

CITY OF PALATKA,
FLORIDA

COMPREHENSIVE
ANNUAL
FINANCIAL REPORT

SEPTEMBER 30, 2004

**City of Palatka, Florida
Comprehensive Annual Financial Report
September 30, 2004**

Table Of Contents

	Page
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i
GFOA Certificate of Achievement	ix
Organizational Chart	x
List of Elected and Appointed Officials	xi
<u>FINANCIAL SECTION</u>	
INDEPENDENT AUDITORS' REPORT	xii
MANAGEMENT'S DISCUSSION AND ANALYSIS	xiv
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Governmental Fund Financial Statements:	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	6
Proprietary Fund Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Fund Net Assets	8
Statement of Cash Flows	9
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	11
Statement of Changes in Fiduciary Net Assets	12
Notes to Financial Statements	13
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	30
Schedules of Funding Progress	31
Schedules of Contributions from Employer and Other Contributing Entities	32
Notes to Required Supplementary Information	33

**City of Palatka, Florida
Comprehensive Annual Financial Report
September 30, 2004**

Table Of Contents

	Page
SUPPLEMENTAL INFORMATION:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	35
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Downtown Redevelopment Fund.....	36
Community Development Block Grant Fund.....	37
Combining Statement of Fiduciary Net Assets – Pension Trust Funds.....	38
Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds.....	39
 <u>STATISTICAL SECTION</u>	
Table 1 – General Governmental Expenditures by Function	40
Table 2 – General Governmental Revenues by Source	41
Table 3 – Property Tax Levies and Collections	42
Table 4 – Taxable and Estimated Actual Value of Taxable Property	43
Table 5 – Property Tax Rates – All Direct and Overlapping Governments	44
Table 6 – Computation of Legal Debt Margin.....	45
Table 7 – Computation of Direct and Overlapping General Obligation Bonds.....	46
Table 8 – Revenue Bond Coverage Proprietary Funds	47
Table 9 – Demographic Statistics.....	48
Table 10 – Property Value, Construction and Bank Deposits.....	49
Table 11 – Principal Taxpayers.....	50
Table 12 – Miscellaneous Statistical Data.....	51
 <u>SINGLE AUDIT SECTION</u>	
Management Letter	58
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.....	60
Schedule of Expenditures of Federal Awards and State Financial Assistance.....	62
Report on Compliance and on Internal Control Over Compliance Applicable to Each Major Federal Program.....	64
Schedule of Findings and Questioned Costs	66

**City of Palatka, Florida
Comprehensive Annual Financial Report
September 30, 2004**

Table of Contents

	Page
Management's Follow-up of Audit Findings:	
Summary Schedule of Prior Audit Findings.....	--
Corrective Action Plan (For Current Year Audit Findings).....	--

KARL N. FLAGG
MAYOR-COMMISSIONER

MARY LAWSON BROWN
VICE MAYOR - COMMISSIONER

HERNAN AZULA
COMMISSIONER

JAMES NORWOOD, JR.
COMMISSIONER

GEORGE E. SANDERS
COMMISSIONER



Regular meeting 2nd and 4th Thursdays each month at 6:00 p.m.

ALLEN R. BUSH
CITY MANAGER

BETSY JORDAN DRIGGERS
CITY CLERK

RUBY M. WILLIAMS
FINANCE DIRECTOR

GARY S. GETCHELL
CHIEF OF POLICE

KENNETH E. VENABLES
CHIEF FIRE DEPT.

DONALD E. HOLMES
CITY ATTORNEY

February 10, 2005

Honorable Mayor and
Members of the City Commission
City of Palatka, Florida

Mayor and Commissioners:

We are pleased to present to you, the City Commission and the citizens of Palatka, the Comprehensive Annual Financial Report of the City of Palatka (the "City") for the fiscal year ended September 30, 2004.

This report was completed by the City Manager and Finance Director, with close cooperation of the external auditors, Davis, Monk & Company, and represents the official report of the financial operations and condition of the City of Palatka to its citizens. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. This letter of transmittal should be read in conjunction with Management's Discussion and Analysis, which can be found beginning on page xiv.

The Comprehensive Annual Financial Report is presented in four sections as follows:

INTRODUCTORY - The introductory section includes the table of contents, this transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association, a list of principal city officials and the City's organizational chart.

FINANCIAL - The financial section includes: management discussion and analysis, basic financial statements, required and other supplemental information and the independent auditor's report.

STATISTICAL - The statistical section includes selected financial and demographic information generally presented on a multi-year basis.

SINGLE AUDIT - The single audit section includes the management letter, schedule of expenditures of awards, reports on compliance and internal controls, schedules of findings and corrective action plan.

THE REPORTING ENTITY

The City of Palatka is a political subdivision of the state of Florida, which was incorporated January 8, 1853. Palatka is in the Northeast section of Florida in Putnam County (the "County") and is the County

Seat. Palatka lies along the St. Johns River and is approximately 50 miles south of Jacksonville, 26 miles west of St. Augustine and 50 miles east of Gainesville.

The City operates under a Commission/Manager form of government. It has an elected Mayor-Commissioner and a Board of Commissioners (four members) and serves approximately 10,820 residents by providing a full range of municipal services including General Administration, Public Safety, Planning and Zoning and Community Enrichment and Development. In addition, the City operates a Municipal Golf Course; an Airport; Sanitation, Water and Wastewater utility systems. The Palatka Downtown Redevelopment Agency, and the Palatka Gas Authority are considered component units of the City, and the City is financially accountable for them. Accordingly, these component units are included in the City's Comprehensive Annual Financial Report.

ECONOMIC CONDITION

The City has recovered its losses from the last census, which showed a decline in population over the 1990's and had the effect of reducing state shared revenues. It now is posting positive gains in population. The economy appears headed for the largest gains ever seen in this City. Land sales and prices have climbed significantly over the previous year and new construction is picking up. The state shared revenues still need to increase at a higher rate than they are currently doing to offset rising operating cost of the City. The tax base is still too low; however, the new development taking place should begin to affect that. The budget for the year ending September 30, 2004 was balanced partially with cash 'balance forward' for the second consecutive year. This cannot be relied on annually. The millage rate was held at eight mills for the second year, approaching the ten-mill cap set by the State. The demand for services in a City poised for record growth is stretching its resources thin and all revenue sources need to be examined.

While the national economy is showing signs of improvement, Northeast Florida continues growing at the greatest rate in memory. The States fastest growing counties border Putnam County. Signs of accelerated growth in Palatka are evident. The construction of large Home Depot and Lowe's stores on Hwy 19 are examples of the growth to come. These large retailers prepared feasibility studies before committing to development and felt Palatka was poised to grow. Developers are looking at agricultural and vacant lands surrounding the City and the price per acre of these properties is increasing significantly. Whether enough growth takes place in the coming year to offset increases in operating cost is questionable. Normal personnel increases in payroll, pension and health coverage may outpace any additional revenues, which become available. Balancing the budget in the short-term will remain difficult.

The City continues to insure that infrastructure to support growth is in place. These improvements are made primarily with grants tied to job creation. In addition, the City has undertaken quality of life improvements such as reclaimed water reuse and improved potable water treatment. The goal is to attract development and at the same time retain the natural qualities, which draw people to the area.

MAJOR INITIATIVES

CURRENT PROJECTS

The City selected EDSA, Inc., a planning firm, to prepare a master plan for the City's riverfront park and the two public owned blocks adjacent to the park. The cost of the master plan was \$175,284. Funding for this project came from the Federal Economic Development Administration (\$90,000) and a local match (\$85,000). Once the plan is complete, the City will use this plan as a RFP to invite proposals to develop these two adjacent blocks. The City purchased the North 100 block. The South 100 block is the location of the public housing "high-rise", which the City is working to demolish. Federal Housing and Urban Development is now agreeing with the City that the high-rise is substandard and the residents need to be relocated and the building demolished. The high-rise will eventually be replaced with commercial or upscale condominium development and serve as a catalyst to renovation downtown. The City's goal is to

MAJOR INITIATIVES (Continued)

attract a market (people) and investment in the downtown.

The wastewater reclamation project is underway with completion of the construction of additional treatment at the wastewater treatment plant, a transmission line to the City's golf course, and an irrigation system at the course. This project will cost approximately \$2,000,000 and grant funds have been secured for most of this cost. When completed, the project will remove almost one million gallons daily from the St. Johns River.

The City and County secured a Community Development Block Grant to assist in the installation of water and wastewater systems to the new Lowe's development. Part of this project will carry potable water out SR 100 to the entrance to the airport. Lowe's opened during the current year and the additional water source from the airport to Lowe's should be completed next fiscal year.

The City has acquired a grant from the Florida Department of Transportation and purchased four parcels of land adjacent and near the depot for \$250,000. These parcels will be used to develop parking, water retention and other municipal uses. Of this amount, \$200,000 is FDOT grant and \$50,000 is local match. (Better Place Funds)

The one-cent sales tax money (Better Place Funds) is dedicated to capital improvements within the City. This years improvements include \$350,000 in road paving, another \$60,000 in transportation related cost, \$100,000 in grant matches and major repairs such as new roofs to several City facilities.

The City upgraded the fuel farm at Palatka Kay Larkin Airport as well as an upgrade of approximately half of the runway and taxiway lighting. The storm-water master plan and development permit for the west end of the primary runway is underway and should be completed by next fiscal year. This will include storm-water facilities to handle all development out to CR 309.

A number of changes have been put in place at the Golf Course in an attempt to reduce and eventually eliminate its annual deficits. The Golf Course Enterprise Fund has lost revenue annually for the last four years. Expenses were minimized in the Club House, a new Greens keeper was hired and the approach will be to improve the playing surface of the course while holding operating cost to a minimum. The sale of sand from the reuse pond raised some \$80,000 which was used to reduce this year's deficit.

FUTURE PROJECTS

The City completed its second year of paving using Better Place Funds raised through the local sales tax initiative. Previously, only a few blocks per year were overlaid due to budget constraints. These funds are also used to make major improvements to existing facilities. Next year will see the Police Department and the Planning and Golf Maintenance building re-roofed. All grant matches proposed for the coming year are from Better Place Funds.

The use of reclaimed water will begin on the Municipal Golf Course. A large pond, some 250 yards long, will be constructed into which approximately one million gallons of re-claimed wastewater will be pumped daily. This effluent currently goes into the St. Johns River. Water will be pumped from this pond into a new irrigation system installed on the course and will allow the City to discontinue pumping water from the aquifer for this purpose. A driving range for golfers will be installed at the pond to bring additional revenue into the golf fund.

MAJOR INITIATIVES (Concluded)

The engineering studies for additional treatment of potable water at the City's Water Treatment Plant should be completed and an application for a construction submitted in the coming year. This additional treatment will insure the best quality water for residents and insure that the City meets all Environmental Protection Agency standards for the future.

The City anticipates another FAA grant (\$930,000) in the coming year to continue taxiway overlays, lighting replacement, and a security fence. Design for a new terminal building will take place, as well as design of terminal west, a runway accessible business park off runway 9.

The City Commission will consider a 'Fire Service Fee' to fund its Fire Department. Currently, the cost of fire service is equivalent to five mills of ad valorem taxes. By going to a fee, the cost will be more fairly distributed to all users of the system and the current ad valorem millage rate can be rolled back after necessary increases in personnel to cover the anticipated growth of the City. It is anticipated that by 2006, a minimum of three additional firefighters will be required.

The City Commission should be in a position to request proposals for the redevelopment of its two blocks adjacent to the riverfront park next year. The Palatka Housing Authority has collaborated with the City for the sale of its Frank George Apartment Block, along with the City's 100 block. As stated earlier, the release of the building by HUD is the only thing anticipated before a development RFP is sent out.

The City of Palatka looks forward to unprecedented growth over the next several years and is in the process of planning and installing the necessary infrastructure to insure that this is quality growth. The City wants to insure that the quality of life that citizens enjoy in this small community is not lost. Additionally, we are continuing to work toward developing tourism, both nature based and those visiting the historical sites in Palatka.

FINANCIAL INFORMATION

INTERNAL CONTROL STRUCTURE

The City's general governmental fund operations are accounted for by using the modified accrual basis of accounting, with revenues being recognized when they become measurable and available. Expenditures are recorded when goods or services are received and the related liability is incurred. The City's enterprise funds and government wide activities are reported on the accrual basis of accounting.

The City Manager serves as the chief financial officer of the City. The Finance Director is responsible for financial accounting and reporting. The City Manager also serves as the budget officer and presents the preliminary budget, based on departmental requests, to the City Commission for approval. All budgeted amounts lapse at year's end.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition, that (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The concept of reasonable assurance recognizes the cost of internal controls should not exceed the benefits likely to be derived. The evaluation of costs and benefits requires estimates and judgments by management.

FINANCIAL INFORMATION (Concluded)

All internal control evaluations occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

BUDGETARY CONTROL

Budgetary control is maintained at the fund level. The City Manager may authorize budget transfers between major categories within the departments and between departments. Departmental expenditures are monitored on a monthly basis by the City Manager and Finance Director. The City Commission is provided with a monthly budget status report. Each department is required to present a quarterly budget status report to the City Manager and City Commission to report potential problems that could result in exceeding their budget. Encumbrances lapse at year's end.

GENERAL GOVERNMENT

FUND ACCOUNTING

The financial transactions of the City are recorded in individual funds. Each fund has a self-balancing set of accounts that comprise its assets, liabilities, fund equities, or balances to carry on specific activities in accordance with special regulations, restrictions or limitations.

GENERAL FUND

The General Fund is the principal fund of the City and is used to account for all activities of the City not otherwise accounted for by a specified fund.

Local tax revenues are the primary sources of the City's tax revenue and are a combination of property tax, franchise, utility and local option gas tax. A discretionary sales tax was passed during the previous year that generated \$686,015 for the fiscal year.

Ad valorem taxes, which were accounted for in the general and special revenue funds was 8 mills and generated \$2,440,143, an increase of \$322,180 from the prior year.

Expenditures increased due to salaries and overtime in public safety and transportation. The majority of the overtime was attributed to the hurricanes that hit Florida in the latter part of the fiscal year. Culture and recreation increases were due to grant expenditures.

Unreserved fund balance in the General Fund increased \$354,884 or 24.53% from the prior year.

SPECIAL REVENUE FUNDS

Special revenue funds account for revenues from sources that are restricted for specific purposes. Tax increment revenues are a significant source of these funds. The combined fund balance for special revenue funds was \$408,727 at September 30, 2004.

ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis is financed through user charges. The City

ENTERPRISE FUNDS (Concluded)

operate four enterprise funds: the Water Revenue Fund, Municipal Golf Course Fund, Sanitation Fund, and Airport Fund.

WATER REVENUE FUND

The Water Revenue Fund accounts for revenues of the City's water and sewer systems. Several of the City's major projects and initiatives directly relate to the Water Revenue Fund. Net assets increased by \$798,178 or 9.3% from the prior year.

SANITATION FUND

There was an increase in operating revenue of \$31,814. Net assets increased by \$15,463.

GOLF COURSE FUND

Revenue showed a decrease by \$114,256 from the prior year. Operating expenses decreased by \$29,077, however expenses exceeded revenues. Net assets decreased by \$134,107.

AIRPORT FUND

Operating revenue increased by \$30,161 from the prior year. The airport received \$662,917 from state and Federal grants. Net assets increased by \$377,552.

FIDUCIARY FUNDS

PENSION TRUST FUNDS

The City administers a single-employer Public Employee Retirement System (the "System"). The System provides an employee contributory defined benefit pension plan for its employees which covers police officers, fire fighters, and general employees. Benefits vary depending on the particular membership in the plan. The City is responsible for funding liabilities of the plan based upon actuarial valuations. At September 30, 2004, the employees' retirement fund had net assets available for benefits of \$24,426,478. The assets are managed through a contract with a private investment company. Further details are included in the notes to the financial statements.

GOVERNMENTAL CAPITAL ASSETS

The capital assets of the governmental funds are those assets used in the performance of general governmental functions and exclude the assets of the Enterprise Funds. As of September 30, 2004 the government capital assets of the City amounted to \$5,838,308. Capital assets are recorded at historic cost except for land, buildings, and improvements acquired before Fiscal 1980, which are recorded at estimated historical cost. Public Domain and similar assets acquired prior to October 1, 2002, such as roads and sidewalks are not recorded in the capital assets. In accordance with GASB Statement No. 34, the city has elected to defer reporting prior infrastructure until the 2007 fiscal year.

DEBT ADMINISTRATION

At September 30, 2004, the City had \$674,841 of revenue bonds & notes payable from specific general fund revenue sources other than ad valorem taxes. Also, outstanding were, \$6,750,000 Water and Sewer System Improvement and Refunding Bonds, Series 1998, payable from the net revenues of the Water and Sewer system and Public Service Tax Revenues; \$583,356 Water Reuse System Construction loan, payable from the net revenues of the Water and Sewer system; \$314,035 of Golf Course Revenue Bonds, payable from the net revenues of the Golf Course, Southern Bell and Cable TV franchise fees; Airport Hangar Revenue Bond and note payable, \$74,901 payable from net revenues of the Airport operations.

The City has no general obligation debt (debt secured by ad valorem taxes) outstanding.

