

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, 2013**

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LETTER OF TRANSMITTAL



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CITY MANAGER'S OFFICE

January 22, 2014

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, 2013, 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 77,068 residents and covers an area of approximately 81 square miles. For fiscal year 2014, property within the City has a taxable value of \$3,690,312,857. This was an increase of approximately one percent from 2013. The City's property tax rate for fiscal year 2013 is set at \$4.2705 per \$1,000 of taxable value. Approximately two percent of the property taxes levied have been committed to capital projects for fiscal year 2014.

The City provides a wide range of services including development services, fire services, street construction and maintenance, a water and wastewater utility, stormwater management, parks, and recreational activities. Palm Coast contracts with the Flagler County Sheriff for law enforcement services.

Economic Outlook

The City's economy is recovering from the collapse of the housing market, both in existing home sales and new construction. Real estate values began to rise in 2013 and are expected to appreciate in 2014. Single-family permits are at the highest level since 2007, with 263 permits issued in 2013. Population projections are positioning Palm Coast to be the second fastest growing area over the next five years. The City has also seen the largest drop in the unemployment rate in Florida, year over year. Even with this improvement and the creation of approximately 3,700 jobs in the local economy, the unemployment rate as of September 30, 2013 was still 9.6%.

A particular bright spot has been taxable sales within the City. We have seen over a 27% increase in taxable sales since 2007. Some of the recent commercial additions include numerous retailers and Gioia Sails, a manufacturer of canvas products for the boating industry. Previously vacant commercial plazas, such as City Marketplace and European Village, have seen renewed activity with many new businesses opening.

Long-term Financial Planning

The City Council top priorities going into fiscal year 2014 are economic development, stormwater system rehabilitation, and renewed investment in infrastructure. 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 2014 is being provided through a combination of a stormwater user fees and property taxes. A rate increase of 46% was initiated in 2013 to provide funds for future year's improvements.

The water and sewer utility capital improvements were affected by the poor economy. In order to fund the five year capital improvement program, the City conducted a rate study and enacted a series of rate increases totaling 16%. These increases will provide funding for infrastructure expansion and replacements.

Future Projects and Programs

The need for infrastructure projects grew during the economic recession, as the population increased, even though financial resources contracted. During the upcoming year, the City will invest in infrastructure improvements necessary to support both the existing and future population. In 2014, the City will undertake the following major projects: Seminole Woods Path, Long Creek Nature Preserve, Holland Park Renovation, Street Resurfacing, Palm Coast Parkway Six-Lane, Palm Harbor Parkway Extension, Palm Harbor Parkway Bridge Rehab at Collage Waterway, Bulldog Drive FPCHS/SR100 Improvements, WTP 2 – Concentrate Zero Liquid Discharge Treatment (ZLD), Old Kings Road Master Pump Station, Swale Rehab & Pipe Replacement, Modeling Improvements, and Weir Replacement.

The Palm Coast Business Assistance Center, or BAC, was established in May 2011 to help our existing business grow through a unique partnership with the Small Business Development Center at the University of Central Florida (SBDC at UCF). Since its inception, the BAC has helped businesses maintain or create 153 jobs and invest approximately \$11.5 million in our local economy through capital investment, increased sales, and salaries. In the upcoming year, the BAC will continue to expand its services to serve local businesses and grow the economy "one job at a time."

The City in partnership with our local sports clubs and the Flagler County Tourist Development Council continues to attract sports tournaments and the associated visitor spending (5% increase in bed tax collections over last year) to our local economy. Through a unique public-private partnership, the Players Development Academy of Florida will develop additional sports fields to attract even larger tournaments and more visitors to our local economy.

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, 2012. This is the twelfth year that Palm Coast 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 2013 budget document. This is the tenth consecutive year that Palm Coast has received this award.

The City of Palm Coast also received the Association of Public Treasurers of the United States & Canada's Investment Policy Certificate of Excellence Award. This is the first time that Palm Coast 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,

A handwritten signature in blue ink, appearing to read "Jim Landon", with a stylized, flowing script.

Jim Landon
City Manager

A handwritten signature in blue ink, appearing to read "Christopher M. Quinn", with a stylized, flowing script.

