees by Function/Program	135
Schedule 17 Operating Indicators by Function/Program	136
Schedule 18 Capital asset Statistics by Function/Program	137

OTHER REPORTS

Reports on Internal Control Over Financial Reporting and on Compliance and Other Matters Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	141
Schedule of Expenditures of Federal Awards	143
Notes to Schedule of Expenditures of Federal Awards	144
Schedule of Finding and Questioned Costs	145
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	147
Management Letter of Independent Auditors Required by Chapter 10.550 Rules of the Auditor General	149
Response to Management Comments	151

LETTER OF TRANSMITTAL



This page intentionally left blank



CITY MANAGER'S OFFICE

February 10, 2011

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, 2010, 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 74,067 residents and covers an area of approximately 81 square miles. For fiscal year 2011, property within the City has a taxable value of \$4,466,504,753. This was a decrease of almost 15 percent from 2010. The City's property tax rate for fiscal year 2011 remained at \$3.5000 per \$1,000 of taxable value. Lost revenue was offset by reducing staff and delaying some capital projects that had been planned.

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's economy is still suffering due to the collapse of the housing market, both new construction and existing homes. Because so many homes were constructed and sold during the boom period, when the prices were high, many homes are now vacant and in various stages of foreclosure. Since the construction industry was a large portion of the local economy, the unemployment rate is one of the highest in the State of Florida and has been around 16% for an extended period.

That said, there are some bright spots beginning to appear in the local economy. A national restaurant chain will soon complete a prototype building that will house two of its restaurants. It will have separate seating areas and menus for each restaurant but they will share a kitchen facility. The new prototype is expected to be used in smaller markets that cannot support two full-sized restaurants. The restaurants are expected to open in March 2011 and employ about 200 people. Other commercial projects are also underway including a national chain pharmacy and an office building. Some other retail buildings have also been completed and opened within the past few months. In the industrial sector, a local manufacturing company has recently announced plans to expand and add about 50 jobs over the next couple of years and one the largest employers in Palm Coast continues to add jobs at a steady pace. Residential construction also seems to be starting to pick up. While it is unlikely to ever return to the boom days, single-family building permits issued have been consistently in the low double digits for the past few months which seems to indicate some stability returning to the local construction market. There have also been reports by the realtors that existing home sales has begun to pick up recently which should also help stabilize the housing market. While individually, no project provides a large number of jobs, collectively these new and expanding businesses can have a significant

impact on the local unemployment rate given our relatively small workforce of about 37,000 people.

Future Programs

The City completed two large road projects during the past year, North Belle Terre Parkway and South Old Kings Road, Phase 1. Also completed this year was the installation of fiber optic cable that will serve as the backbone to provide service to the commercial areas of the city. The system now named FiberNET is being marketed to the hospital and the schools by the City and to commercial businesses in Palm Coast by service providers that have a contract with the City to lease space on FiberNET. This system is expected to help improve opportunities for economic development in the future.

The City was very successful in obtaining grant money for projects in both fiscal year 2010 and 2011. Much of the money was stimulus dollars designed to create jobs. Most of this money went into projects constructing bike paths and trails throughout the City. There was also grant money used to complete the new Waterfront Park and rehabilitation of a bridge within the City. Some of these projects have been completed, but several will continue through most of 2011. The City also received money for the Neighborhood Stabilization Program. Several houses have already been bought, refurbished and sold. This program will probably continue for several years since the money from the sales are reinvested in the program.

One very long-term project, the Coquina Coast Desalination project, is in the preliminary design 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.

Other projects that were expected to be funded by tax dollars or impact fees will likely be delayed until growth picks up significantly. This is not expected to negatively impact any current facilities since the lack of growth postpones the need for new or expanded facilities. Some projects that will be needed when growth occurs will continue through the design and permitting stages so that they are ready for construction when growth dictates and money is available.

Awards

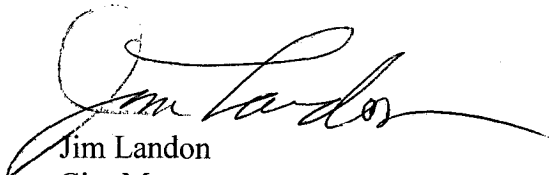
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Palm Coast for its comprehensive annual financial report for the fiscal year ended September 30, 2009. This is the ninth year that 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 2010 budget document. This is the seventh time that the City has received this award.