CASH MANAGEMENT

The City utilizes a sweep account or zero balance account and pools all cash into a single interest-bearing account. Only funds necessary to cover paid checks are transferred automatically from the account as needed.

During the year idle cash balances were invested in short-term certificates of deposit at local banks. Interest rates varied from a high of 2.31% to a low of 2.05%. Total interest income increased from the prior year by \$1,782.

RISK MANAGEMENT

The City is exposed to various risks of loss related to general liability (workers' compensation, public liability, law enforcement liability, health benefits, property damage, and errors and omissions). The City participates in the Florida League of Cities Self Insurance Fund (the Fund), a public entity risk pool, currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to the fund for its coverage. The premiums are designed to fund the liability risks assumed by the fund and are based on certain actual exposures of each member. The City had no settlement in excess of coverage provided by the Fund during the year ended September 30, 2004.

INDEPENDENT AUDIT

Florida Statutes require an audit of the financial statements of the City of Palatka by an independent certified public accountant selected by the City Commission. The City complied with this requirement, and the auditor's opinion is included in the financial section of this report.

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 Palatka for its comprehensive annual financial report for the fiscal year ended September 30, 2003. This was the twelfth year that the City received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report.

A certificate of achievement is valid for one year only. We believe this report satisfies the requirements of generally accepted accounting principles, applicable legal requirements, and certificate of achievement program requirements, and we are submitting it to the GFOA for consideration for an award.

ACKNOWLEDGMENTS

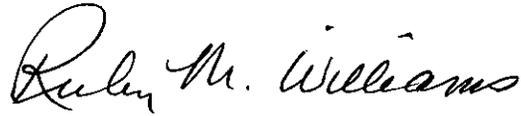
The preparation of this report was accomplished through the efforts and dedication of the City's financial staff.

We would also like to thank the members of the City Commission for their interest and support in planning and conducting the fiscal operations of the City of Palatka.

Respectfully submitted,



Allen R. Bush
City Manager



Ruby M. Williams
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palatka,
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

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.



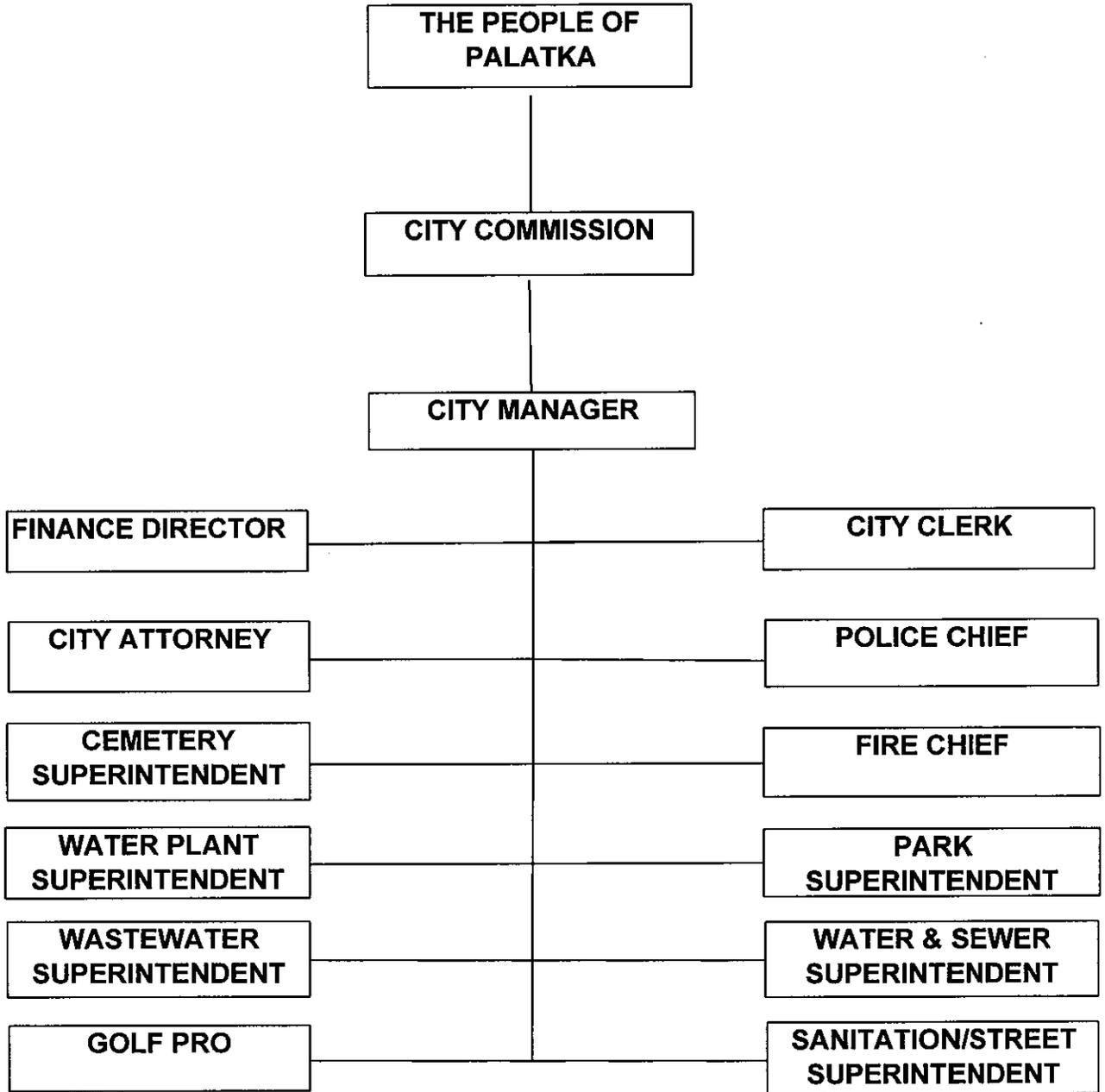
Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

**CITY OF PALATKA, FLORIDA
ORGANIZATION CHART**



ELECTED OFFICIALS

Mayor-Commissioner
Vice Mayor-Commissioner
Commissioner
Commissioner
Commissioner

Karl N. Flagg
Mary Lawson Brown
Hernan Azula
James Norwood, Jr.
George Sanders

APPOINTED OFFICIALS

City Manager
Finance Director
City Clerk
City Attorney
Police Chief
Fire Chief

Allen R. Bush
Ruby M. Williams
Betsy Jordan Driggers
Donald E. Holmes
Gary Getchell
Ken Venables

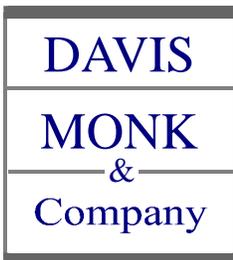
DEPARTMENT SUPERINTENDENTS

Airport
Building Official
Planning Director
Golf
Parks
Cemeteries
Sanitation, Maintenance & Streets
Water Treatment Plant
Wastewater Treatment Plant
Water/Sewer Distribution

Michael Cavallo
Joffre Filion
Adam Mengel
Clyde Connor
Jeff Norton
Larry Hartman
Edward Chandler
Mike Felton
Platt Drew
Rhett McCamey

AUDITORS

Davis, Monk & Company



Certified Public Accountants
& Business Consultants

*A Partnership Consisting of
Professional Associations*

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Members:

CPAmerica International

Florida Institute of
Certified Public Accountants

American Institute of
Certified Public Accountants

Horwath
International

Independent Auditors' Report

The Honorable Mayor and
City Commissioners
City of Palatka, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palatka, Florida (the "City"), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

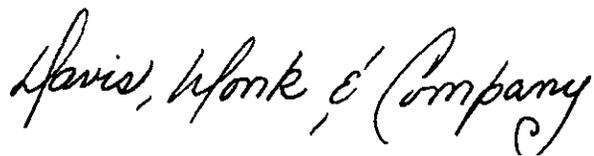
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The information listed in the table of contents as "supplemental information", and the Schedule of Expenditures of Federal Awards and State Financial Assistance, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, Rules of the Auditor General, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the information provided in the statistical section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Davis, Monk, & Company". The signature is written in black ink and is positioned above the date and location information.

February 10, 2005
Palatka, Florida

**City of Palatka
Management's Discussion and Analysis
September 30, 2004**

As management of the City of Palatka, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page i of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$24,101,836 (*net assets*). Of this amount, \$2,675,198 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,933,261 (or 8.72%). Due to the grants and one-cent discretionary sales tax, governmental net assets increased by \$876,175 (or 13.83%). The Enterprise funds net assets increased by \$1,057,086 (or 6.68%) due to grants received during the fiscal year.
- As of September 30, 2004, the City's governmental funds reported combined ending fund balances of \$2,210,148, an increase of \$424,683. The most significant reason for the increase is the one cent sales tax.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$1,801,421 or 25.12% of total General Fund expenditures and transfers out for recurring operational costs reported in other funds. (i.e. transfer to airport)
- Net assets of the General, Police and Firefighter's Pension Trust Funds increased by \$915,060, \$157,430 and \$338,950, respectively. These increases were the result of investment return and contributions by employees, local and state governments. The actuarial report dated September 30, 2004, was presented to the respective pension boards in February 2005.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City of Palatka's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *State of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected taxes and earned but unused vacation leave).

The *Government-wide Financial Statements* distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and drainage, economic development and culture and recreation. The business type activities of the City include the utility (water and wastewater), the airport, the golf course, sanitation and the component unit, gas authority.

The government-wide financial statements include not only the City of Palatka, but also the Palatka Gas Authority, an independent component unit of the City. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 1 & 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Palatka can be divided into three categories: governmental funds, proprietary fund, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered a major fund. Data from other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General fund and the Downtown Redevelopment special revenue fund. Budgetary comparison schedules have been provided for the General fund as required and the Downtown Redevelopment special revenue fund in the supplemental section to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 3 - 6 of this report.

Proprietary Funds

The City maintains several enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Utility, Golf, Airport and Sanitation operations, as well as the independent Gas Authority.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the funds listed above, all of which are considered to be major funds of the City.

The proprietary fund financial statements can be found on pages 7 – 10 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 11 & 12 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 29 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning budgetary comparisons and the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 30 – 33 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 34 - 39 of this report.

Government-wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Palatka, assets exceeded liabilities by \$24,101,836 at the close of the most recent fiscal year.

The majority of the City's net assets (84%) rest in its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire these assets that is still outstanding. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Palatka Summary of Net Assets For the Year Ended September 30, 2004

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$2,585,757	\$2,015,524	\$2,697,999	\$2,402,325	\$5,283,756	\$4,417,849
Capital assets	5,838,308	5,696,282	23,033,805	21,592,607	28,872,113	27,288,889
Total assets	8,424,065	7,711,806	25,731,804	23,994,932	34,155,869	31,706,738
Long-term liabilities outstanding	1,080,001	1,220,668	8,060,485	7,551,650	9,140,486	8,772,318
Other liabilities	130,333	153,582	783,214	612,263	913,547	765,845
Total liabilities	1,210,334	1,374,250	8,843,699	8,163,913	10,054,033	9,538,163
Net assets:						
Invested in capital assets, net of related debt	5,146,607	4,844,714	15,138,704	14,199,619	20,285,311	19,044,333
Restricted	335,292	268,690	806,035	1,542,942	1,141,327	1,811,632
Unrestricted	1,731,832	1,224,152	943,366	88,458	2,675,198	1,312,610
Total net assets	\$7,213,731	\$6,337,556	\$16,888,105	\$15,831,019	\$24,101,836	\$22,168,575

An additional portion of the City's net assets \$1,141,327 (4.74%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$2,675,198 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

Change in Net Assets

Governmental activities increased the City's net assets by \$876,175 thereby accounting for 45% of the total growth in the net assets of the City. Key elements of this increase were the 'one cent sales tax' revenue and the millage rate which was 8 mills.

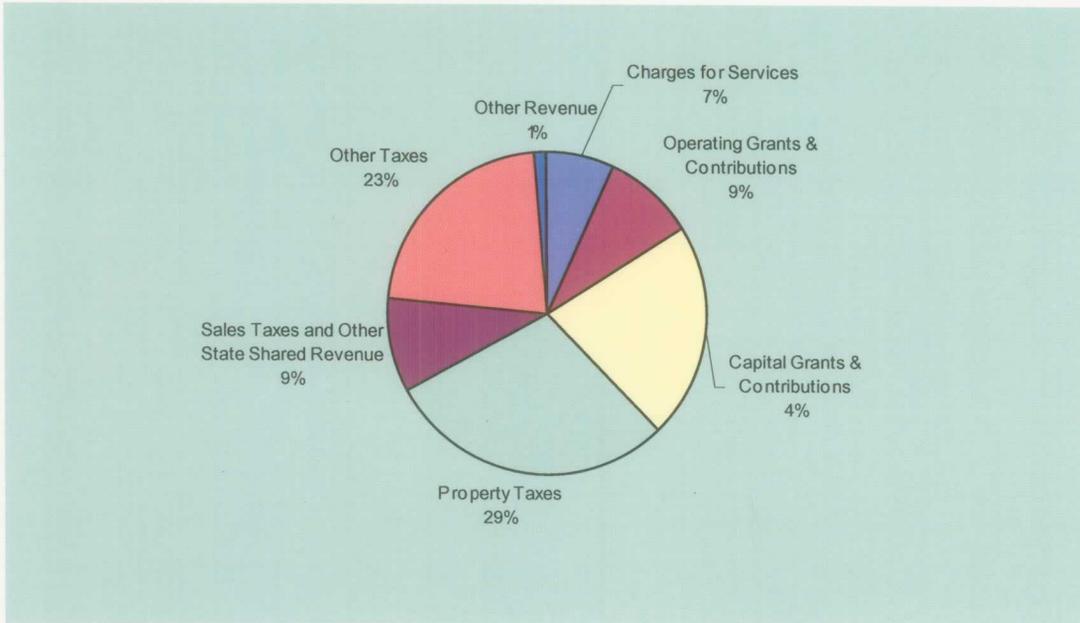
City of Palatka Changes in Net Assets For the year ended September 30, 2004

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$585,201	\$502,798	\$5,255,310	\$5,212,121	\$5,840,511	\$5,714,919
Operating Grants & Contributions	777,845	643,370	61,500	20,095	839,345	663,465
Capital Grants & Contributions	1,816,727	634,324	929,654	1,293,561	2,746,381	1,927,885
General Revenues:					0	0
Property Taxes	2,440,143	2,117,963			2,440,143	2,117,963
Sales Taxes and Other State					0	0
Shared Revenue	794,003	765,778			794,003	765,778
Other Taxes	1,894,352	1,880,403			1,894,352	1,880,403
Other Revenue	87,291	72,548	181,271	4,735	268,562	77,283
Total Revenues	8,395,562	6,617,184	6,427,735	6,530,512	14,823,297	13,147,696
Expenses:						
General Government	879,252	805,254			879,252	805,254
Public Safety	4,614,844	4,217,475			4,614,844	4,217,475
Transportation	631,355	568,028			631,355	568,028
Economic Environment	66,979	50,538			66,979	50,538
Human Services	186,242	147,360			186,242	147,360
Culture/Recreation	540,808	341,136			540,808	341,136
Interest on Long-Term Debt	30,625	35,016			30,625	35,016
Water			3,239,058	3,113,053	3,239,058	3,113,053
Sanitation			1,273,168	1,227,770	1,273,168	1,227,770
Golf Course			773,144	803,795	773,144	803,795
Airport			654,561	617,672	654,561	617,672
Total Expenses	6,950,105	6,164,807	5,939,931	5,762,290	12,890,036	11,927,097
Increase in Net Assets before transfers	1,445,457	452,377	487,804	768,222	1,933,261	1,220,599
Transfers	(569,282)	184,832	569,282	(184,832)	0	0
Increase in Net Assets	876,175	637,209	1,057,086	583,390	1,933,261	1,220,599
Net Assets-Beginning of Year	6,337,556	5,700,347	15,831,019	15,247,629	22,168,575	20,947,976
Net Assets-End of Year	\$7,213,731	\$6,337,556	\$16,888,105	\$15,831,019	\$24,101,836	\$22,168,575

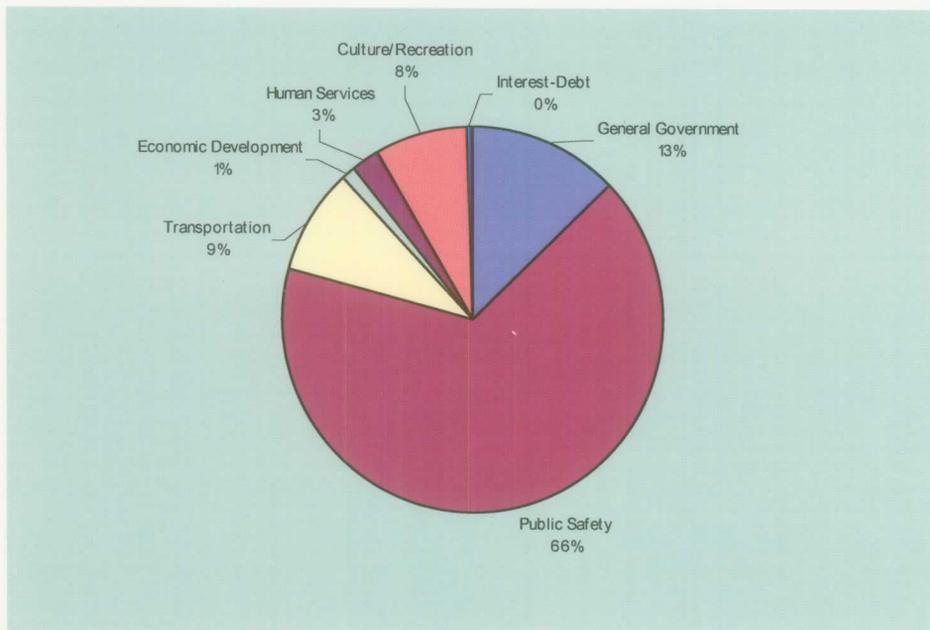
Governmental Activities

The City's total net assets increased \$1,933,261 over the previous year with an increase of \$876,175 resulting from governmental activities and an increase of \$1,057,086 from business activities. The primary reasons for these changes were the one-cent sales tax, the millage rate and grants that were received during the year. Included in this increase is \$159,500 for FEMA.

