

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, 2016**

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LETTER OF TRANSMITTAL



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CITY MANAGER'S OFFICE

March 7, 2017

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, 2016, 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 81,184 residents and covers an area of approximately 81 square miles. For fiscal year 2017, property within the City has a taxable value of \$4,346,135,923. This was an increase of approximately five percent from 2016. The City's property tax rate for fiscal year 2016 is set at \$4.2450 per \$1,000 of taxable value. Approximately three percent of the property taxes levied have been committed to capital projects for fiscal year 2017.

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 continues to steadily improve. All economic indicators are pointing in a positive direction. Real estate values continued to rise in 2016 with the median sales price up 9.2% and with values expected to continue to appreciate in 2017. Single-family permits are up again with 481 permits issued in 2016, the fifth straight year of increased permit activity. Population projections are positioning Palm Coast to be the second fastest growing area over the next five years. In addition, the labor market has healed from the high unemployment rate of 11.4% five years ago, with the unemployment rate hitting 5.5% at the end of 2016. Palm Coast has 5,086 more people employed than five years ago.

A particular bright spot has been taxable sales within the City. We have seen over a 37% increase in taxable sales since 2010, which represents an increase of \$188 million. This is mainly due to the addition of several shopping centers since 2007 and increases in tourists and related spending. Previously vacant commercial plazas, such as City Marketplace and European Village, have seen renewed activity with many new businesses opening. Taxable sales should continue to grow in 2017 with continued commercial growth, especially the commercial development along State Road 100.

Long-term Financial Planning

The City Council continues to focus on carrying out its Strategic Action Plan and the related goals, projects, and programs. Economic development is guided by the City's Prosperity 2021 plan, which is integrated within the Strategic Action Plan. This plan takes an inside out approach, by strengthening our existing neighborhoods and commercial areas. This past fiscal year, the City's taxable value appreciated approximately 5%. As all major economic indicators are now trending in a positive direction, we expect the local economy's improvement to accelerate in the coming year and have a positive impact on City revenue sources.

While we continue to conservatively estimate revenues, the improving economy will likely lead to revenue sources coming in slightly higher than expectations. In the future, growth in our revenue sources should afford the City with the ability to keep up with rising costs to provide existing services and programs. Without additional revenue sources, increased fees or tax rates, or shifting funding from existing projects, programs, or services, the City will be limited in its ability to fund additional projects, programs, or services that might be desired by the community.

Future Projects and Programs

The need for infrastructure projects continues to grow as existing infrastructure ages, new development occurs, and the population continues to increase. During the upcoming year, the City will invest in infrastructure improvements necessary to maintain the past and prepare for the future. In 2017, the City will undertake the following major projects: Community Center Renovation and Expansion (multi-year), Restrooms at Town Center and Indian Trails Sports Complex, Seminole Woods Path, Old Kings Road Widening Design, Belle Terre Safety Improvements, Bridge Rehab and Renewal, Wastewater Treatment Plant #2 Design and Construction, and various Utility and Stormwater Projects.

The City will continue its efforts to expand the local economy through the Palm Coast Business Assistance Center (BAC) and by attracting sports tournaments and tourism. Both efforts have already seen much success. Since its inception, the BAC has helped businesses invest approximately \$28.5 million in our local economy through capital investment, increased sales, and salaries. 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 (2.8% increase in bed tax collections over last year) to our local economy. This increase represents the fifth straight year of increased visitor spending. In the coming year, the City will also focus efforts to increase shopping and dining opportunities for local residents, so they do not leave our community and spend their dollars in communities north and south of Palm Coast. These efforts should result in increased construction activity, capital investment, job creation, and taxable sales.

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, 2015. This is the fifteenth 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 Award for Outstanding Achievement in Popular Annual Financial Reporting for its Fiscal Year 2015 Popular Annual Financial Report. This is the third year that Palm Coast has received this award.

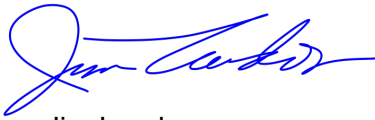
The City of Palm Coast also received the GFOA Distinguished Budget Presentation Award for its Fiscal Year 2016 budget document. This is the thirteenth consecutive year that Palm Coast has received this award.