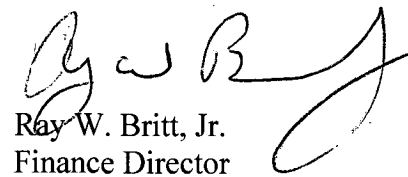
Acknowledgements

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, 2009

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.



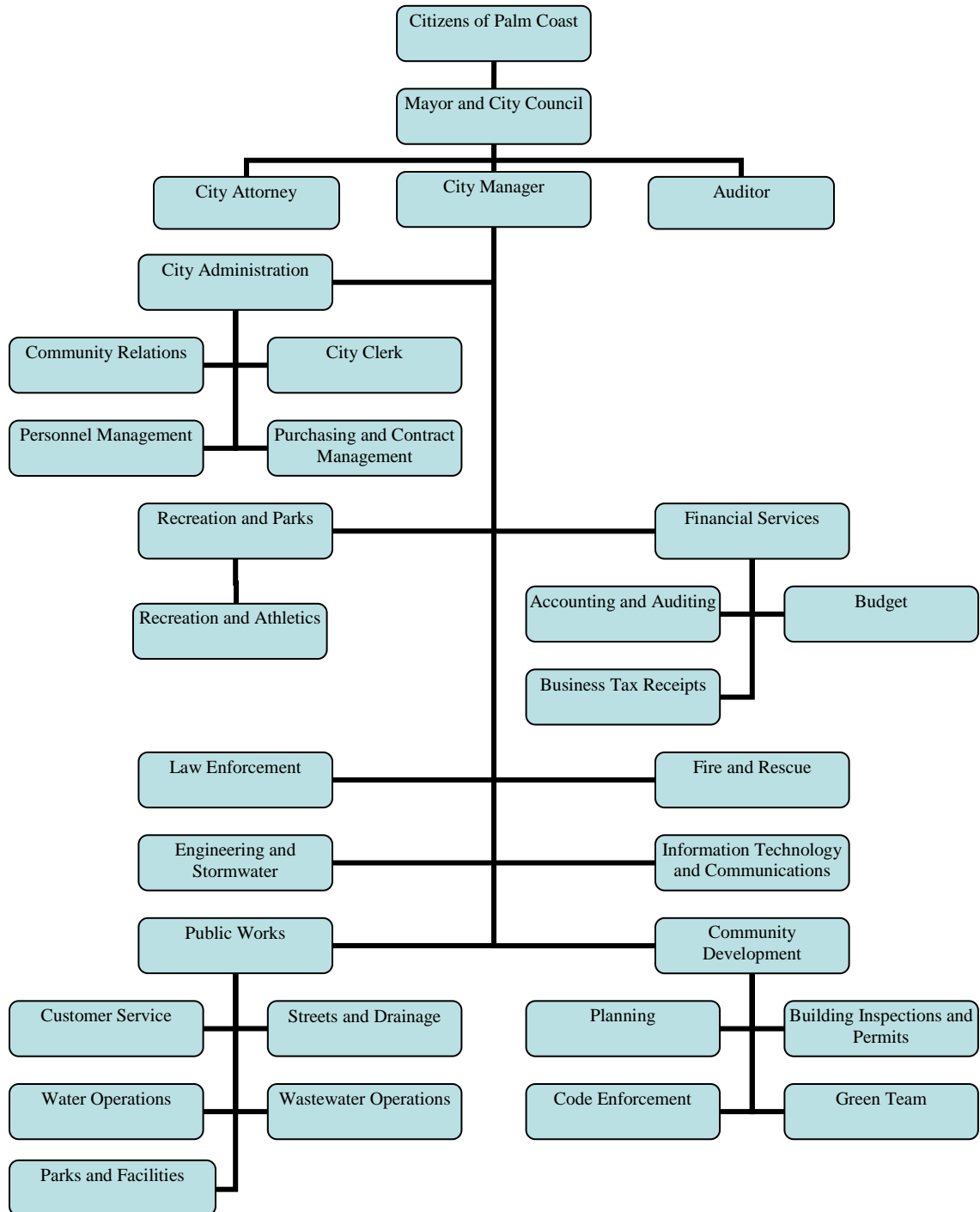
President

Executive Director



This page intentionally left blank

City of Palm Coast, Florida Organizational Chart



LIST OF PRINCIPAL OFFICIALS

September 30, 2010

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.

FINANCIAL SECTION

This section contains the following subsections:

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Required Supplementary Information
- Combining and Individual Fund Statements and Schedules



This page intentionally left blank

INDEPENDENT AUDITORS' REPORT



This page intentionally left blank