Revenue by Source - Governmental Activity



Expenses - Governmental Activities



Business-type Activities

Business-type activities increased the City's net assets by \$1,057,086 accounting for a 55% growth in the City's net assets. Key elements in this increase are as follows:

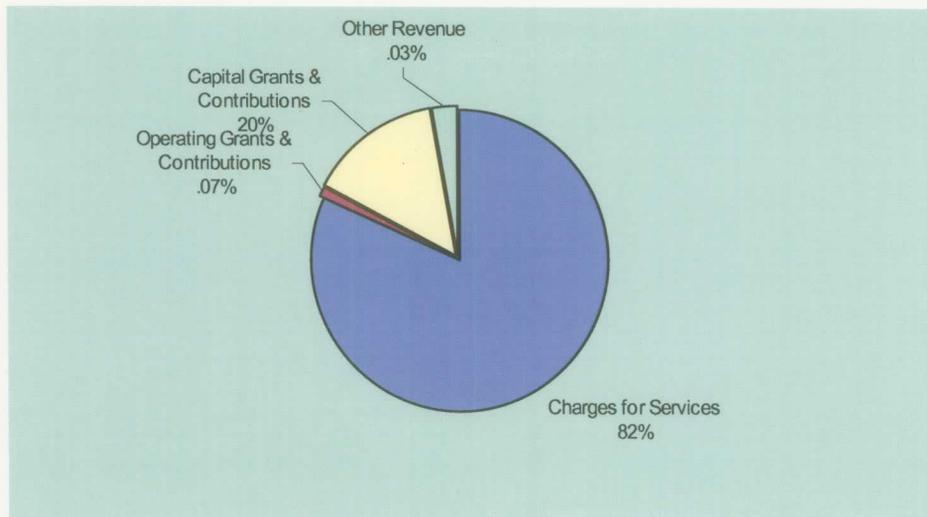
The Utility fund (water and wastewater) received \$299,237 in state and federal grants. The accrual for \$32,500 from FEMA has been included in this amount.

The Airport fund received state and federal grants of \$662,917 during the fiscal year.

The Sanitation fund has an accrual of \$23,000 and the Golf fund \$6,000 as estimates for reimbursement from FEMA.

The most significant expenses were improvements related to grants received. Operational increases were, for the most part, related to personnel cost.

Revenue by Source – Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,210,148, an increase of \$424,683 in comparison to the prior year. This total constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,801,421. The fund balance of the City's general fund increased by \$354,884 during the fiscal year. Key factors in this growth were:

- A full year of discretionary sales tax rate (one cent) increased tax revenues by \$686,015.
- A millage rate of 8% increased revenue by \$322,180 over the previous year.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As of September 30, 2004, total net assets amounted to \$16,888,105.

Unrestricted net assets of the utility fund at the end of the year amounted to \$1,490,740, the airport fund \$85,015, the sanitation fund \$93,192. The Golf Course increased their deficit in unrestricted net assets by \$152,138 during the fiscal year. The golf fund had a decrease in play due to the construction of a reclaimed water system that will be used for irrigation. The condition of the course was another contributing factor and this has been addressing with the hiring of a new greens keeper. Also, there have been numerous courses constructed in Northeast Florida and demand needs to catch up. Courses in other areas have experienced the same decreases in revenue. These cycles occur as in other business ventures. Other factors concerning the finances of these four funds have already been addressed in the discussion of the City's business-type activities above.

General Fund Budgetary Highlights

The general fund budget was amended during the fiscal year by \$574,796 an increase of 8.38 % over the original projections. These increases were mostly attributed to grants that were received during the year. The variance between original and final budget amounts for the year is composed of the following:

- Culture/Recreation increased due to a Historical Grants received for the Old Palatka Waterworks, an EDA grant for the riverfront and a FDOT Intermodal grant to purchase CSX properties.

A comparison of actual revenues versus the final budget reflects that revenues exceeded original budget.

Capital Asset and Debt Administration

**City of Palatka Capital Assets
(Net of Depreciation)
For the Year Ended September 30, 2004**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land and Improvements	\$2,838,043	\$2,611,589	\$4,606,999	\$4,875,186	\$7,445,042	\$7,486,775
Buildings and Improvements	2,222,060	2,190,930	3,475,127	3,503,855	5,697,187	5,694,785
Equipment	778,205	893,763	661,358	438,532	1,439,563	1,332,295
Water and Sewer Distribution System			11,464,337	11,934,403	11,464,337	11,934,403
Construction in Progress			2,825,984	840,631	2,825,984	840,631
	\$5,838,308	\$5,696,282	\$23,033,805	\$21,592,607	\$28,872,113	\$27,288,889

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2004, (net of accumulated depreciation) amounts to \$28,872,113. This investment in capital assets includes land, buildings, improvements, furniture, equipment, water and sewer distribution system and construction in progress. The total increase in the City's investment in capital assets was \$1,583,224.

Pursuant to GASB Statement #34, an extended period of deferral (four years) is available before the requirement to record and depreciate infrastructure assets (e.g., underground utilities, streets, sidewalks and similar facilities.) acquired before the implementation data becomes effective. This will become effective for fiscal year 2007. GASB Statement #34 requires the reporting and depreciation of new infrastructure expenditures effective with the beginning of the implementation fiscal year 2003.

Major capital asset events during the fiscal year include the following:

- Construction of a new irrigation system at the City's golf course through the wastewater reuse project. \$1,386,696 of this project was spent during the current 2003-2004 FY.
- The City purchased CSX properties for \$250,000.
- Fuel tanks, lighting and pavement were being installed at the airport and a stormwater master plan has also been implemented for total expenditures of \$699,903 for the fiscal year.
- The old waterworks plant expended \$118,504 for renovations. This was possible through a Historical grant and local contributions.

Additional information on the City's capital assets is found in Note 4 in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$8,586,802. Of this amount, \$795,463 comprises debt backed by the full faith and credit of the City, \$160,973 water/sewer agreements with other agencies, and the remainder represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Palatka Long-Term Debt Obligations

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue Bonds	\$537,635	\$621,092	\$6,880,708	\$7,093,787	\$7,418,343	\$7,714,879
Notes Payable	137,206	191,100	658,257	86,282	795,463	277,382
Capital Lease Obligations	16,860	39,376	195,163	51,944	212,023	91,320
Water/Sewer Agreements			160,973	160,973	160,973	160,973
Total	\$691,701	\$851,568	\$7,895,101	\$7,392,986	\$8,586,802	\$8,244,554

The City's total long-term debt increased \$342,248 from the prior year, while the long-term liability for compensated absences increased by \$25,920.

The business-type activities, the Utility Fund entered into an agreement with FDEP for a Water Reuse System Construction loan for \$712,000, which \$583,356 was spent this fiscal year and the Golf Course entered into a lease agreement for \$153,826.

Governmental Activities:

- The City made the following principal payments during the year: revenue bonds - \$83,457, notes payable - \$53,894 and capital leases - \$22,516.
- Governmental obligations for compensated absences increased by 5.2% or \$19,200.

Business-type activities:

- The Municipal Golf Course entered into a capital lease agreement for \$153,826 for golf carts.
- The following principal payments were made during the year: revenue bonds - \$213,079, notes payable - \$11,381, and capital leases - \$10,607.
- Compensated absences increased by 4.2% or \$6,720.

The City's current bond rating is Aaa from Moody's Investor Service. There are no limitations placed on the amount of debt the City may issue by either the City's charter, code of ordinances or Florida State Statutes.

Additional information on the City's long-term liabilities can be found in Note 5 in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's ability to make infrastructure improvements in the coming year is greatly enhanced with a successful referendum creating a local one cent sales tax. This additional revenue will go solely toward improvements in infrastructure and is not intended to offset increases in operating cost.

There is no reason to doubt that the city is on the verge of an accelerated growth. The development of both Lowes and Home Depot stores, which located after feasibility studies, are testament to this growth. Putnam County is surrounded by three of the fastest growing counties of the State. The segment of the four lane 'intrastate' system from Palatka to St. Augustine will be finished soon. The effects of this are already being seen in land valuations and planned commercial development.

The City has completed a Riverfront Master Plan for downtown Palatka. The City has acquired property and is moving ahead with redevelopment efforts.

The City has prepared balanced budgets for the current FY; however, it has been necessary to keep the millage rate to eight mills. Additional taxable value will need to be added in the near future to offset rising operating cost.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Finance Director, 201 N. 2nd Street, Palatka, Florida 32177.

City of Palatka, Florida
Statement of Net Assets
September 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Palatka Gas Authority
<u>ASSETS</u>				
Cash and Equivalents	\$1,093,368	\$ 352,184	\$ 1,445,552	\$ 381,974
Investments	380,215	48,995	429,210	2,883,015
Accounts Receivable	14,443	361,080	375,523	241,797
Internal Balances	361,664	(361,664)	--	--
Due From Other Governments	664,377	962,342	1,626,719	--
Inventory	--	171,069	171,069	68,767
Mortgages Receivable	71,690	--	71,690	--
Other Assets	--	--	--	44,307
Restricted Cash and Equivalents	--	589,658	589,658	--
Restricted Investments	--	574,335	574,335	--
Capital Assets:				
Non-Depreciable	2,838,043	7,432,983	10,271,026	194,147
Depreciable, Net	<u>3,000,265</u>	<u>15,600,822</u>	<u>18,601,087</u>	<u>1,614,746</u>
TOTAL ASSETS	<u>8,424,065</u>	<u>25,731,804</u>	<u>34,155,869</u>	<u>5,428,753</u>
<u>LIABILITIES</u>				
Accounts Payable and Accrued Liabilities	123,810	450,628	574,438	75,347
Deposits	6,523	332,586	339,109	164,956
Noncurrent Liabilities:				
Due Within One Year	231,312	354,175	585,487	--
Due in More Than One Year	<u>848,689</u>	<u>7,706,310</u>	<u>8,554,999</u>	<u>25,900</u>
TOTAL LIABILITIES	<u>1,210,334</u>	<u>8,843,699</u>	<u>10,054,033</u>	<u>266,203</u>
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	5,146,607	15,138,704	20,285,311	1,808,893
Restricted For:				
Downtown Redevelopment	335,292	--	335,292	--
Debt Service	--	591,413	591,413	--
Renewal and Replacement	--	65,220	65,220	--
Rate Stabilization	--	149,402	149,402	--
Unrestricted	<u>1,731,832</u>	<u>943,366</u>	<u>2,675,198</u>	<u>3,353,657</u>
TOTAL NET ASSETS	<u>\$7,213,731</u>	<u>\$16,888,105</u>	<u>\$24,101,836</u>	<u>\$5,162,550</u>

See accompanying notes.

City of Palatka, Florida
Statement of Activities
For the Year Ended September 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Palatka Gas Authority
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT:								
GOVERNMENTAL ACTIVITIES:								
General Government	\$ 879,252	\$ 115,774	\$ 15,586	\$ --	\$ (747,892)	\$ --	\$ (747,892)	\$ --
Public Safety	4,614,844	316,470	376,181	--	(3,922,193)	--	(3,922,193)	--
Physical Environment	--	--	--	718,833	718,833	--	718,833	--
Transportation	631,355	46,958	341,639	686,015	443,257	--	443,257	--
Economic Environment	66,979	--	--	--	(66,979)	--	(66,979)	--
Human Services	186,242	91,356	1,174	--	(93,712)	--	(93,712)	--
Culture and Recreation	540,808	14,643	43,265	411,879	(71,021)	--	(71,021)	--
Interest on Long-Term Debt	30,625	--	--	--	(30,625)	--	(30,625)	--
TOTAL GOVERNMENTAL ACTIVITIES	6,950,105	585,201	777,845	1,816,727	(3,770,332)	--	(3,770,332)	--
BUSINESS-TYPE ACTIVITIES:								
Water	3,239,058	3,089,418	32,500	266,737	--	149,597	149,597	--
Sanitation	1,273,168	1,329,226	23,000	--	--	79,058	79,058	--
Golf Course	773,144	531,170	6,000	--	--	(235,974)	(235,974)	--
Airport	654,561	305,496	--	662,917	--	313,852	313,852	--
TOTAL BUSINESS-TYPE ACTIVITIES	5,939,931	5,255,310	61,500	929,654	--	306,533	306,533	--
TOTAL PRIMARY GOVERNMENT	\$12,890,036	\$ 5,840,511	\$839,345	\$2,746,381	(3,770,332)	306,533	(3,463,799)	--
COMPONENT UNIT:								
Palatka Gas Authority	\$2,487,703	\$ 2,474,193	\$ --	\$ --	--	--	--	(13,510)
GENERAL REVENUES:								
Property Taxes					2,440,143	--	2,440,143	--
Shared Revenues					794,003	--	794,003	--
Franchise Fees					611,540	--	611,540	--
Utility Taxes					744,713	--	744,713	--
Communications Service Tax					538,099	--	538,099	--
Investment Earnings					30,041	6,749	36,790	73,553
Miscellaneous					57,250	174,522	231,772	(91,406)
Transfers					(569,282)	569,282	--	--
TOTAL GENERAL REVENUES AND TRANSFERS					4,646,507	750,553	5,397,060	(17,853)
CHANGE IN NET ASSETS					876,175	1,057,086	1,933,261	(31,363)
NET ASSETS – BEGINNING OF YEAR					6,337,556	15,831,019	22,168,575	5,193,913
NET ASSETS – END OF YEAR					\$ 7,213,731	\$16,888,105	\$ 24,101,836	\$ 5,162,550

See accompanying notes.

**City of Palatka, Florida
Balance Sheet
Governmental Funds
September 30, 2004**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Equivalents	\$ 905,692	\$187,676	\$1,093,368
Investments	158,986	221,229	380,215
Accounts Receivable	14,443	--	14,443
Due From Other Funds	754,861	--	754,861
Due From Other Governments	271,180	393,197	664,377
Mortgages Receivable	<u>--</u>	<u>71,690</u>	<u>71,690</u>
TOTAL ASSETS	<u>\$2,105,162</u>	<u>\$873,792</u>	<u>\$2,978,954</u>
<u>LIABILITIES</u>			
Accounts Payable and Accrued Liabilities	\$123,632	\$ 178	\$123,810
Due to Other Funds	--	393,197	393,197
Deposits	6,523	--	6,523
Deferred Revenue	<u>173,586</u>	<u>71,690</u>	<u>245,276</u>
TOTAL LIABILITIES	<u>303,741</u>	<u>465,065</u>	<u>768,806</u>
<u>FUND BALANCES</u>			
Unreserved, Reported In:			
General Fund	1,801,421	--	1,801,421
Special Revenue Funds	<u>--</u>	<u>408,727</u>	<u>408,727</u>
TOTAL FUND BALANCES	<u>1,801,421</u>	<u>408,727</u>	<u>2,210,148</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$2,105,162</u>	<u>\$873,792</u>	<u>\$2,978,954</u>

See accompanying notes.

City of Palatka, Florida
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
September 30, 2004

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$2,210,148
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the governmental funds.	
Capital Assets – Net.....	5,838,308
Long-term liabilities are not reported in the governmental funds.	
Bonds and Notes Payable.....	(674,841)
Capital Lease Obligations.....	(16,860)
Compensated Absences.....	(388,300)
Liabilities for earned but unavailable revenue are reported in the governmental funds but not in the statement of net assets.	
Deferred Revenue	<u>245,276</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$7,213,731</u>

See accompanying notes.