The City of Palm Coast also received the ICMA Certificate of Distinction for its Fiscal Year 2016 performance measurement document. This is the third consecutive year 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,



Jim Landon
City Manager



Christopher M. Quinn
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Palm Coast
Florida**

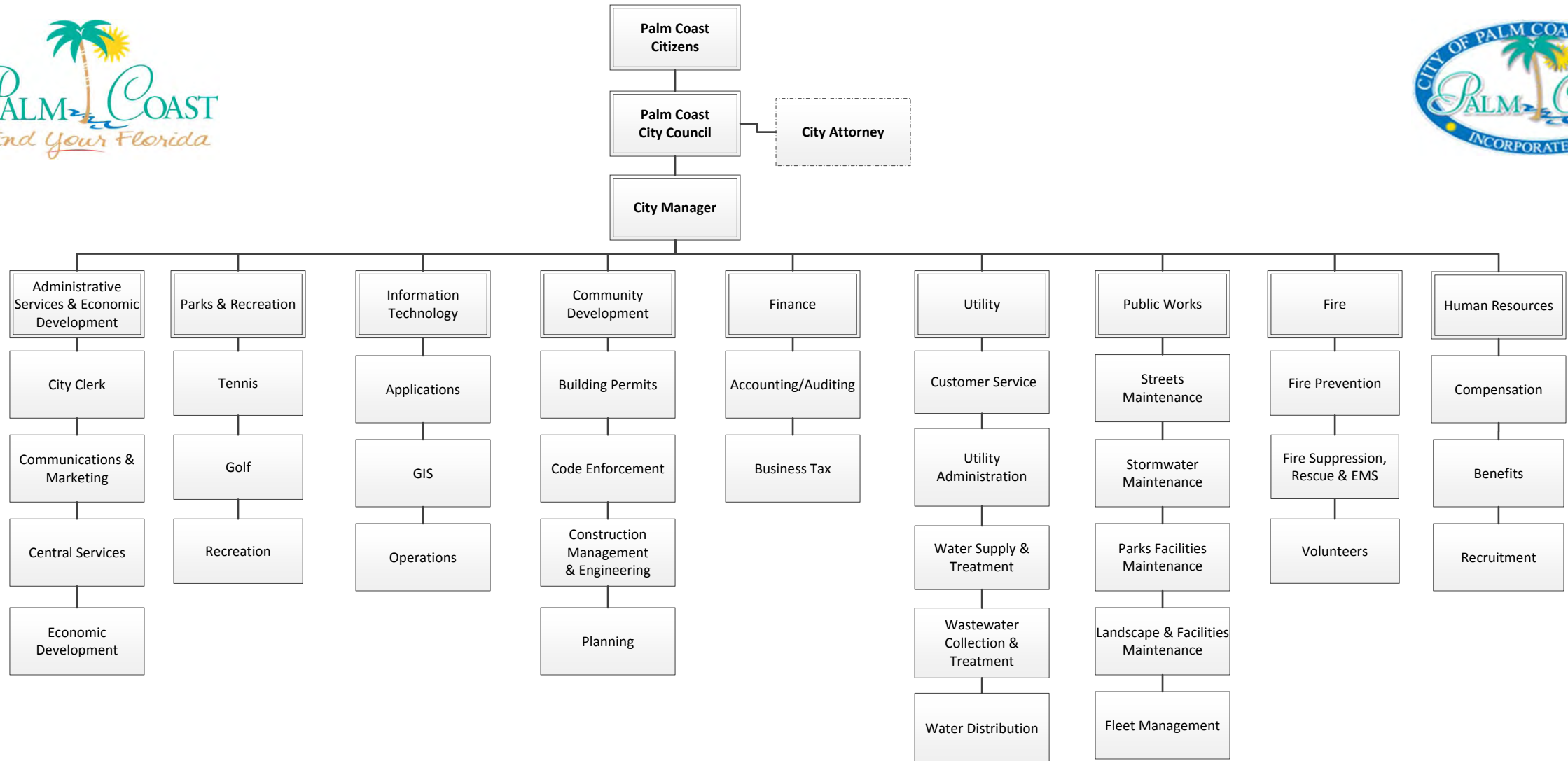
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO



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LIST OF PRINCIPAL OFFICIALS

September 30, 2016

ELECTED OFFICIALS

Mayor

Honorable Jon Netts

City Council Members:

Jason Delorenzo

Robert Cuff

Steve Nobile

Heidi Shipley

CITY OFFICIALS

City Manager

James S. Landon

City Attorney

William Reischmann

City Auditor

James Moore & Co., P.L.

Finance Director

Christopher M. Quinn