

INTRODUCTORY SECTION

This section contains the following subsections:

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- Letter of Transmittal
- Certificate of Achievement for Excellence in Financial Reporting
- Organizational 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, 2011**

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LETTER OF TRANSMITTAL



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CITY MANAGER'S OFFICE

February 10, 2012

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 (City). 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, 2011, 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 formerly 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 75,180 residents and covers an area of approximately 81 square miles. For fiscal year 2012, property within the City has a taxable value of \$3,891,594,126. This was a decrease of almost 13 percent from 2011. The City's property tax rate for fiscal year 2012 is set at \$3.9900 per \$1,000 of taxable value. Approximately 11 percent of the property taxes levied have been committed to stormwater capital projects for fiscal year 2012.

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 slowly recovering from the collapse of the housing market, both existing home sales and new construction. Many homes were constructed and sold during the boom period when the prices were high. Now many homes are 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 varied throughout 2011 from 13.9% more recently to a high of 16.2% back in January of 2011.

That said, there are some bright spots beginning to appear in the local economy. A national restaurant chain opened a new synergy concept that houses two of its restaurants and employs about 200 people. Other national restaurant chains are either under construction or in the project planning phase. Completion of these additional projects should employ about 100 people. Other commercial projects completed in 2011 include a national chain pharmacy and an office building. In addition, the City's second largest employer, Florida Hospital at Flagler recently began construction of a 34,000 square foot medical building on Palm Coast Parkway, which could house 25 well paid employees. While the number of foreclosed and distressed homes on the market continues to affect new residential construction, realtors have indicated that existing homes sales have picked up in 2011, home values are beginning to stabilize, and are generally optimistic about the future. As the inventory of existing homes continues to be absorbed, new residential construction will become a more attractive option for homeowners. While individually, these indicators do not account for 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.

Long-term Financial Planning

The City Council top priorities going into fiscal year 2012 are economic development and our stormwater system rehabilitation. Economic development is guided by the City's Prosperity 2021 plan. This plan takes an inside out approach, by strengthening our existing neighborhoods and commercial areas. Future funding for these initiatives presents a significant challenge. In addition to a number of grants noted below, the City also became a CDBG entitlement community. This will provide a regular level of funding to assist with our economic development goals.

The City stormwater system infrastructure had an expected life of 30 years. Much of that infrastructure has met or exceeded its useful life. Funding for capital improvements in 2012 is being provided through a combination of property and infrastructure taxes. The availability of funds for future year's improvements has yet to be determined.

The water and sewer utility capital improvements have also been effected by the economy. The City will be performing a rate study during fiscal year 2012 to address the capital and operational needs of the utility for the future.

Future Programs

The City's investment in a municipal owned fiber optic network will serve as the backbone to provide service to the commercial areas of the city. The system, named FiberNET, is being marketed to commercial businesses in Palm Coast by service providers that have a contract with the City to lease space on the network. During fiscal year 2011, two of the larger employers in the City, the school board and the hospital, signed contracts to utilize FiberNET for their communications needs. There is also interest by wireless providers to use FiberNET as the foundation for a city-wide wireless network. This system is expected to continue to improve opportunities for economic development in the future.

The City was very successful in obtaining grant money for projects in fiscal year 2011. Most of the capital grants went into projects constructing bike paths and trails throughout the City. The City also received two grants for the Neighborhood Stabilization Program. Over ten houses have already been bought, refurbished and sold to new homeowners. This program will probably continue for several years since the money from the sales are reinvested back into the program. For fiscal year 2012, the City also received a CDGB housing rehabilitation grant.

The Palm Coast Business Assistance Center was started in 2011 through a unique partnership between the City of Palm Coast and the University of Central Florida Small Business Development Center. The Center's mission is to help grow local businesses. The Center received grants to provide a small business loan guarantee program during the fiscal year. It is also providing training and guidance to small business owners as key component of the City's Prosperity 2021 economic development plan. The City is actively seeking additional funding in order to expand this program.

One very long-term project, the Coquina Coast Desalination project, was in the preliminary design phase. This project was investigating the construction of a desalination plant that is intended to serve the region around Palm Coast. Due to the economic conditions in the area, plans for the plant have been tabled until warranted by future development.

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, 2010. This is the tenth 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 2011 budget document. This is the eighth 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



Christopher M. Quinn
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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director



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City of Palm Coast, Florida Organizational Chart



1/18/2012

LIST OF PRINCIPAL OFFICIALS

September 30, 2011

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

Christopher M. Quinn

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



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INDEPENDENT AUDITORS' REPORT



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