City of Palatka, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Taxes	\$5,096,626	\$253,751	\$5,350,377
Licenses and Permits	303,236	--	303,236
Intergovernmental	1,527,648	718,833	2,246,481
Charges for Services	118,285	--	118,285
Fines and Forfeitures	127,217	--	127,217
Miscellaneous	<u>69,207</u>	<u>11,959</u>	<u>81,166</u>
TOTAL REVENUES	<u>7,242,219</u>	<u>984,543</u>	<u>8,226,762</u>
<u>EXPENDITURES</u>			
Current:			
General Government	726,240	--	726,240
Public Safety	4,539,971	--	4,539,971
Physical Environment	--	716,608	716,608
Transportation	614,119	--	614,119
Economic Environment	--	66,979	66,979
Human Services	179,312	--	179,312
Culture and Recreation	915,684	--	915,684
Debt Service:			
Principal Retirement	110,769	49,098	159,867
Interest and Fiscal Charges	<u>22,714</u>	<u>7,911</u>	<u>30,625</u>
TOTAL EXPENDITURES	<u>7,108,809</u>	<u>840,596</u>	<u>7,949,405</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>133,410</u>	<u>143,947</u>	<u>277,357</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	284,974	--	284,974
Transfers Out	<u>(63,500)</u>	<u>(74,148)</u>	<u>(137,648)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>221,474</u>	<u>(74,148)</u>	<u>147,326</u>
NET CHANGE IN FUND BALANCES	354,884	69,799	424,683
FUND BALANCES – BEGINNING OF YEAR	<u>1,446,537</u>	<u>338,928</u>	<u>1,785,465</u>
FUND BALANCES – END OF YEAR	<u>\$1,801,421</u>	<u>\$408,727</u>	<u>\$2,210,148</u>

See accompanying notes.

City of Palatka, Florida
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
Governmental Funds
For the Year Ended September 30, 2004

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 424,683

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is depreciated over their estimated useful lives.

Acquisitions of Capital Assets.....	504,593
Current Year Depreciation Expense.....	(362,567)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment does not effect net assets of governmental activities.

Principal Payments.....	159,867
-------------------------	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences.....	(19,200)
---------------------------	----------

The timing of revenue recognition sometimes differs between the governmental funds and governmental activities.

Change in Deferred Revenues.....	<u>168,799</u>
----------------------------------	----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 876,175

See accompanying notes.

City of Palatka, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2004

	<u>Business-type Activities – Enterprise Funds</u>				<u>Total Enterprise Funds</u>
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Golf Course Fund</u>	<u>Airport Fund</u>	
<u>CURRENT ASSETS</u>					
Cash and Equivalents	\$ 343,678	\$ 6,806	\$ 1,250	\$ 450	\$ 352,184
Investments	48,995	--	--	--	48,995
Accounts Receivable	229,600	106,438	2,777	22,265	361,080
Due from Other Funds	393,197	30,928	--	24,597	448,722
Due From Other Governments	875,235	23,000	6,000	58,107	962,342
Inventory	141,266	--	5,426	24,377	171,069
TOTAL CURRENT ASSETS	<u>2,031,971</u>	<u>167,172</u>	<u>15,453</u>	<u>129,796</u>	<u>2,344,392</u>
<u>NONCURRENT ASSETS</u>					
Restricted Cash and Equivalents	589,658	--	--	--	589,658
Restricted Investments	574,335	--	--	--	574,335
Capital Assets, Net	14,382,887	257,646	1,476,576	6,916,696	23,033,805
TOTAL NONCURRENT ASSETS	<u>15,546,880</u>	<u>257,646</u>	<u>1,476,576</u>	<u>6,916,696</u>	<u>24,197,798</u>
TOTAL ASSETS	<u>17,578,851</u>	<u>424,818</u>	<u>1,492,029</u>	<u>7,046,492</u>	<u>26,542,190</u>
<u>CURRENT LIABILITIES</u>					
Accounts Payable and Accrued Liabilities	351,843	40,642	18,508	39,635	450,628
Deposits	312,077	--	17,071	3,438	332,586
Due to Other Funds	113,509	--	696,877	--	810,386
Current Portion of Long-Term Liabilities	239,038	9,489	89,565	16,083	354,175
TOTAL CURRENT LIABILITIES	<u>1,016,467</u>	<u>50,131</u>	<u>822,021</u>	<u>59,156</u>	<u>1,947,775</u>
NONCURRENT LIABILITIES	<u>7,193,724</u>	<u>23,849</u>	<u>428,211</u>	<u>60,526</u>	<u>7,706,310</u>
TOTAL LIABILITIES	<u>8,210,191</u>	<u>73,980</u>	<u>1,250,232</u>	<u>119,682</u>	<u>9,654,085</u>
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt	7,071,885	257,646	967,378	6,841,795	15,138,704
Restricted For Debt Service	591,413	--	--	--	591,413
Restricted for Renewal and Replacement	65,220	--	--	--	65,220
Restricted for Rate Stabilization	149,402	--	--	--	149,402
Unrestricted	1,490,740	93,192	(725,581)	85,015	943,366
TOTAL NET ASSETS	<u>\$ 9,368,660</u>	<u>\$ 350,838</u>	<u>\$ 241,797</u>	<u>\$6,926,810</u>	<u>\$16,888,105</u>

See accompanying notes.

City of Palatka, Florida
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2004

	<u>Business-type Activities – Enterprise Funds</u>				<u>Total Enterprise Funds</u>
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Golf Course Fund</u>	<u>Airport Fund</u>	
<u>OPERATING REVENUES</u>					
User Fees	\$3,089,418	\$1,329,226	\$ 531,170	\$ 305,496	\$ 5,255,310
Other Revenues	79,741	1,223	--	--	80,964
TOTAL OPERATING REVENUES	<u>3,169,159</u>	<u>1,330,449</u>	<u>531,170</u>	<u>305,496</u>	<u>5,336,274</u>
<u>OPERATING EXPENSES</u>					
Personal Services	1,536,960	573,002	300,080	105,068	2,515,110
Operating Expenses	756,049	678,619	407,647	182,550	2,024,865
Depreciation and Amortization	630,131	21,547	45,267	362,828	1,059,773
TOTAL OPERATING EXPENSES	<u>2,923,140</u>	<u>1,273,168</u>	<u>752,994</u>	<u>650,446</u>	<u>5,599,748</u>
OPERATING INCOME (LOSS)	<u>246,019</u>	<u>57,281</u>	<u>(221,824)</u>	<u>(344,950)</u>	<u>(263,474)</u>
<u>NONOPERATING REVENUES</u>					
<u>(EXPENSES)</u>					
Investment Earnings	6,749	--	--	--	6,749
Operating Grants	32,500	23,000	6,000	--	61,500
Interest Expense	(315,918)	--	(20,150)	(4,115)	(340,183)
Gain on Disposal of Capital Assets	6,309	182	86,867	200	93,558
TOTAL NONOPERATING REVENUES					
(EXPENSES)	<u>(270,360)</u>	<u>23,182</u>	<u>72,717</u>	<u>(3,915)</u>	<u>(178,376)</u>
INCOME (LOSS) BEFORE CAPITAL					
CONTRIBUTIONS AND TRANSFERS	(24,341)	80,463	(149,107)	(348,865)	(441,850)
Capital Contributions	983,345	--	--	662,917	1,646,262
Transfers In	--	--	15,000	63,500	78,500
Transfers Out	(160,826)	(65,000)	--	--	(225,826)
CHANGE IN NET ASSETS	798,178	15,463	(134,107)	377,552	1,057,086
NET ASSETS – BEGINNING OF YEAR	<u>8,570,482</u>	<u>335,375</u>	<u>375,904</u>	<u>6,549,258</u>	<u>15,831,019</u>
NET ASSETS – END OF YEAR	<u>\$9,368,660</u>	<u>\$ 350,838</u>	<u>\$ 241,797</u>	<u>\$6,926,810</u>	<u>\$16,888,105</u>

See accompanying notes.

City of Palatka, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2004

	<u>Business-type Activities – Enterprise Funds</u>				<u>Total Enterprise Funds</u>
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Golf Course Fund</u>	<u>Airport Fund</u>	
<u>OPERATING ACTIVITIES</u>					
Receipts From Customers	\$ 3,145,962	\$1,316,553	\$ 532,387	\$ 291,574	\$ 5,286,476
Payments to Suppliers	(1,608,742)	(709,031)	(249,224)	(197,227)	(2,764,224)
Payments to Employees	(1,550,622)	(569,325)	(301,581)	(105,564)	(2,527,092)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(13,402)</u>	<u>38,197</u>	<u>(18,418)</u>	<u>(11,217)</u>	<u>(4,840)</u>
<u>NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers In	--	--	15,000	63,500	78,500
Transfers Out	(160,826)	(65,000)	--	--	(225,826)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(160,826)</u>	<u>(65,000)</u>	<u>15,000</u>	<u>63,500</u>	<u>(147,326)</u>
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Proceeds From Debt	583,356	--	--	--	583,356
Capital Contributions	266,737	--	--	662,917	929,654
Acquisitions of Capital Assets	(906,020)	--	(6,501)	(699,904)	(1,612,425)
Principal Paid on Debt	(185,000)	--	(56,798)	(11,381)	(253,179)
Interest Paid on Debt	(319,711)	--	(20,150)	(4,115)	(343,976)
Proceeds From Sale of Capital Assets	6,309	182	86,867	200	93,558
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(554,329)</u>	<u>182</u>	<u>3,418</u>	<u>(52,283)</u>	<u>(603,012)</u>
<u>INVESTING ACTIVITIES</u>					
Interest Received	6,749	--	--	--	6,749
Purchase of Investments	(17,350)	--	--	--	(17,350)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(10,601)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(10,601)</u>
CHANGE IN CASH AND EQUIVALENTS	<u>(739,158)</u>	<u>(26,621)</u>	<u>--</u>	<u>--</u>	<u>(765,779)</u>
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>1,672,494</u>	<u>33,427</u>	<u>1,250</u>	<u>450</u>	<u>1,707,621</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 933,336</u>	<u>\$ 6,806</u>	<u>\$ 1,250</u>	<u>\$ 450</u>	<u>\$ 941,842</u>

(continued)

City of Palatka, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2004

(concluded)

	<u>Business-type Activities – Enterprise Funds</u>				Total Enterprise Funds
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Golf Course Fund</u>	<u>Airport Fund</u>	
OPERATING INCOME (LOSS)	\$ 166,278	\$ 56,058	\$(221,824)	\$(344,950)	\$ (344,438)
Depreciation and Amortization	630,131	21,547	45,267	362,828	1,059,773
Other Revenue	79,741	1,223	--	--	80,964
Change In:					
Accounts Receivable	(31,475)	\$(13,896)	(1,225)	(14,522)	(61,118)
Due From Other Funds	(393,197)	(30,928)	--	(24,597)	(448,722)
Due From Other Governments	(717,328)	--	--	36,264	(681,064)
Inventory	6,509	--	17,883	(2,024)	22,368
Accounts Payable and Accrued Liabilities	123,352	516	3,500	36,055	163,423
Due to Other Funds	113,509	--	133,710	(61,286)	185,933
Compensated Absences	800	3,677	1,829	415	6,721
Customer Deposits	8,278	--	2,442	600	11,320
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (13,402)</u>	<u>\$ 38,197</u>	<u>\$ (18,418)</u>	<u>\$ (11,217)</u>	<u>\$ (4,840)</u>
 <u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</u>					
Borrowing Under Capital Lease	\$ --	\$ --	\$153,826	\$ --	\$ 153,826
Capital Asset Contribution	\$ 716,608	\$ --	\$ --	\$ --	\$ 716,608

See accompanying notes.

City of Palatka, Florida
Statement of Fiduciary Net Assets
Pension Trust Funds
September 30, 2004

<u>ASSETS</u>	
Investments:	
Government Bonds and Notes	\$ 4,857,712
Mutual Funds	4,673,072
Common Stock/Equities	11,096,871
Debt Securities	<u>3,702,626</u>
Total Investments	24,330,281
Accounts Receivable	<u>96,197</u>
TOTAL ASSETS	24,426,478
LIABILITIES	<u> --</u>
<u>NET ASSETS</u>	
Held in Trust for Pension Benefits	<u>\$24,426,478</u>

See accompanying notes.

City of Palatka, Florida
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended September 30, 2004

ADDITIONS

CONTRIBUTIONS:

Employer	\$ 501,174
Member	335,922
State on behalf, through General Fund	129,720
Other	<u>32,927</u>

TOTAL CONTRIBUTIONS 999,743

INVESTMENT INCOME:

Net Appreciation in Fair Value of Investments	1,046,475
Interest	524,135
Dividends	<u>169,390</u>
	1,740,000
Less Investment Management Fee	<u>111,352</u>

NET INVESTMENT INCOME 1,628,648

TOTAL ADDITIONS 2,628,391

DEDUCTIONS

Member Benefits	989,740
Withdrawals	114,262
Administrative Expense	<u>112,949</u>

TOTAL DEDUCTIONS 1,216,951

CHANGE IN NET ASSETS 1,411,440

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,
Beginning of Year 23,015,038

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,
End of Year \$24,426,478

See accompanying notes.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Palatka, Florida (the "City"), which is located in northeast Florida, was incorporated January 8, 1853 under the Laws of the State of Florida, Chapter 492. The City operates under an elected Mayor-Commissioner and a Board of Commissioners (four members) and provides human services, community enrichment and development, law enforcement, fire protection and rescue service.

As required by generally accepted accounting principles, the accompanying financial statements present the City as a primary government and its component units, entities for which the City is considered financially accountable. The component units are included in the reporting entity because of the significance of their operational relationship with the City. The City is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Blended component units, although legally separate entities, are in substance part of the City's operations and, accordingly, data from these units are combined with the data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Blended Component Unit

The Palatka Downtown Redevelopment Agency (the Agency) is a legally separate entity created pursuant to Florida Statutes following the adoption of an approving Resolution (No. 4-12, dated November 10, 1983) by the City. The Agency is governed by a five-member board whose members are the same as the City Commission. The operations of the Agency are reported in a governmental fund.

Discretely Presented Component Unit

The Palatka Gas Authority (the Gas Authority) was created by an Act of the Florida Legislature (Ch. 59-1679, Act 1959) and ratified by election on November 10, 1959. The members of the Gas Authority's governing board are appointed by the City Commission. Additionally, bond issues and operational and capital budgets must be approved by the City Commission. Annually, the Gas Authority provides a contribution to the City from its net income. The contribution is one-half of annual profits.

Complete financial statements of the Gas Authority can be obtained directly from:

The Palatka Gas Authority
518 Main Street
Palatka, Florida 32177

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related Organization

The Palatka Housing Authority (the “Housing Authority”) was established by the City in 1962 pursuant to Chapter 421, Florida Statutes. The purpose of the Housing Authority is to provide affordable housing to the Palatka community and surrounding areas. The Housing Authority is considered a related organization because its Board members are appointed by the Mayor of the City of Palatka. The City is not financially accountable for the Housing Authority, nor does it meet other criteria of a component unit and, accordingly, the Housing Authority is not included in the accompanying financial statements.

Joint Ventures

The City did not participate in any joint ventures during the 2003-2004 fiscal year.

Basis of Presentation

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are hereafter described.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: charges for services that are directly related to a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements, but all nonmajor funds are aggregated and displayed in a single column. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following major governmental fund:

General Fund – the primary operating fund, used to account for all activities except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Water Fund – to account for the assets, operation and maintenance of the City-owned water and sewer system.

Sanitation Fund – to account for the assets, operation and maintenance of the City's solid waste department.

Golf Course Fund – to account for the assets, operation and maintenance of the City-owned golf course.

Airport Fund – to account for the assets, operation and maintenance of the City-owned airport.

Additionally, the City reports the following fiduciary funds:

Pension Trust Funds – to account for activities of the City's pension plans.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Taxes and certain intergovernmental revenues constitute the most significant sources of revenue considered susceptible to accrual. In governmental funds, expenditures are generally recognized when the related liability is incurred. However, debt service expenditures, and expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Application of FASB Pronouncements

For its enterprise funds, the City applies all applicable GASB pronouncements. Additionally, the City applies pronouncements of the FASB and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purpose of the Statement of Cash Flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Receivables are stated at net realizable value, reduced by an allowance for uncollectable accounts, where appropriate. Accounts receivable of the Enterprise Funds are net of a \$74,000 allowance. Accounts receivable of the Gas Authority are net of a \$31,170 allowance.

Most of the Mortgages Receivable balance is not expected to be repaid within the next fiscal year.

Investments

Investments are reported at fair value based on quoted market prices, except for money market investments, which are reported at cost, which approximates fair value.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Long-Term Receivables

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheet, without regard to the fund's measurement focus. However, special reporting treatment is used to indicate that these receivables are not considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund revenues represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of long-term loans and advances receivable are offset by fund balance reserves.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, except for contributed assets which are recorded at fair value at the date of contribution. The City uses a capitalization threshold of \$5,000 for all classes of capital assets.

In accordance with GASB Statement No. 34, an extended period of deferral (until the 2007 fiscal year) is available before the City is required to record and depreciate infrastructure assets acquired prior to October 1, 2002. The City has elected to defer reporting of infrastructure assets acquired prior to October 1, 2002.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Buildings and improvements	30
Furniture, equipment and vehicles	3 – 10
Water and sewer distribution system	15 – 50
Plant assets and equipment	20 – 50

For its business-type activities, the City's policy is to capitalize construction period interest costs on projects funded specifically through debt financing. Interest earnings are offset against construction costs for qualified projects financed with tax-exempt debt. No interest costs were capitalized during 2004.