Christopher M. Quinn
Finance Director



Government Finance Officers Association

**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

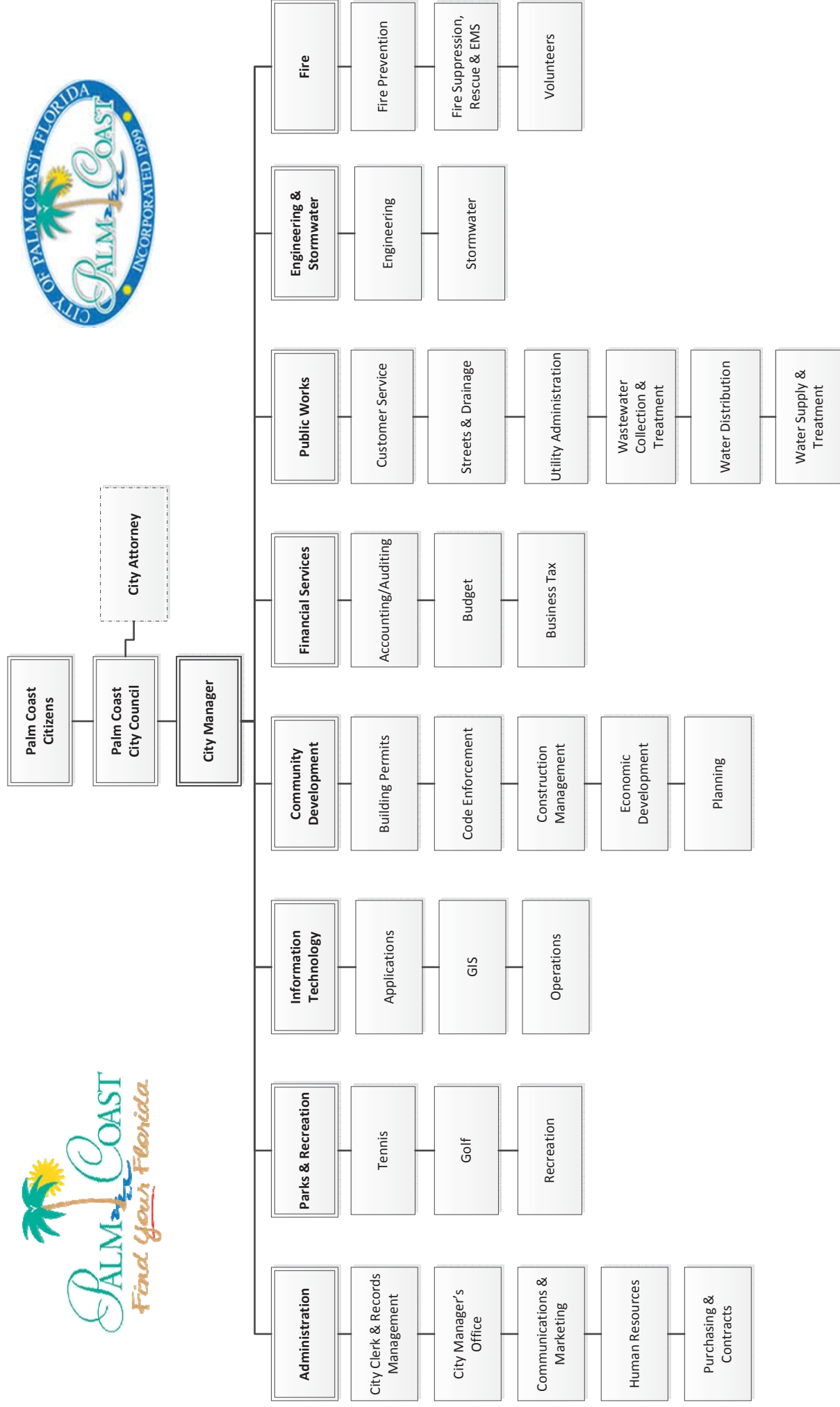
September 30, 2012



Executive Director/CEO



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LIST OF PRINCIPAL OFFICIALS

September 30, 2013

ELECTED OFFICIALS

Mayor

Honorable Jon Netts

City Council Members:

Jason Delorenzo
Bill McGuire
Dave Ferguson
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