Claims and Judgments

For governmental funds, a fund liability is reported to account for the portion of the liability that will be liquidated with expendable available financial resources. The liability is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Compensated Absences

The City's policy is to allow limited vesting of employee vacation pay and accumulated sick leave. A liability for accrued compensated absences of employees of the governmental funds has been accrued. Since this liability will not be liquidated with expendable available financial resources, the liability has not been reported in the governmental funds. A liability for compensated absences is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In prior years, compensated absence liabilities associated with governmental funds were liquidated by the funds that incurred the liabilities.

Property Taxes

The Putnam County Tax Collector bills and collects property taxes for the City. At September 30, 2004, property taxes receivable were not material.

Details of the City's tax calendar are presented below:

Lien Date	January 1
Levy Date	October 1
Discount Period	November - February
No Discount Period	March
Delinquent Date	April 1

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Operating Revenues and Expenses

The enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Net Assets

In the accompanying government-wide and proprietary funds' statements of net assets, *restricted net assets* are subject to restrictions beyond the City's control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance Reserves

Governmental Funds - Reserves represent portions of fund balances which cannot be appropriated for expenditure or which have been legally restricted for specific future uses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

All of the City's and the Gas Authority's demand deposits, certificates of deposit, and money market accounts are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, and are entirely insured by Federal depository insurance or collateralized pursuant to the Florida Security for Public Deposits Act.

Investments

Section 218.415, Florida Statutes, authorizes the City to invest excess public funds in the following:

- ◆ Direct obligations of the U.S. Treasury;
- ◆ Savings accounts and certificates of deposit in qualified public depositories;
- ◆ The Local Government Surplus Funds Trust Fund;
- ◆ Securities and Exchange Commission registered money market funds with the highest credit quality rating.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 2 – DEPOSITS AND INVESTMENTS (concluded)

The City's investments at September 30, 2004 are categorized in the following table to give an indication of the level of credit risk assumed at year-end. Category 1 includes investments that are insured or registered, or securities that are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments with the securities held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments with the securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<u>Risk Category</u>			<u>Total Primary Government</u>	<u>Component Unit</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Pension Investments:					
Mutual Funds	\$ --	\$ --	\$ --	\$ 4,673,072	\$ --
Government Bonds and Notes	4,857,712	--	--	4,857,712	--
Corporate Bonds	1,898,383	--	--	1,898,383	--
Mortgage Backed Securities	1,804,243	--	--	1,804,243	--
Common Stock	11,060,706	--	--	11,060,706	--
Foreign Equities	36,165	--	--	36,165	--
				<u>\$24,330,281</u>	<u>\$ --</u>
Other Investments:					
Mutual Funds				\$ 383,603	\$ --
Deposits with Financial Institutions				619,942	2,883,015
				<u>\$ 1,003,545</u>	<u>\$2,883,015</u>
Total					

NOTE 3 – INTERFUND BALANCES AND TRANSFERS

At September 30, 2004, interfund balances are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 754,861	\$ --
Nonmajor Governmental Fund	--	393,197
Enterprise Funds:		
Water	393,197	113,509
Sanitation	30,928	--
Golf Course	--	696,877
Airport	24,597	--
Totals	<u>\$1,203,583</u>	<u>\$1,203,583</u>

The interfund balance due from the nonmajor governmental fund to the Water Fund resulted from the time lag between payment of water reuse project costs and the associated reimbursement from the grantor to the grant fund.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 3 – INTERFUND BALANCES AND TRANSFERS (concluded)

Other significant interfund balances arose because two funds had overdrawn their share of the City's pooled cash account. The following tabulation is necessary to reconcile the account as reported on the balance sheet to its true balance:

	Cash and Equivalents As Reported	Adjustment For Overdraft	True Balance
General Fund	\$ 905,692	\$ 754,861	\$1,660,553
Water	933,336	(113,509)	819,827
Sanitation	6,806	30,928	37,734
Golf Course	1,250	(696,877)	(695,627)
Airport	<u>450</u>	<u>24,597</u>	<u>25,047</u>
Totals	<u>\$1,847,534</u>	<u>\$ --</u>	<u>\$1,847,534</u>

Interfund transfers for the year ended September 30, 2004 consisted of the following:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 284,974	\$ 63,500
Nonmajor Governmental Funds	--	74,148
Major Enterprise Funds:		
Water Fund	--	160,826
Sanitation Fund	--	65,000
Golf Course Fund	15,000	--
Airport Fund	<u>63,500</u>	<u>--</u>
	363,474	363,474
Capital Contribution from Nonmajor Governmental Fund to Water Fund	<u>716,608</u>	<u>716,608</u>
Total	<u>\$1,080,082</u>	<u>\$1,080,082</u>

The interfund transfers were made in the normal course of operations and are consistent with the activities of the fund making the transfer.

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 4 – CAPITAL ASSET ACTIVITY

During the year ended September 30, 2004, the following changes in capital assets occurred:

<u>Primary Government</u>	<u>Balance October 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2004</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 2,611,589	\$ 260,649	\$ 34,195	\$ 2,838,043
Construction in Progress	--	716,608	716,608	--
Total Capital Assets Not Being Depreciated	<u>2,611,589</u>	<u>977,257</u>	<u>750,803</u>	<u>2,838,043</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	3,547,204	175,530	--	3,722,734
Furniture and Equipment	1,735,427	102,609	--	1,838,036
Furniture and Equipment Under Capital Lease	68,431	--	--	68,431
Total Capital Assets Being Depreciated	<u>5,351,062</u>	<u>278,139</u>	<u>--</u>	<u>5,629,201</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	1,356,274	144,400	--	1,500,674
Furniture and Equipment	898,603	208,909	--	1,107,512
Furniture and Equipment Under Capital Lease	11,492	9,258	--	20,750
Total Accumulated Depreciation	<u>2,266,369</u>	<u>362,567</u>	<u>--</u>	<u>2,628,936</u>
Total Capital Assets Being Depreciated, Net	<u>3,084,693</u>	<u>(84,428)</u>	<u>--</u>	<u>3,000,265</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,696,282</u>	<u>\$ 892,829</u>	<u>\$750,803</u>	<u>\$ 5,838,308</u>
<u>Business-type Activities</u>	<u>Balance October 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2004</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 4,875,186	\$ --	\$268,187	\$ 4,606,999
Construction in Progress	840,631	1,985,353	--	2,825,984
Total Capital Assets Not Being Depreciated	<u>5,715,817</u>	<u>1,985,353</u>	<u>268,187</u>	<u>7,432,983</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	7,613,038	369,435	--	7,982,473
Furniture and Equipment	1,687,750	308,616	45,038	1,951,328
Water and Sewer Distribution System	7,787,952	--	--	7,787,952
Plant Assets and Equipment	12,484,541	87,642	--	12,572,183
Total Capital Assets Being Depreciated	<u>29,573,281</u>	<u>765,693</u>	<u>45,038</u>	<u>\$30,293,936</u>
Less Accumulated Depreciation for:				
Building and Improvements	4,109,183	398,163	--	4,507,346
Furniture and Equipment	1,249,218	85,790	45,038	1,289,970
Water and Sewer Distribution System	2,018,506	200,705	--	2,219,211
Plant Assets and Equipment	6,319,584	357,003	--	6,676,587
Total Accumulated Depreciation	<u>13,696,491</u>	<u>1,041,661</u>	<u>45,038</u>	<u>14,693,114</u>
Total Capital Assets Being Depreciated, Net	<u>15,876,790</u>	<u>(275,968)</u>	<u>--</u>	<u>15,600,822</u>
Business-type Activities Capital Assets, Net	<u>\$21,592,607</u>	<u>\$1,709,385</u>	<u>\$268,187</u>	<u>\$23,033,805</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 4 – CAPITAL ASSET ACTIVITY (concluded)

Depreciation expense was charged to the functions of the primary government as follows:

Governmental Activities:	
General Government	\$ 153,012
Public Safety	181,112
Transportation	17,236
Human Services	6,930
Culture and Recreation	4,277
Total Depreciation Expense – Governmental Activities	<u>\$ 362,567</u>
Business-type Activities:	
Water and Sewer	\$ 612,019
Sanitation	21,547
Airport	362,828
Golf Course	45,267
Total Depreciation Expense – Business-type Activities	<u>\$1,041,661</u>

Discretely Presented Component Unit

Capital assets activity for the Gas Authority for the year ended September 30, 2004 follows:

	Balance October 1, <u>2003</u>	<u>Increases</u>	<u>Decreases</u>	Balance September 30, 2004
Capital Assets Not Being Depreciated:				
Land	\$ 194,147	\$ --	\$ --	\$ 194,147
Capital Assets Being Depreciated:				
Buildings and Improvements	769,829	1,144	201,005	569,968
Furniture and Equipment	505,529	48,229	68,354	485,404
Plant Assets and Equipment	<u>2,508,140</u>	<u>42,002</u>	<u>--</u>	<u>2,550,142</u>
Total Capital Assets Being Depreciated	<u>3,783,498</u>	<u>91,375</u>	<u>269,359</u>	<u>3,605,514</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	110,933	16,325	109,751	17,507
Furniture and Equipment	365,569	40,368	68,202	337,735
Plant Assets and Equipment	<u>1,576,498</u>	<u>59,028</u>	<u>--</u>	<u>1,635,526</u>
Total Accumulated Depreciation	<u>2,053,000</u>	<u>115,721</u>	<u>177,953</u>	<u>1,990,768</u>
Total Capital Assets Being Depreciated, Net	<u>1,730,498</u>	<u>(24,346)</u>	<u>91,406</u>	<u>1,614,746</u>
Gas Authority Capital Assets, Net	<u>\$1,924,645</u>	<u>\$ (24,346)</u>	<u>\$ 91,406</u>	<u>\$1,808,893</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 5 – LONG-TERM OBLIGATIONS

Revenue bonds and notes payable consist of the following:

Governmental Activities

Tax Increment Bond Loan, Payable in Annual Installments of \$37,267 Through January 1, 2010, Plus Interest at 68% of Prime (Prime Rate of 4.75% At Year End) Payable Semiannually, Revenue Source – Property Tax Levy, Payable from Downtown Redevelopment Fund, a Special Revenue Fund	\$ 223,600
Note Payable, Palatka Gas Authority, Payable in Annual Installments of 1/4 of Palatka Gas Authority's Annual Profit Due to City of Palatka, Payable from General Fund	92,597
\$500,000 Road Improvement Revenue Bond, Due in Monthly Installments Including Interest at 5.5%, Through April 2010, Payable from General Fund and Secured by a Covenant to Budget and Appropriate from Legally Available Non-Advalorem Revenues	314,035
\$59,000 Note Payable, Due in Monthly Installments Including Interest at 4.5%, Matures April 15, 2006, for a Historic Building, Payable from Downtown Redevelopment Fund, a Special Revenue Fund	19,844
\$38,000 Note Payable, Computer Equipment, Due in Monthly Installments of \$685 Including Interest at 3.1%, Through November 2007, Payable from General Fund	<u>24,765</u>
Total	<u>\$ 674,841</u>

Business-type Activities

Water and Sewer System Improvement and Refunding Revenue Bonds, Series 1998, Payable in Varying Installments Through October 1, 2021, Bearing Interest From 4.1% to 5.00%, Secured by a Pledge of the Net Revenues of the Water and Sewer System and Public Service Tax Revenues	\$ 6,750,000
A Water Reuse System Construction Loan; Interest rate of 1.34%. Available remaining balance is \$133,444. Repayment begins in September 2005 in 30 Biannual Payments	583,356
Golf Course Revenue Bond, Payable In Monthly Installments of \$5,426 Including Interest at 5.5%, Due April 14, 2010, Revenue Source – Net Revenues of the Golf Course	314,035
Airport Hangar Phase 4 Note, Payable In Monthly Installments of \$1,198 Plus Interest at 5.15% Through September 10, 2009, Revenue Source – Net Revenues of the Airport Operations	74,901
Less Unamortized Discounts and Costs	<u>(183,327)</u>
Total	<u>\$ 7,538,965</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 5 – LONG-TERM OBLIGATIONS (continued)

Aggregate maturities of revenue bonds and notes payable are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	136,752	31,200	260,778	331,641
2006	135,329	25,112	286,618	324,130
2007	131,494	19,268	372,992	308,083
2008	96,607	13,437	392,419	291,025
2009	98,492	8,072	410,086	273,200
2010-2014	76,167	2,778	1,953,926	1,105,664
2015-2019	--	--	2,291,805	618,798
2020-2022	--	--	1,570,341	81,249
Totals	<u>\$674,841</u>	<u>\$ 99,867</u>	<u>\$7,538,965</u>	<u>\$3,333,790</u>

Following is a summary of changes in long-term obligations:

Governmental Activities

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance September 30, 2004</u>	<u>Due Within One Year</u>
Revenue Bonds and Notes Payable	\$ 812,192	\$ --	\$137,351	\$ 674,841	\$136,752
Capital Lease Obligations	39,376	--	22,516	16,860	16,860
Compensated Absences	369,100	156,000	136,800	388,300	77,700
Total	<u>\$1,220,668</u>	<u>\$ 156,000</u>	<u>\$296,667</u>	<u>\$1,080,001</u>	<u>\$231,312</u>

Business-type Activities

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance September 30, 2004</u>	<u>Due Within One Year</u>
Water and Sewer Refunding Revenue Bonds Series 1998	\$6,935,000	\$ --	\$185,000	\$6,750,000	\$200,000
Less: Unamortized Issuance Costs	(201,439)	--	(18,112)	(183,327)	(17,630)
Water Reuse Construction	--	583,356	--	583,356	14,874
Golf Course Revenue Bond	360,226	--	46,191	314,035	49,159
Airport Hangar Phase 4 Note	86,282	--	11,381	74,901	14,375
Total Revenue Bonds and Notes	7,180,069	583,356	224,460	7,538,965	260,778
Capital Leases	51,944	153,826	10,607	195,163	35,119
County Water/Sewer Agreement	149,680	--	--	149,680	13,007
SJRWMD Water/Sewer Agreement	11,293	--	--	11,293	--
Compensated Absences	158,664	77,279	70,559	165,384	45,271
Total	<u>\$7,551,650</u>	<u>\$ 814,461</u>	<u>\$305,626</u>	<u>\$8,060,485</u>	<u>\$354,175</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 5 – LONG-TERM OBLIGATIONS (concluded)

Capital lease obligations of the governmental activities consist of a \$2,186, 6.55% lease for a police car, due in monthly installments of \$737, maturing December 25, 2004, and a \$14,673, 4.75% lease for a backhoe, due in annual installments of \$15,465, maturing May 2005. The aforementioned leases are payable from the General Fund. The City has a \$41,337, 2.6% capital lease for golf course maintenance equipment due in monthly payments of \$986, maturing June 2008, and a \$153,826, 5.5% capital lease for golf carts due in monthly payments of \$2,674 payable from the Golf Course Fund and reported in the business type activities.

Future lease payments, together with the present value of the minimum lease payments, are summarized in the following tabulation:

<u>Year Ending</u> <u>September 30</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
2005	17,698	43,921
2006	--	43,921
2007	--	43,921
2008	--	39,976
2009	--	48,600
Total Minimum Lease Payments	<u>17,698</u>	<u>220,339</u>
Less: Amount Representing Interest	838	25,176
Present Value of Net Minimum Lease Payments	<u>\$16,860</u>	<u>\$195,163</u>

The City has long-term water/sewer agreements with the St. Johns River Water Management District and Putnam County, which are liquidated when permit costs are incurred or new business hook-ups are made in the Highway 19 corridor.

NOTE 6 – RESTRICTED NET ASSETS

The following schedule displays restricted assets, liabilities payable from those assets, and restricted net assets.

	<u>Business-</u> <u>type</u> <u>Activities</u>
Restricted Assets:	
Cash and Equivalents	\$ 589,658
Investments	<u>574,335</u>
Total	<u>1,163,993</u>
Liabilities Payable from Restricted Assets:	
Current Portion of Debt Service:	
Principal	200,000
Interest	<u>157,958</u>
Total	<u>357,958</u>
Restricted Net Assets	<u>\$ 806,035</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 7 – EMPLOYEE BENEFITS

Pension Plan

Plan Description. The City sponsors a single-employer public employee retirement system (the System) administered by the City of Palatka, Pension Boards of Trustees. The System administers the City Employees Retirement Plan (the Plan) which provides three employee contributory defined benefit pension plans. Members of the Plan include employees of the City and the Palatka Gas Authority. Nonemployer contributions are made by the State of Florida on behalf of Police Officers and Firefighters who participate in the System. For the year ended September 30, 2004 the City recognized \$72,672 and \$57,048 in the General Fund for State contributions to the Police Officers' and Firefighters' Retirement Funds, respectively. The City accounts for the Plan in three Pension Trust Funds, corresponding to three benefit groups as follows:

General – all members not included in Police Officers and Firefighters

Police Officers – all state-certified police officers

Firefighters – all state-certified firefighters

The Plan provides for vesting of benefits after 7 years of creditable service. All members are eligible for normal retirement after 7 years of service and attaining age 50 or after 30 years of service regardless of age. Additionally, police and fire employees are also eligible after age 55 and attaining 10 years of service, or after age 52 and attaining 25 years of service. The Plan also provides for disability, retirement and death benefits with eligibility and benefit provisions as described in the authorizing ordinance. For general, police officer and firefighter members, annual benefits for the plan year beginning October 1, 2003, are equal to total years of service times 2.5%, 2.35% and 3.2%, respectively, of final average compensation (highest 3 consecutive years of the last five). No other changes in benefit provisions have been made for the plan year beginning October 1, 2003. The minimum benefit for duty disability is 45% of final average compensation for general and police officer members, and 65% for firefighter members. The minimum benefit for non-duty disability for all members is 25% of final average compensation.

The Boards of Trustees establish and may amend provisions of the plan related to participant eligibility, contribution requirements, vesting, and benefit provisions. However, these plan provisions are subject to minimum requirements established in Chapters 112, 175, and 185, Florida Statutes. The Plan does not issue a stand-alone financial report.

Current membership in the Plan as of September 30, 2004 is as follows:

	<u>General</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Active Employees	112	33	17	162
Service Retirees and Beneficiaries	47	16	4	67
Disability Retirees	--	2	--	2
Terminated Vested	2	4	1	7
DROP	4	--	2	6
Total	<u>165</u>	<u>55</u>	<u>24</u>	<u>244</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 7 – EMPLOYEE BENEFITS (continued)

Funding Policy and Annual Pension Cost. The City's annual pension cost for the current year and related information for each plan is as follows:

	<u>General</u>	<u>Police Officers</u>	<u>Firefighters</u>
Contribution Rates:			
City	10.6%	12.1%	0.0%
Plan Members	6.0%	6.0%	5.5%
Annual Pension Cost	\$365,266	\$135,908	\$--
Contributions Made	\$365,266	\$135,908	\$--
Actuarial Valuation Date	10/1/03	10/1/03	10/1/03
Actuarial Cost Method	Frozen Entry Age	Frozen Entry Age	Aggregate
Amortization Method	Level % of Payroll-Closed	Level % of Payroll-Closed	N/A
Remaining Amortization Period	29 Years	N/A	N/A
Asset Valuation Method	4 Year Smooth	4 Year Smooth	4 Year Smooth
Actuarial Assumptions:			
Investment Rate of Return	8.0%	8.0%	8.0%
Projected Salary Increases*	6.0%	6.0%	6.0%
* Includes Inflation at	3.0%	3.0%	3.0%

THREE YEAR TREND INFORMATION

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
General	9-30-04	365,266	100%	--
	9-30-03	266,454	100%	--
	9-30-02	231,255	100%	--
Police Officers	9-30-04	135,908	100%	--
	9-30-03	127,497	100%	--
	9-30-02	94,848	100%	--
Firefighters	9-30-04	--	100%	--
	9-30-03	--	100%	--
	9-30-02	--	100%	--

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 7 – EMPLOYEE BENEFITS (continued)

Combining Statement of Fiduciary Net Assets

	General Retirement Fund	Police Officers' Retirement Fund	Firefighters' Retirement Fund	Total
<u>ASSETS</u>				
Investments	\$12,288,914	\$6,358,269	\$5,683,098	\$24,330,281
Receivables	<u>55,276</u>	<u>31,902</u>	<u>9,019</u>	<u>96,197</u>
TOTAL ASSETS	12,344,190	6,390,171	5,692,117	24,426,478
<u>LIABILITIES</u>				
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>NET ASSETS</u>				
Held in Trust for Pension Benefits	<u>\$12,344,190</u>	<u>\$6,390,171</u>	<u>\$5,692,117</u>	<u>\$24,426,478</u>

Combining Statement of Changes in Fiduciary Net Assets

	General Retirement Fund	Police Officers' Retirement Fund	Firefighters' Retirement Fund	Total
<u>ADDITIONS</u>				
CONTRIBUTIONS:				
Employer	\$ 365,266	\$ 135,908	\$ --	\$ 501,174
Member	211,559	79,142	45,221	335,922
State on Behalf, through General Fund	--	72,672	57,048	129,720
Other	<u>--</u>	<u>32,927</u>	<u>--</u>	<u>32,927</u>
TOTAL CONTRIBUTIONS	<u>576,825</u>	<u>320,649</u>	<u>102,269</u>	<u>999,743</u>
INVESTMENT INCOME:				
Net Appreciation in Fair Value of Investments	591,649	184,432	270,394	1,046,475
Interest	272,202	149,661	102,272	524,135
Dividends	<u>67,287</u>	<u>49,879</u>	<u>52,224</u>	<u>169,390</u>
	931,138	383,972	424,890	1,740,000
Less Investment Management Fee	<u>62,858</u>	<u>28,507</u>	<u>19,987</u>	<u>111,352</u>
NET INVESTMENT INCOME	<u>868,280</u>	<u>355,465</u>	<u>404,903</u>	<u>1,628,648</u>
TOTAL ADDITIONS	<u>1,445,105</u>	<u>676,114</u>	<u>507,172</u>	<u>2,628,391</u>
<u>DEDUCTIONS</u>				
Member Benefits	435,734	435,712	118,294	989,740
Withdrawals	55,297	47,688	11,277	114,262
Administrative Expense	<u>39,014</u>	<u>35,284</u>	<u>38,651</u>	<u>112,949</u>
TOTAL DEDUCTIONS	<u>530,045</u>	<u>518,684</u>	<u>168,222</u>	<u>1,216,951</u>
CHANGE IN NET ASSETS	915,060	157,430	338,950	1,411,440
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year				
	<u>11,429,130</u>	<u>6,232,741</u>	<u>5,353,167</u>	<u>23,015,038</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year				
	<u>\$12,344,190</u>	<u>\$6,390,171</u>	<u>\$5,692,117</u>	<u>\$24,426,478</u>

City of Palatka, Florida
Notes to Financial Statements
September 30, 2004

NOTE 7 – EMPLOYEE BENEFITS (concluded)

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The City has complied with the requirements of subsection (g) of IRC Section 457 and, accordingly, all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to general liability, workers' compensation, public liability, law enforcement liability, health benefits, property damage, and errors and omissions. To manage its risks, the City participates in the Florida League of Cities Self Insurance Fund (the Fund) a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to the Fund for its coverage. The premiums are designed to fund the liability risks assumed by the Fund and are based on certain actual exposures of each member. The City's settled claims have not exceeded coverage in any of the past three fiscal years.

NOTE 9 – COMMITMENTS

The City leases some of its police vehicles under operating leases. Lease payments for the year ended September 30, 2004 were \$46,775. Future lease payments are as follows:

2005	\$43,400
2006	<u>43,400</u>
Totals	<u>\$86,800</u>

At September 30, 2004, the City had a remaining commitment for approximately \$278,000 for reclaimed water program improvements. The City also had a contract for approximately \$190,000 as of September 30, 2004 for master storm water design and environmental permitting.

NOTE 10 – CONTINGENCIES

The City is a party to lawsuits and claims arising out of the normal conduct of its activities. While the results of lawsuits or other proceedings against the City can not be predicted with certainty, management does not expect that these matters will have a material adverse effect on the financial condition of the City.

REQUIRED SUPPLEMENTARY INFORMATION

City of Palatka, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
For the Year Ended September 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final</u> <u>Budget</u>
<u>REVENUES</u>				
Taxes	\$ 5,185,497	\$5,332,191	\$5,096,626	\$ (235,565)
Licenses and Permits	159,000	159,000	303,236	144,236
Intergovernmental	987,766	1,357,909	1,527,648	169,739
Charges for Services	78,790	76,750	118,285	41,535
Fines and Forfeitures	81,500	81,500	127,217	45,717
Miscellaneous	117,850	177,849	69,207	(108,642)
TOTAL REVENUES	<u>6,610,403</u>	<u>7,185,199</u>	<u>7,242,219</u>	<u>57,020</u>
<u>EXPENDITURES</u>				
Current:				
General Government	781,123	776,848	726,240	50,608
Public Safety	4,285,622	4,375,151	4,539,971	(164,820)
Transportation	1,012,299	1,024,916	614,119	410,797
Human Services	190,378	196,628	179,312	17,316
Culture and Recreation	362,753	861,110	915,684	(54,574)
Reserve for Contingencies	36,260	8,578	--	8,578
Debt Service:				
Principal Retirement	46,534	46,534	110,769	(64,235)
Interest and Fiscal Charges	18,582	18,582	22,714	(4,132)
TOTAL EXPENDITURES	<u>6,733,551</u>	<u>7,308,347</u>	<u>7,108,809</u>	<u>199,538</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	<u>(123,148)</u>	<u>(123,148)</u>	<u>133,410</u>	<u>256,558</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	249,148	249,148	284,974	35,826
Transfers Out	(126,000)	(126,000)	(63,500)	62,500
TOTAL OTHER FINANCING SOURCES				
(USES)	<u>123,148</u>	<u>123,148</u>	<u>221,474</u>	<u>98,326</u>
NET CHANGE IN FUND BALANCES	--	--	354,884	354,884
FUND BALANCES – BEGINNING OF YEAR	--	--	<u>1,446,537</u>	<u>1,446,537</u>
FUND BALANCES – END OF YEAR	<u>\$ --</u>	<u>\$ --</u>	<u>\$1,801,421</u>	<u>\$1,801,421</u>

**City of Palatka, Florida
Schedules of Funding Progress**

General Plan

Actuarial Valuation Date	Actuarial Value Of Assets (000's)	Actuarial Accrued Liability (AAL) Entry Age (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio	Covered Payroll (000's)	UAAL As A Percent Of Covered Payroll
9/30/04	\$12,505	\$13,162	\$657	95%	\$3,116	21%
9/30/03	12,060	12,701	641	95%	3,263	20%
9/30/02	11,711	12,355	644	95%	3,244	20%
9/30/01	11,452	12,076	624	95%	3,073	20%
9/30/00	10,999	10,999	--	100%	2,945	--%
9/30/99	10,128	9,132	(996)	111%	2,654	(38%)

Police Officers' Plan

Actuarial Valuation Date	Actuarial Value Of Assets (000's)	Actuarial Accrued Liability (AAL) Entry Age (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio	Covered Payroll (000's)	UAAL As A Percent Of Covered Payroll
9/30/04	\$6,594	\$6,692	\$ 97	99%	\$1,294	8%
9/30/03	6,568	6,667	99	99%	1,150	9%
9/30/02	6,493	6,607	114	98%	1,073	11%
9/30/01	6,509	6,500	--	100%	1,106	--%
9/30/00	6,316	6,316	--	100%	1,085	--%
9/30/99	5,862	5,182	(680)	113%	982	(69%)

Firefighters' Plan

Actuarial Valuation Date	Actuarial Value Of Assets (000's)	Actuarial Accrued Liability (AAL) Entry Age (000's)	Unfunded AAL (UAAL) (000's)	Funded Ratio	Covered Payroll (000's)	UAAL As A Percent Of Covered Payroll
9/30/04	\$5,534	\$5,930	\$ 396	93%	\$818	48%
9/30/03	5,533	5,533	--	100%	630	--%
9/30/02	5,481	5,481	--	100%	677	--%
9/30/01	5,449	5,449	--	100%	560	--%
9/30/00	5,146	5,146	--	100%	663	--%
9/30/99	4,637	3,312	(1,324)	140%	644	(206%)

City of Palatka, Florida
Schedules of Contributions From Employer and Other Contributing Entities

General Plan

<u>Year Ended</u>	<u>Employer Contributions</u>		
	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/04	\$365,266	\$365,266	100.00%
9/30/03	266,454	266,454	100.00%
9/30/02	231,255	231,255	100.00%
9/30/01	142,444	142,444	100.00%
9/30/00	148,191	148,191	100.00%
9/30/99	148,143	148,143	100.00%

Police Officers' Plan

<u>Year Ended</u>	<u>Employer Contributions</u>			<u>State Contributions</u>		
	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Actual State Contribution</u>	<u>Percentage Contributed</u>
9/30/04	\$135,908	\$135,908	100.00%	\$72,672	\$72,672	100.00%
9/30/03	127,497	127,497	100.00%	71,146	71,146	100.00%
9/30/02	94,848	94,848	100.00%	63,573	63,573	100.00%
9/30/01	73,142	73,142	100.00%	56,869	56,869	100.00%
9/30/00	54,027	54,027	100.00%	58,845	58,845	100.00%
9/30/99	53,069	53,069	100.00%	60,190	60,190	100.00%

Firefighters' Plan

<u>Year Ended</u>	<u>Employer Contributions</u>			<u>State Contributions</u>		
	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Actual State Contribution</u>	<u>Percentage Contributed</u>
9/30/04	\$--	\$--	100.00%	\$57,048	\$57,048	100.00%
9/30/03	--	--	100.00%	48,811	48,811	100.00%
9/30/02	--	--	100.00%	51,314	51,314	100.00%
9/30/01	--	--	100.00%	46,756	46,756	100.00%
9/30/00	--	--	100.00%	45,528	45,528	100.00%
9/30/99	--	--	100.00%	45,506	45,506	100.00%

**CITY OF PALATKA, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Notes to Budgetary Comparison Schedule

The budget is prepared and adopted on the modified accrual basis of accounting.

On or before the first day in August of each year, the City Manager submits to the City Commission a budget for the ensuing fiscal year, along with an accompanying budget message. The general summary of the budget and notice of public hearing is published in the local newspaper. Prior to the last day of September, the budget is legally enacted. All appropriations lapse at the end of the fiscal year.

Florida Statutes provide that it is unlawful to make expenditures that exceed the total amount budgeted for each fund. The City Manager can approve budget transfers within and between operating departments and divisions of the same fund. All interfund transfers require prior approval of the City Commission. Therefore, the fund level is the legal level of control for budget considerations.

Notes to Schedules of Funding Progress and Contributions from Employer and Other Contributing Entities

	<u>General Plan</u>	<u>Police Officers' Plan</u>	<u>Firefighters' Plan</u>
Valuation date	9/30/04	9/30/04	9/30/04
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Aggregate
Amortization method	Level Percentage of Pay- Closed	Level Percentage of Pay- Closed	N/A
Remaining Amortization Period	28 Years	29 Years	N/A
Asset Valuation Method	4 Year Smooth	4 Year Smooth	4 Year Smooth
Actuarial Assumptions:			
Investment Rate of Return	8.0%	8.0%	8.0%
Projected Salary Increases	6.0%	6.0%	6.0%
Includes Inflation At	3.0%	3.0%	3.0%

SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for resources that are restricted to expenditures for specific purposes.

Downtown Redevelopment Fund – To account for the assets and operations of the City's Downtown Redevelopment Agency.

Community Development Block Grant (CDBG) Fund – To account for the activity of CDBG grants the City receives. The CDBG grants support a business that provides employment opportunities, pay for costs to revitalize the City's utility system, and provide mortgages to low income families.

**City of Palatka, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2004**

	Downtown Redevelopment Fund	Community Development Block Grant Fund	Total
<u>ASSETS</u>			
Cash and Equivalents	\$166,486	\$ 21,190	\$187,676
Investments	168,984	52,245	221,229
Due from Other Governments	--	393,197	393,197
Mortgages Receivable	--	71,690	71,690
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$335,470</u>	<u>\$538,322</u>	<u>\$873,792</u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 178	\$ --	\$ 178
Due to Other Funds	--	393,197	393,197
Deferred Revenue	--	71,690	71,690
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	178	464,887	465,065
 <u>FUND BALANCES</u>			
Unreserved	<u>335,292</u>	<u>73,435</u>	<u>408,727</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$335,470</u>	<u>\$538,322</u>	<u>\$873,792</u>

City of Palatka, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2004

	Downtown Redevelopment <u>Fund</u>	Community Development Block Grant <u>Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Taxes	\$253,751	\$ --	\$253,751
Intergovernmental	--	718,833	718,833
Miscellaneous	<u>3,439</u>	<u>8,520</u>	<u>11,959</u>
TOTAL REVENUES	<u>257,190</u>	<u>727,353</u>	<u>984,543</u>
<u>EXPENDITURES</u>			
Physical Environment	--	716,608	716,608
Economic Environment	59,431	7,548	66,979
Debt Service:			
Principal	49,098	--	49,098
Interest	<u>7,911</u>	<u>--</u>	<u>7,911</u>
TOTAL EXPENDITURES	<u>116,440</u>	<u>724,156</u>	<u>840,596</u>
EXCESS OF REVENUES OVER EXPENDITURES	140,750	3,197	143,947
<u>OTHER FINANCING USES</u>			
Transfers Out	<u>(74,148)</u>	<u>--</u>	<u>(74,148)</u>
NET CHANGE IN FUND BALANCES	66,602	3,197	69,799
FUND BALANCES, Beginning of Year	<u>268,690</u>	<u>70,238</u>	<u>338,928</u>
FUND BALANCES, End of Year	<u>\$335,292</u>	<u>\$73,435</u>	<u>\$408,727</u>

City of Palatka, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – Downtown Redevelopment Fund
For the Year Ended September 30, 2004

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>			
Taxes	\$ 253,751	\$253,751	\$ --
Miscellaneous	<u> --</u>	<u> 3,439</u>	<u> 3,439</u>
TOTAL REVENUES	<u> 253,751</u>	<u> 257,190</u>	<u> 3,439</u>
<u>EXPENDITURES</u>			
Economic Environment	383,512	59,431	324,081
Debt Service:			
Principal	49,090	49,098	(8)
Interest	<u> 16,264</u>	<u> 7,911</u>	<u> 8,353</u>
TOTAL EXPENDITURES	<u> 448,866</u>	<u> 116,440</u>	<u> 332,426</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(195,115)	140,750	335,865
<u>OTHER FINANCING USES</u>			
Transfers Out	<u> (74,148)</u>	<u> (74,148)</u>	<u> --</u>
NET CHANGE IN FUND BALANCES	(269,263)	66,602	335,865
FUND BALANCES, Beginning of Year	<u> 269,263</u>	<u> 268,690</u>	<u> (573)</u>
FUND BALANCES, End of Year	<u> \$ --</u>	<u> \$335,292</u>	<u> \$335,292</u>

City of Palatka, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – Community Development Block Grant Fund
For the Year Ended September 30, 2004

	Final <u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>			
Intergovernmental	\$ --	\$718,833	\$718,833
Miscellaneous	--	8,520	8,520
	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	--	727,353	727,353
<u>EXPENDITURES</u>			
Physical Environment	--	716,608	(716,608)
Economic Environment	--	7,548	(7,548)
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	--	724,156	(724,156)
EXCESS OF REVENUES OVER EXPENDITURES	--	3,197	3,197
FUND BALANCES, Beginning of Year	--	70,238	70,238
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES, End of Year	\$ --	\$ 73,435	\$ 73,435
	<u> </u>	<u> </u>	<u> </u>

FIDUCIARY FUNDS

PENSION TRUST FUNDS

Pension Trust Funds are used to account for public employee retirement systems.

General Retirement Fund –To account for the accumulation of resources to be used for pension payments to retired City employees.

Police Officers' Retirement Fund – To account for the accumulation of resources to be used for pension payments to participants of the City's Police Officers' Retirement Plan.

Firefighters' Retirement Fund – To account for the accumulation of resources to be used for pension payments to participants of the City's Firefighters' Retirement Plan.

City of Palatka, Florida
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
September 30, 2004

	General Retirement <u>Fund</u>	Police Officers' Retirement <u>Fund</u>	Firefighters' Retirement <u>Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Investments:				
Government Bonds and Notes	\$4,324,534	\$279,327	\$253,851	\$ 4,857,712
Mutual Funds	417,713	2,048,042	2,207,317	4,673,072
Common Stock/Equities	7,546,666	1,886,160	1,664,045	11,096,871
Debt Securities	--	2,144,741	1,557,885	3,702,626
Receivables	<u>55,276</u>	<u>31,902</u>	<u>9,019</u>	<u>96,197</u>
TOTAL ASSETS	12,344,190	6,390,171	5,692,117	24,426,478
LIABILITIES	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
<u>NET ASSETS</u>				
Held in Trust for Pension Benefits	<u>\$12,344,190</u>	<u>\$6,390,171</u>	<u>\$5,692,117</u>	<u>\$24,426,478</u>

City of Palatka, Florida
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended September 30, 2004

	<u>General Retirement Fund</u>	<u>Police Officers' Retirement Fund</u>	<u>Firefighters' Retirement Fund</u>	<u>Total</u>
<u>ADDITIONS</u>				
CONTRIBUTIONS:				
Employer	\$ 365,266	\$ 135,908	\$ --	\$ 501,174
Member	211,559	79,142	45,221	335,922
State on Behalf, through General Fund	--	72,672	57,048	129,720
Other	--	32,927	--	32,927
	<u>576,825</u>	<u>320,649</u>	<u>102,269</u>	<u>999,743</u>
TOTAL CONTRIBUTIONS				
INVESTMENT INCOME:				
Net Appreciation in Fair Value of Investments	591,649	184,432	270,394	1,046,475
Interest	272,202	149,661	102,272	524,135
Dividends	67,287	49,879	52,224	169,390
	<u>931,138</u>	<u>383,972</u>	<u>424,890</u>	<u>1,740,000</u>
Less Investment Management Fee	62,858	28,507	19,987	111,352
	<u>868,280</u>	<u>355,465</u>	<u>404,903</u>	<u>1,628,648</u>
NET INVESTMENT INCOME				
	<u>868,280</u>	<u>355,465</u>	<u>404,903</u>	<u>1,628,648</u>
TOTAL ADDITIONS	<u>1,445,105</u>	<u>676,114</u>	<u>507,172</u>	<u>2,628,391</u>
<u>DEDUCTIONS</u>				
Member Benefits	435,734	435,712	118,294	989,740
Withdrawals	55,297	47,688	11,277	114,262
Administrative Expense	39,014	35,284	38,651	112,949
	<u>530,045</u>	<u>518,684</u>	<u>168,222</u>	<u>1,216,951</u>
TOTAL DEDUCTIONS				
	<u>530,045</u>	<u>518,684</u>	<u>168,222</u>	<u>1,216,951</u>
CHANGE IN NET ASSETS	915,060	157,430	338,950	1,411,440
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year				
	<u>11,429,130</u>	<u>6,232,741</u>	<u>5,353,167</u>	<u>23,015,038</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year				
	<u>\$12,344,190</u>	<u>\$6,390,171</u>	<u>\$5,692,117</u>	<u>\$24,426,478</u>

STATISTICAL SECTION
(unaudited)

TABLE 1**City of Palatka, Florida****General Governmental Expenditures by Function (1)
Last Ten Fiscal Years
September 30, 2004**

Fiscal Year	General Government	Public Safety	Physical Environment	Transportation	Economic Environment	Human Services	Culture/Recreation	Debt Service	Total
1994-95	\$518,103	\$3,276,070	n/a	\$548,480	\$361,280	(2)	\$398,111	\$251,412	\$5,353,456
1995-96	\$666,155	\$3,093,822	n/a	\$426,421	\$791,771	(2)	\$378,180	\$265,912	\$5,622,261
1996-97	\$722,052	\$3,353,933	n/a	\$463,520	\$436,494	(2)	\$298,017	\$296,422	\$5,570,438
1997-98	\$750,806	\$3,293,378	n/a	\$471,728	\$454,605	\$ 99,982	\$263,800	\$380,310	\$5,714,609
1998-99	\$587,218	\$3,079,948	n/a	\$769,969	\$150,297	\$114,308	\$303,730	\$359,101	\$5,364,571
1999-00	\$645,280	\$3,489,533	n/a	\$636,132	\$673,918	\$224,719	\$493,637	\$375,623	\$6,538,842
2000-01	\$700,524	\$3,479,318	n/a	\$883,130	\$163,566	\$130,696	\$660,149	\$407,762	\$6,425,145
2001-02	\$618,590	\$3,721,507	n/a	\$508,185	\$35,012	\$142,652	\$499,504	\$288,219	\$5,813,669
2002-03	\$726,687	\$4,073,172	n/a	\$638,457	\$50,538	\$147,126	\$673,638	\$235,398	\$6,545,016
2003-04	\$726,240	\$4,539,971	\$716,608	\$614,119	\$66,979	\$179,312	\$915,684	\$190,492	\$7,949,405

(1) INCLUDES ALL GOVERNMENTAL FUNDS.

(2) HUMAN SERVICES WAS INCLUDED IN CULTURE AND RECREATION.

TABLE 2**City of Palatka, Florida****General Governmental Revenues by Source (1)
Last Ten Fiscal Years
September 30, 2004**

Fiscal Year	Taxes	Licenses & Permits	Intergovernmental	Charges For Services	Fines & Forfeitures	Interest On Investments	Other Miscellaneous	Total
1994-95	\$3,249,726	\$121,257	\$1,069,721	\$113,404	\$ 89,298	\$ 51,044	\$172,323	\$4,866,773
1995-96	\$3,292,812	\$131,027	\$1,297,336	\$115,512	\$ 97,346	\$ 71,267	\$176,305	\$5,181,605
1996-97	\$3,358,552	\$134,790	\$1,222,876	\$118,328	\$105,569	\$ 76,578	\$169,220	\$5,185,913
1997-98	\$3,446,955	\$127,608	\$1,502,144	\$ 67,998	\$ 95,725	\$ 80,247	\$209,951	\$5,530,628
1998-99	\$3,494,848	\$143,424	\$1,453,756	\$ 79,608	\$119,719	\$100,341	\$124,928	\$5,516,624
1999-00	\$3,568,182	\$163,876	\$1,846,646	\$140,605	\$109,075	\$140,408	\$166,320	\$6,135,112
2000-01	\$3,846,536	\$172,552	\$1,447,852	\$118,495	\$ 91,395	\$109,038	\$228,796	\$6,014,664
2001-02	\$3,909,720	\$273,989	\$1,189,233	\$153,156	\$ 85,065	\$ 43,454	\$ 93,971	\$5,748,588
2002-03	\$4,694,428	\$199,014	\$1,434,787	\$144,096	\$ 86,905	\$ 23,367	\$ 42,009	\$6,624,606
2003-04	\$5,350,377	\$303,236	\$2,246,481	\$118,285	\$127,217	\$ 30,041	\$ 51,125	\$8,226,762

(1) INCLUDES ALL GOVERNMENTAL FUNDS.

TABLE 3

City of Palatka, Florida

**Property Tax Levies and Collections
Last Ten Fiscal Years
September 30, 2004**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent Of Levy Collected	Delinquent Tax Collections	Total Tax Collections	% Of Total Collections To Levy
1994-95	\$1,507,202	\$1,484,656	0.9850	\$ 1,951	\$1,486,607	0.9863
1995-96	\$1,522,265	\$1,471,588	0.9667	\$ 2,275	\$1,473,863	0.9682
1996-97	\$1,553,399	\$1,510,240	0.9722	\$ 1,039	\$1,511,279	0.9729
1997-98	\$1,578,816	\$1,523,396	0.9649	\$ 6,962	\$1,530,268	0.9693
1998-99	\$1,611,300	\$1,562,616	0.9698	\$ 2,408	\$1,565,024	0.9713
1999-00	\$1,655,242	\$1,589,976	0.9606	\$ 4,761	\$1,594,737	0.9634
2000-01	\$1,678,289	\$1,608,225	0.9583	\$17,947	\$1,626,172	0.9689
2001-02	\$1,880,256	\$1,754,044	0.9329	\$ 5,427	\$1,759,471	0.9358
2002-03	\$2,144,390	\$1,990,690	0.9283	\$10,232	\$2,000,922	0.9331
2003-04	\$2,436,535	\$2,290,702	0.9401	\$14,777	\$2,305,479	0.9462

SOURCE: PUTNAM COUNTY TAX COLLECTOR

TABLE 4**City of Palatka, Florida****Taxable and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
September 30, 2004**

Fiscal Year	Real Property		Personal Property (1)		Total		Ratio Of Total Taxable Value To Estimated Actual Value
	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	
1994-95	\$146,537,834	\$320,357,195	\$43,908,972	\$64,905,460	\$190,446,806	\$385,262,655	49.43%
1995-96	\$149,438,018	\$327,355,520	\$46,125,400	\$68,287,849	\$195,563,418	\$395,643,369	49.43%
1996-97	\$155,108,055	\$334,114,955	\$48,456,176	\$74,485,916	\$203,564,231	\$408,600,871	49.82%
1997-98	\$158,744,108	\$338,068,831	\$50,232,215	\$77,924,638	\$208,976,323	\$415,993,469	50.24%
1998-99	\$170,172,776	\$355,403,866	\$52,338,021	\$83,199,973	\$223,388,373	\$439,481,415	50.83%
1999-00	\$178,778,331	\$373,256,035	\$55,367,259	\$81,801,666	\$234,145,590	\$455,057,701	51.45%
2000-01	\$183,889,211	\$386,706,053	\$59,094,480	\$88,746,448	\$242,983,691	\$475,452,501	51.11%
2001-02	\$197,230,902	\$407,954,372	\$60,338,363	\$91,163,410	\$257,569,265	\$499,117,782	51.60%
2002-03	\$218,334,521	\$452,698,286	\$56,587,231	\$86,030,561	\$274,921,752	\$538,728,847	51.03%
2003-04	\$245,544,610	\$493,678,930	\$59,022,315	\$88,864,358	\$304,566,925	\$582,543,288	52.28%

(1) CENTRALLY ASSESSED VALUES ARE INCLUDED UNDER PERSONAL PROPERTY.

SOURCE: PUTNAM COUNTY PROPERTY APPRAISER

TABLE 5

City of Palatka, Florida

**Property Tax Rates - All Direct and Overlapping Governments
Last Ten Fiscal Years
September 30, 2004
(Per \$1,000.00 Of Taxable Value)**

Fiscal Year	City Of Palatka	Putnam County(1)	District School Board		St. Johns River Water Management District	Total
			Operating	Bond Debt/ Cap Outlay		
1994-95	7.903	8.674	7.271	1.000	0.482	25.330
1995-96	7.784	8.900	7.239	2.000	0.482	26.405
1996-97	7.631	8.900	7.223	2.970	0.482	27.206
1997-98	7.555	8.900	7.099	2.995	0.482	27.031
1998-99	7.213	8.900	7.128	2.970	0.482	26.693
1999-00	7.042	8.800	7.131	2.760	0.482	26.215
2000-01	6.907	8.800	6.827	2.911	0.472	25.917
2001-02	7.300	8.800	6.684	2.870	0.462	26.116
2002-03	7.800	8.800	6.466	2.800	0.462	26.328
2003-04	8.000	9.200	5.720	2.800	0.462	26.182

(1) FIRE TAXING DISTRICT APPLIED COUNTY WIDE EXCEPT THE CITY OF PALATKA.

SOURCE: PUTNAM COUNTY PROPERTY APPRAISER

TABLE 6

City of Palatka, Florida

**Computation of Legal Debt Margin
September 30, 2004**

The Constitution of the State of Florida, Florida Statute 200.181, and the Charter of the City of Palatka, set no legal debt margin.

TABLE 7

City of Palatka, Florida

**Computation of Direct and Overlapping
General Obligation Bonds
September 30, 2004**

<u>Name Of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable To City Of Palatka</u>	<u>Amount Applicable To City Of Palatka</u>
DIRECT:			
CITY OF PALATKA	NONE		
OVERLAPPING:			
SCHOOL BOARD DISTRICT Refunding Issue 1991	<u>\$ 7,636,036</u>	<u>10.54%</u>	<u>\$804,838</u>

SOURCE: Putnam County District School Board, Putnam County Property Appraiser

TABLE 8**City of Palatka, Florida****Revenue Bond Coverage
Proprietary Funds (3)
Last Ten Fiscal Years
September 30, 2004**

Fiscal Year	Gross Revenue(1)	Direct Operating Expenses(2)	Net Available For Debt Service	Debt Service Requirements		Total	Coverage
				Principal	Interest		
1994-95	\$4,659,149	\$3,695,176	\$963,973	\$305,716	\$402,951	\$708,667	1.36
1995-96	\$4,714,616	\$3,877,426	\$837,190	\$283,100	\$345,796	\$628,896	1.33
1996-97	\$5,202,020	\$3,998,410	\$1,203,610	\$354,688	\$316,242	\$670,930	1.79
1997-98	\$5,297,077	\$4,145,781	\$1,151,296	\$316,745	\$337,211	\$653,956	1.76
1998-99	\$5,245,903	\$3,994,429	\$1,251,474	\$222,084	\$386,221	\$608,305	2.06
1999-00	\$5,416,406	\$3,996,008	\$1,420,398	\$285,960	\$375,718	\$661,678	2.15
2000-01	\$6,198,417	\$4,275,694	\$1,922,723	\$200,490	\$374,664	\$575,154	3.34
2001-02	\$5,997,785	\$4,186,659	\$1,811,126	\$269,565	\$363,139	\$632,704	2.86
2002-03	\$6,674,679	\$4,355,874	\$2,318,805	\$256,943	\$350,418	\$607,361	3.82
2003-04	\$7,222,843	\$4,539,975	\$2,682,868	\$253,179	\$340,183	\$593,362	4.52

(1) INCLUDES OPERATING AND NON OPERATING REVENUES, CAPITAL CONTRIBUTIONS AND TRANSFERS IN.

(2) INCLUDES OPERATING EXPENSES, EXCLUDING DEPRECIATION AND AMORTIZATION.

(3) INCLUDES WATER REVENUE, AIRPORT, GOLF COURSE AND SANITATION FUNDS.

TABLE 9

City of Palatka, Florida

**Demographic Statistics
Last Ten Fiscal Years
September 30, 2004**

Year	Population(1)	Per Capita Income		School Enrollment (2)	Median Age	Unemployment Rates(3)	
		County	City			County	City
1995	10,705	N/A	N/A	7,183	N/A	5.8%	N/A
1996	10,685	N/A	N/A	6,709	N/A	7.5%	N/A
1997	10,666	N/A	N/A	5,313	N/A	5.9%	N/A
1998	10,734	N/A	N/A	6,141	N/A	5.9%	N/A
1999	10,874	N/A	N/A	5,725	N/A	4.6%	N/A
2000	11,005	N/A	N/A	5,807	N/A	5.2%	N/A
2001	10,033	N/A	N/A	5,885	N/A	4.5%	N/A
2002	10,250	N/A	N/A	5,629	N/A	7.3%	N/A
2003	10,510	N/A	N/A	5,623	N/A	5.8%	N/A
2004	10,820	N/A	N/A	5,716	N/A	5.4%	N/A

(1)UNIVERSITY OF FLORIDA, BUREAU OF ECONOMIC AND BUSINESS RESEARCH, FLORIDA ESTIMATE OF POPULATION.

(2)PUTNAM COUNTY SCHOOL BOARD.

(3)STATE OF FLORIDA, DEPARTMENT OF LABOR & EMPLOYMENT SECURITY.

N/A = NOT AVAILABLE

TABLE 10

City of Palatka, Florida

**Property Value, Construction and Bank Deposits
Last Ten Fiscal Years
September 30, 2004**

Fiscal Year	Property Value (In Thousands) (1)	Construction (2)	Bank Deposits (In Thousands) (3)
1995	\$190,447	\$4,299,955	\$453,384
1996	\$195,563	\$9,341,691	\$449,602
1997	\$203,564	\$5,996,854	\$455,694
1998	\$208,976	\$5,631,281	\$490,060
1999	\$223,388	\$11,782,602	\$479,690
2000	\$235,053	\$7,146,668	\$481,685
2001	\$242,983	\$19,595,422	\$524,232
2002	\$257,569	\$21,981,089	\$485,010
2003	\$274,921	\$17,274,114	\$489,324
2004	\$304,566	\$17,651,447	\$509,004

(1) PUTNAM COUNTY PROPERTY APPRAISER (TAXABLE PROPERTY VALUES).

(2) CITY OF PALATKA BUILDING AND ZONING DEPARTMENT (BUILDING EVALUATION ONLY; FIGURES INCLUDE SINGLE FAMILY, APARTMENTS, ADDITIONS AND REMODELING AND COMMERCIAL BUILDINGS).

(3) PUTNAM COUNTY CHAMBER OF COMMERCE. FIGURES INCLUDE SAVINGS & LOAN ASSOCIATIONS.

TABLE 11

City of Palatka, Florida

**Principal Taxpayers
September 30, 2004**

	Total Taxable Value	Percent Of Total Taxable Value
Lifepoint Hospital, Inc.	\$ 16,736,179	5.50%
Wal-Mart Stores Inc.	\$ 13,044,851	4.28%
Bellsouth Telecommunications	\$ 9,790,163	3.21%
Spipal, Inc.	\$ 8,735,499	2.87%
Florida Power and Light Co.	\$ 7,135,062	2.34%
Sykes Realty, Inc.	\$ 6,807,804	2.24%
Southern Medical Association	\$ 6,197,811	2.03%
Holly Ridge Limited Partnership	\$ 4,539,918	1.49%
FWI 5 LLC	\$ 4,366,853	1.43%
Palatka Mall LLC	\$ 4,362,379	1.43%
TOTAL	\$ 81,716,519	26.82%

SOURCE: PUTNAM COUNTY PROPERTY APPRAISER

TABLE 12

City of Palatka, Florida

**Miscellaneous Statistical Data
September 30, 2004**

<u>DATE FOUNDED</u>	January 8, 1853
<u>COUNTY SEAT ESTABLISHED</u>	January 8, 1853
<u>FORM OF GOVERNMENT</u>	Commission/Manager
Number of Commissioners	Five
Term of Office	Mayor/Commissioner - 4 years Commissioners - 4 years
<u>LOCATION</u>	Northeast Florida
<u>AREA</u>	Land: 8.217 square miles
<u>SURROUNDING CITIES</u>	Crescent City, Interlachen, Pomona Park, and Welaka
<u>ELECTIONS</u>	
Number of registered voters:	5,963
Male:	2,359
Female:	3,477
Unknown gender:	125
	Democratic: 4,082 Republicans: 1,192 Other parties: 689

SOURCE: Putnam County Supervisor of Elections.

Education

<u>PUBLIC SCHOOLS</u>	<u>NUMBER</u>	<u>ENROLLMENT</u>
Elementary (K-5)	5	2,449
Middle School (6-8)	2	1,464
Senior High Schools (9-12)	1	1,606
Exceptional Students (K-12)	1	124
Charter School	1	<u>73</u>
Total		5,716
Personnel	389	
Non-instructional	295	

SOURCE: Putnam County School Board.

TABLE 12
(Continued)

City of Palatka, Florida

Miscellaneous Statistical Data
September 30, 2004

<u>ST. JOHNS RIVER COMMUNITY COLLEGE</u> (Palatka Campus Only)	<u>ENROLLMENT</u>
Full/Part-Time (Day and Night)	1,186
<u>ST. LEO COLLEGE</u> (Palatka Campus Only)	
Part Time (Day and Night)	300

SOURCE: St. Johns River Community College, St. Leo College

<u>POPULATION (CITY)</u>	<u>CENSUS</u> (1990)	<u>CENSUS</u> (2000)	<u>ESTIMATED</u> (2004)
Palatka	10,201	10,033	10,820
<u>AGE GROUP</u>	<u>POPULATION (AS OF 2000 CENSUS)</u>		
0 - 19		3,199	
20 - 64		5,060	
65 - Over		<u>1,774</u>	
		10,033	

SOURCE: University of Florida, Bureau of Economic and Business Research.
Palatka Daily News Information Please 2004

TABLE 12
(Continued)

City of Palatka, Florida
Miscellaneous Statistical Data
September 30, 2004

PUBLIC SAFETY

FIRE

Fire stations (2)	Full Time (17) Volunteers (7)
Palatka Main Station 100 North 11th Street, Palatka	
Kay Larkin Fire Station Moody Road, Palatka	

SOURCE: Palatka Fire Department

POLICE

Palatka Police Department 110 North 11th Street, Palatka	Sworn officers - 33 Auxiliary - 4
---	--------------------------------------

SOURCE: Palatka Police Department

STREETS/ROADS

Paved	69.13 Miles
Unpaved	2.05 Miles

MEDICAL

	<u>Number in City</u>	<u>Number of Beds</u>
Hospitals	1	161
Nursing homes	3	277
Doctors	108	
Dentists	19	

SOURCE: City occupational licenses, Palatka Health Care, Putnam Memorial Nursing Home.

TABLE 12
(Continued)

City of Palatka, Florida

**Miscellaneous Statistical Data
September 30, 2004**

RECREATION

Tennis courts	3	Theaters	2
Golf courses	1	Civic centers	2
City parks	10	State parks	1
Boat ramps	1		

ANNUAL FESTIVALS AND EVENTS

<u>NAME</u>	<u>DATE</u>
African-American Culture Arts Festival	3 rd weekend in January
Azalea Festival and Art Show	2nd weekend in March
Mug Race	1st Saturday in May
Wolfson Children's Hospital Bass Invitational	3 rd Saturday of May
Blue Crab Festival	Memorial Day Weekend
Rod Run	1st week of October
Hot Southern Nights	Labor Day Weekend

COMMUNICATIONS

Newspapers	1(Daily) 11,300 Circulation
Radio Stations	
WIYD	AM(1260 KH)
WPLK	AM(800 KH)
WHIF	FM (91.3 RH)
Cable TV	Available to all areas in the City of Palatka.

SOURCE: Palatka Daily News, Cablevision Industries, Palatka Daily News Information Please 2004.

TABLE 12
(Continued)

City of Palatka, Florida

Miscellaneous Statistical Data
September 30, 2004

TOP TEN EMPLOYERS IN PALATKA

<u>RANK ORDER</u>	<u>NAME</u>	<u>NUMBER OF EMPLOYEES</u>
1	St. Johns River Water Management	686
2	Putnam County School District	684
3	Putnam County	656
4	Putnam Community Medical Center	533
5	Wal-Mart Stores, Inc.	523
6	St. Johns River Community College	225
7	Publix Supermarket, Inc.	185
8	City of Palatka	178
9	Winn Dixie Marketplace	170
10	Home Depot	110

SOURCE: Individual employers/Fact Book 2004

Table 12
(Concluded)

City of Palatka, Florida

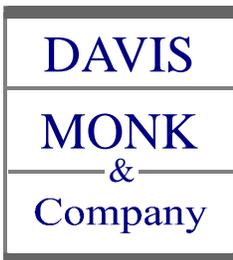
**Miscellaneous Statistical Data
September 30, 2004**

EMPLOYEES (CITY)

<u>DIVISION</u>	<u>EMPLOYEES</u>	<u>ELECTED</u>
Commission	5	5
Attorney	1	
Administration Part-time (1) Full-time (8)	9	
Bronson House	1	
MainStreet	1	
Building	6	
Police Part-time (6) Full-time (40)	46	
Fire	17	
Streets	9	
Parks and Cemetery Part-time (3) Full-time (7)	10	
Airport Part-time (1) Full-time (3)	4	
Utility Administration	3	
Water Plant	6	
Sewer Plant	10	
Water and Sewer Distribution	18	
Golf Part-time (5) Full-time (8)	13	
Sanitation	15	
Garage Maintenance	4	

SOURCE: City of Palatka Personnel Department.

SINGLE AUDIT SECTION



Certified Public Accountants
& Business Consultants

*A Partnership Consisting of
Professional Associations*

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American Institute of
Certified Public Accountants

Horwath
International

Management Letter

To the Honorable Mayor and
City Commissioners
City of Palatka, Florida

We have audited the financial statements of the City of Palatka (the City) as of and for the fiscal year ended September 30, 2004, and have issued our report thereon dated February 10, 2005. We have also issued our report on internal control over financial reporting and on compliance and other matters. That report should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not corrective action have been taken to address significant findings and recommendations made in the preceding audit. In that regard, item 03-1 is once again addressed in the accompanying Schedule of Findings and Questioned Costs as item 04-1.

Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503, Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the City has not met one or more of the conditions described in Section 218.503(1), Florida Statutes.

Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(8). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

Annual Financial Report

As required by the Rules of the Auditor General, we determined that City's annual financial report for the fiscal year ended September 30, 2004, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in substantial agreement with the audit report for the fiscal year ended September 30, 2004.

To the Honorable Mayor and
City Commissioners
City of Palatka, Florida

Page Two

Investment of Public Funds

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit did not reveal any noncompliance with the provisions of Section 218.415, Florida Statutes.

Other Matters

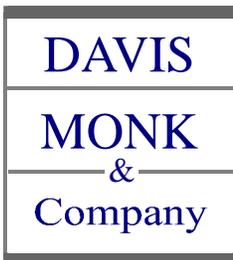
Our audit did not reveal any other matters that we are required to include in this management letter.

This management letter is intended solely for the information and use of the Honorable Mayor and City Commissioners, management, and appropriate audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

A handwritten signature in cursive script that reads "Davis, Monk & Company". The signature is written in black ink and is positioned above the typed name and date.

February 10, 2005
Palatka, Florida



Certified Public Accountants
& Business Consultants

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

The Honorable Mayor and City Commissioners
City of Palatka, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palatka, Florida (the "City") as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 04-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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The Honorable Mayor and City Commissioners
City of Palatka, Florida

Page Two

This report is intended solely for the information and use of the Honorable Mayor and City Commissioners, management, and appropriate audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

David Monk, & Company

February 10, 2005
Palatka, Florida

City of Palatka, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended September 30, 2004

<u>Federal Awards</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Economic Adjustment Assistance – Riverfront Development	11.307	04-69-05175	\$ 89,578
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through State Department of Community Affairs: Community Development Block Grant – Small Cities	14.228	02DB-89-04-64-02-N15	716,608
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Local Law Enforcement Block Grant	16.592	03-LB-BX-0284	34,215
Local Law Enforcement Block Grant	16.592	02-LB-BX-0548	4,363
Program Total			<u>38,578</u>
Bullet Proof Vest Program	16.607	--	1,583
Passed Through Florida Department of Law Enforcement: Byrne Formula Grant	16.579	04-CJ-J3-04-64-02-041	22,791
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
FAA Airport Improvement Program	20.106	AIP 3-12-0061-011-2004	43,964
FAA Airport Improvement Program	20.106	AIP 3-12-0061-011-2003	475,969
Program Total			<u>519,933</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed Through State Department of Environmental Protection:			
State Revolving Fund Program	66.468	DW 5419-010	73,520
State Revolving Fund Program	66.468	WW 73605S	583,356
Program Total			<u>656,876</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through State Department of Community Affairs:			
Public Assistance Grant – Fire Grant	83.544/97.036	EMW2002-FG-02491	22,087
Public Assistance Grant – Hurricane Charley	97.036	DR-1539	14,086
Public Assistance Grant – Hurricane Frances	97.036	DR-1545	121,000
Public Assistance Grant – Hurricane Jeanne	97.036	DR-1561	89,500
Program Total			<u>246,673</u>
Emergency Management Performance Grant	97.042	04CG-2J-04-64-02-335	<u>38,102</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$2,330,722</u>

(Continued)

City of Palatka, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended September 30, 2004
(Concluded)

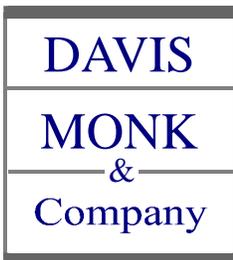
<u>State Financial Assistance</u>	<u>State CSFA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>
<u>STATE DEPARTMENT OF TRANSPORTATION</u>			
Aviation Development Grant – Lighting, Cable & Conduit	55.004	AM866	\$ 28,661
Aviation Development Grant – Storm Water Master Plan	55.004	ANC40	15,442
Aviation Development Grant – Fuel Tanks	55.004	ANC41	<u>98,728</u>
Program Total			142,831
JPA – Intermodal Funds	55.xxx	ANH44	200,000
<u>DEPARTMENT OF COMMUNITY AFFAIRS</u>			
Disaster Assistance – Hurricane Frances	52.600308	DR-1545	6,000
Disaster Assistance – Hurricane Jeanne	52.600308	DR-1561	<u>4,500</u>
Program Total			<u>10,500</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u><u>\$353,331</u></u>

Note 1. Significant Accounting Policies

The schedule includes the grant activity of the City of Palatka, Florida and is presented in accordance with generally accepted accounting principles as applicable to a governmental entity.

Note 2. Subrecipients

The City did not provide awards to subrecipients.



Certified Public Accountants
& Business Consultants

*A Partnership Consisting of
Professional Associations*

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Report on Compliance and on Internal Control Over Compliance Applicable to Each Major Federal Program

The Honorable Mayor and City Commissioners
City of Palatka, Florida

Compliance

We have audited the compliance of the City of Palatka, Florida (the "City") with the types of compliance requirements described in the *U. S Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Members:

CPAmerica International

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American Institute of
Certified Public Accountants

Horwath
International

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Honorable Mayor and City Commissioners, management, and appropriate audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "David W. Frank, Jr. & Company".

February 10, 2005
Palatka, Florida

City of Palatka, Florida
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2004

Part I – Summary of Auditors’ Results

1. The independent auditors’ report on the financial statements was unqualified.
2. The audit disclosed a reportable condition in internal control over financial reporting. The reportable condition was considered to be a material weakness.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. The audit disclosed no reportable conditions in internal control over compliance with requirements applicable to each major federal award program.
5. The report on compliance with requirements applicable to the major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported for the major federal programs.
7. The City’s major federal programs were:

<u>Federal Programs</u>	<u>CFDA Number</u>
Community Development Block Grant	14.228
State Revolving Fund Program	66.468
FAA Airport Improvement Program	20.106

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs.
9. The City did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II – Financial Statement Findings Section

04-1 Condition – Internal controls at the Golf Club were not sufficient to adequately safeguard the City’s assets, although some compensating controls were added near year-end.

Recommendation – Implement additional controls over cash receipts and consumables, including the inventory process, to minimize losses.

Part III – Federal Award Findings and Questioned Cost Section

- No matters are reportable.

**Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2004
City of Palatka, Florida**

There were no findings relative to Federal or State awards included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2003.

KARL N. FLAGG
MAYOR-COMMISSIONER

MARY LAWSON BROWN
VICE MAYOR - COMMISSIONER

HERNAN AZULA
COMMISSIONER

JAMES NORWOOD, JR.
COMMISSIONER

GEORGE E. SANDERS
COMMISSIONER



Regular meeting 2nd and 4th Thursdays each month at 6:00 p.m.

ALLEN R. BUSH
CITY MANAGER
BETSY JORDAN DRIGGERS
CITY CLERK
RUBY M. WILLIAMS
FINANCE DIRECTOR
GARY S. GETCHELL
CHIEF OF POLICE
KENNETH E. VENABLES
CHIEF FIRE DEPT.
DONALD E. HOLMES
CITY ATTORNEY

April 21, 2005

Mr. William O. Monroe
Auditor General
Post Office Box 1735
Tallahassee, FL 32302-1735

Dear Mr. Monroe:

I write to you in response to the finding noted in the audit of the City of Palatka, prepared by Davis, Monk & Company for the year ended in September 30, 2004.

Part II - Financial Statement Findings Section

- 04-1 Condition - Internal controls at the Golf Club were not sufficient to adequately safeguard the City's assets, although some compensating controls were added near year-end.

Recommendation - Implement additional controls over cash receipts and consumables, including the inventory process, to minimize losses.

Resolution - In the current year, the inventory is entered into the computer system software when it is received and sold and it is balanced against a physical inventory that is done every month. It is required for two employees to enter the locked room where the safe is kept. This room is kept locked at all times. All cash receipts are posted and balanced in a timely manner.

Sincerely,

Ruby M. Williams
Finance Director